INFOSYS TECHNOLOGIES LTD.

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Coordinator: Good morning, and welcome to the Infosys Tech conference call. All participants will be able to listen only until the question and answer session of the call. At the request of Infosys Tech, today's conference call is being recorded, if there are any objections, you may disconnect at this time. I would like to turn the meeting over to Mr. Murthy. Mr. Murthy, you may begin when ready.

P. R. Ganapathy: Hello ladies and gentlemen, joining us from all parts of the world, I am P R Ganapathy, also known as "Guns", and I handle Investor Relations at Infosys, from sunny Fremont,California.

Welcome to today's conference call on the results of the quarter ended March 31, 2001, which is also the end of our fiscal year. We thank you for joining us and giving us this opportunity to speak to you on the quarter gone by. Given our global investor base, this call integrates callers from around the world, the host in the Silicon Valley and the management team from Bangalore, India.

I have with me at a conference room in Bangalore, Mr. N R Narayana Murthy, the Chairman and CEO of Infosys Technologies and members of the company's senior management team. Mr. Murthy and some members of his team will begin by speaking on the quarter gone by and after that they'll take your questions.

This call will of course be archived and a telephonic replay will be available for a month; a transcript will also be available on our Web site, www.infy.com.

Before handing over to Mr. Murthy, I would just like to remind you that in case we make any statements that refer to our outlook for the future, you must read those statements in conjunction with all the risk factors that the company faces. These risk factors are detailed in our various filings with the SEC and should be read in conjunction with any forward-looking statements.

Without further ado, Mr. Narayana Murthy, Chairman and CEO of Infosys.

N. Murthy Welcome folks, it's rather early for you people in the United States, and we're extremely happy that you are on the call in such numbers.

We had a good Q4, the top line and the bottom line; they grew by more than 100%. We added 37 new customers, we added 900 or so employees and we maintained the margin, in fact we improved the margin in some ways. We also constructed and operationalized about 600,000+ square feet of space.

Our banking group performed extremely well. Year on year we grew over 100% in our banking revenues. We have become the undisputed leader in the banking market in India and in the emerging markets. Overall I must say that it has been reasonably good performance from the company.

In the meanwhile, as you people know better than I do, the U.S. market has become challenging, and of course keeps becoming more and more challenging every day. We hear about a lot of layoffs and expenditure cuts and whatnot.

We have been conducting surveys with the top 25 or 30 customers of Infosys, we've conducting multiple surveys and the last one was some time around April

7th or so. Based on the input and wisdom from these surveys and based on the data that we have on hand, the management of Infosys has got an estimate for revenue growth of 30%.

In other words, for the year we will be somewhere between $530 million and $545 million in terms of the top line and $1.24 to $1.27 in terms of earnings per ADS. For the quarter we are somewhere between $121 million and $125 million in terms of top line, and $0.28 to $0.29 in terms of the bottom line.

What is important to remember here is this, we have created all the ingredients, whether it's people, infrastructure, etc, to grow at a much higher growth rate. However the market is a limiting factor at this point of time and we have the capacity to grow at a much higher growth rate, we will seize all opportunities to grow at much higher growth rates.

At this point in time I would request my colleague, Mr. Nandan Nilekani, the President of the company, to give a brief review of the operations. Then Mr. Mohandas Pai, the Chief Financial Officer, will then take over and talk about the financials.

N. Nilekani The 37 new clients we added in this quarter is actually the highest number of new customer acquisitions in any quarter for Infosys. For the year it goes to 122 clients, which again is a high for the company. This quarter the 37 new clients include marquee names, such as Monsanto, Vodafone Networks and Swiss RE, which is a large reinsurer. The 921 employees added in this quarter include 181 lateral hires, and we have been successful in getting high quality laterals into the company.

On the e-commerce engagement side, the revenue for this quarter was 25.8%, which is lower than the 28.3% for the last quarter and this has come about because there has also been a reduction in the dot-com revenue, from 5.8% to 4%. Also our revenue from telecom stock-ups has come down from 3.5% to 3%. So our aggregate revenue from the venture funded area has come down from 9.3% to 7%.

During this quarter we also took a provision for an investment of $0.5 million in Alpha Thinx, in which we had made a strategic investment earlier. We are also this quarter, seeing the benefits of adding a large number of customers in Europe. Europe this quarter has been a total of 20.5% of our revenue and this is the first time that our European revenue has exceeded 20%, which is also part of our strategy to expand our penetration in Europe and Asia Pacific.

When we look at the guidance given for the coming year, we have a growth rate estimate of 30%, a net profit maintained at 30%, we expect to hire between 1,500 to 2,000 people and we also expect to do the capital expenditure to support this expansion. We also expect that the offshore business, which has grown by about two percentage points this quarter, will continue as more and more clients look for offshore opportunities.

So overall, we had an excellent quarter, and we look at the new year, with a very resilient business model, which we believe will stand us in good stead in these challenging times. Mohan, can you talk about the finances?

Mohandas Pai Thank you, Nandan. Our gross margin in the fourth quarter has gone up to 49.6% as compared to 47.3% in quarter three. That is mainly because of the fact that offshore revenues have gone up 51.7% as against 48.6% in quarter three of fiscal 2001. In quarter four of fiscal 2001, in terms of the billed effort, that is total software months built, there has been a growth of 9.1%, even though the top line grew only by 5.1%. The reason for the slower growth in top line revenues, as compared to a higher growth in total effort, is due to the fact that most of the growth happened offshore. Offshore billed person-months grew by 13.1% for the quarter as against only 1.2% onsite, coupled with a blended decline in per capita revenues by 3.8%, because our exposure to the venture capital funded companies did come down in this quarter.

We have added to our cash hoard; for the entire year, cash has gone up to about $124 million from $116.6 million. In terms of geographical diversification, Europe has increased to 20.5% this quarter as against 18.8% the previous quarter. The U.S. share has come down to 68.1%. Thank you, Nandan.

Narayana Murthy — Well at this point in time we would be very happy to take questions from you people. Would you kindly identify yourselves and ask us questions. I'll make sure that one of the members of the management will answer those questions.

Coordinator — Our first question comes from Bob Austrian.

B. Austrian — Good morning. Can you hear me all right?

P. R. Ganapathy — Loud and clear, Bob.

B. Austrian — Thank you, Guns. I have a question, to start with, about the surveys of you clients and the 30% growth. Can you give us some color concerning whether your surveys indicate lower usage of third parties? Is it simply that the more mix is to offshore, etc, to give us some details behind why the forecast is somewhat lower? And, at the same time, if you can give us a sense of what it is about the comments from the customers that leads you to be so sure that the revenue growth will be slower for as long as the full year.

Narayana Murthy — Bob, I'll request Phaneesh to answer that question, because he has been in contact with the surveyees

Phaneesh Murthy — Hi, Bob. How are you?

B. Austrian — Good morning.

Phaneesh Murthy — We have been in constant touch with our customers. Now, there are two segments in which we are active, which have taken big hits. One is the Telco, the equipment manufacturers. We are, as you probably know, working with Nortel, Lucent and Cisco, all of which are going through fairly troubling times.

We also are doing a fair amount of work in the financial services industry. In the financial services industry, the two areas, which we have seen have gotten particularly badly hit are Investment Banking and Asset Management / Broking kinds of companies. So exactly what we are seeing is that these segments, we will be growth challenged in these segments and today they are roughly about 55% of our business from these two segments, 35% or 36% plus 20% percent.

We are, however, finding fairly interesting traction in new customers wanting to sign on with us. All of the new customers that are signing on with us are also broadly in these segments; they are in the financial services and Telco segments. I think these new customers are signing on with us, are signing on with a clear understanding of the reasons why they're getting into it currently, which means that they know what the environment is and they know that they want to do strategic offshoring kind of initiatives.

Coming back to existing customers, where we are seeing cuts, I do believe that we were trying to estimate how the cuts would affect external spend and particularly how the cuts would probably affect offshore. I think we found a model, which was probably intuitive now in the retrospect or in hindsight, is the fact that if the cuts are say x percent, which is a smallish number, then what we're finding is that they gravitate a lot more towards offshore, because here is a viable way, a good way to get your projects executed because the cuts are x percentage. As the cuts move to a fairly large y percent what we are finding is that external spend in general comes down, because there is a need to try to make sure that people are preserved and so on and so forth by these IT groups.

So it's really company dependent and the percentage of the cuts dependent, because there is a certain amount of costs that are fixed on infrastructure, there are a certain amount of costs which are fixed on the hardware and software upgrades that they're talking about, and then of course the people related costs. So the external discretionary spend, most of the cuts will come out from the external discretionary spend.

Also, because of the slower pace of the decision making, the urgency has not been there to make sure that that external discretionary spend goes through, even if there is an interesting RoI, simply because the urgency is not so much there because of the competitive landscape is working out. I don't know if that gives you some color, Bob.

B. Austrian — Sure, that's great, I'm sure we'll hear more as we go on. My second question relates to the opportunity for Infosys to drive its margins, gross or operating margins, higher in the slowing environment. I guess the question, in the form of a question is, what is the management's goal in terms of driving operating margin expansion and influencing the percentage of employees that are on the bench, given that the growth rate in revenue is going to be lower? Why are we not seeing a prediction or a forecast for the year ahead, of a sharp improvement if it's an opportune time to adjust to the balance of recruiting and such?

15:10

N. Murthy — Bob, I think our estimates are that we'll grow at 30% and then we have also said, based on the various controls of cost, we believe that we'll be able to achieve a net margin of around 30%. Last quarter we were 32.1% or so.

We believe that we will have to recruit anywhere between 1,500 and 2,000 people as we move forward, simply because even to deliver the 30% growth rate, if the margins, if the per capita revenue productivity improves by anywhere around 4% or 5%, we still would need approximately 2,600 people or so, which means if you add the current bench of 1,100 people or so, and then add another 1,500, plus also, keep a little bit for the growth possibilities, then you're already at that figure.

So we have already looked at these issues and said we will do whatever minimum is needed, but at the same time we have to take a long-term view of this organization, because it's got to be there for the next ten years, 100 years, hopefully, all of that.

So those are the some of the things that we have done to ensure that we retain the margin. Also for example, we have brought down the salary increases offshore, from 25% last year, to 15%. Then given the fact that the Indian salaries form about 12% of the total revenues, this 15% contributes about 1.8% to the diminishing of margins.

The second one of course, the onsite ones would be about 25% or 26% if you look at 6% or so in terms of salary increases, there you're talking about another 1.6. So overall you're looking at somewhere around 3.4% or so. Now what this means is that if we can get a per capita productivity of about 4%, we will be in a position to track the margins.

Does that answer your question or do you want any further detailing from our CFO, Mohan?

B. Austrian Maybe just the data from Mohan about the utilization in the quarter past, and that will do it. Thank you.

Mohandas Pai The utilization, excluding trainees in the fourth quarter was 73% and in the previous quarter was 77.6%. Year to date, utilization excluding trainees was 78.3% as against 79.4% the previous year. But the key point that I want to make Bob, is that despite the utilization's coming down to 73% in quarter four as compared to 77.6% the last quarter, our gross margin has gone up. This is due to the fact that more work has moved offshore. Offshore revenues have gone up to 51.7% as against 48.6%, coupled with some tough cost control measures that have been taken to contain costs, we are still increasing margins. What we've established is that even at low levels of utilization, we can retain the high profitability that we have in the model.

B. Austrian Thanks, Mohan.

Coordinator Our next question comes from Ashish Kumar from CSFB.

A. Kumar Hi, this is Ashish here, calling from CSFB. First of all, congratulations on very good results and an equally impressive balance sheet. I had one or two questions. Sir, you know, lately we have been hearing a lot about significant interest in outsourcing and a large number of RFP's being floated in India. If you could throw some light on if there's any particular vertical domain, what is the sales cycle time and could they accelerate offshore much faster than what we have seen in the past? That is, you know, mostly our significant revenue growth used to come from clients added one-year back. Now could that change, i.e., clients that we're adding now could significantly accelerate very quickly in the current year itself?

Narayana Murthy On the issue of the offshore, Mohan has already given a figure that shows that the offshore contribution to the total revenue has increased by two percentage points, approximately, three percentage points, I'm sorry. Also, I pointed out earlier, we have the people, we have the physical infrastructure, we have the technological infrastructure, we have the training infrastructure. In other words, we are fully geared to utilize any growth opportunities in the offshore area. Nandan, do you want to comment or Phaneesh?

Phaneesh Murthy: Yes, Phaneesh here. Actually the opportunities that we have seen these large outsourcing or offshore initiatives that you're talking about are primarily in the Financial Services and Telco areas. Decision cycles have been long, most of the decisions have not been made, and actually one of these companies scrapped this initiative, because the initiative had started a few months ago, before the market slowdown happened. So I think basically they decided to scrap it because they kept hitting a moving target in terms of the numbers that they were ready to do, because the budget kept getting cut, every month almost.

So I think to expect a dramatic increase in the very short-term, from there, is probably not realistic. However, we are seeing a lot more interest, in general, in trying to build strategic sourcing relationships. More customers are seeing that this is the right way to go for the future. So I think medium to long-term, certainly I think most customers will be looking at this model.

A. Kumar: I had one more question. One of the things, I'm sure you guys know, much more, so far India as a country has been able to leverage the IT services portion, but business process outsourcing is something that lot many global companies are indeed looking at, especially as there are margin pressures.

Some of the key success factors in that area are very sort of similar to IT services, especially in the BPO practice on the higher end, where you could use cost accountants or Chartered Accountants available in India. I was just wondering if you have given some thought to this initiative and if you would be looking at now entering this area?

Narayana Murthy Well we have been giving thought to that, and there's a lot of analysis going on, and I agree with you, Business Process Outsourcing is another opportunity, but we need to see what kind of structure we need to have for that. We need to see what kind of per capita revenue productivity is possible, what kind of growth in per capita revenue productivity is possible. However let me ask Phaneesh to comment on that, because he has a little bit more detail then I do.

Phaneesh Murthy I think you're bang-on right, we are seeing a fair amount of interest in the business process outsourcing, and certainly it's an area, which we are looking at very, very closely. Active discussions with people and the model that we are looking to follow is a slightly different model, which may be a little more platform based outsourcing over time and so on.

So you're right, it's an area which we are very, very interested in. It's an area the market is very interested in and that we're looking at very seriously.

A. Kumar — Thank you very much.

Coordinator — Our next question comes from Steven Birer from Robertson Stephens.

S. Birer — Good evening, gentlemen. I was wondering if you could please fill in some of the blanks for us, with respect to the revenue that was derived offshore versus the United States. Can you give us exact percentages?

Narayana Murthy — Can you repeat the question, please?

S. Birer — Onshore versus offshore revenue, by percentage.

Mohandas Pai — Let me give you the revenue and effort, onsite Vs offshore percentage. In the fourth quarter, the March quarter, onsite revenues were 48.3%, in the third quarter it was 51.4%. Offshore revenue was 51.7% and in the third quarter 48.6%.

In terms of effort, onsite effort in the fourth quarter is 30.9%, down from 33.3% in the previous quarter. Offshore effort went up to 69.1%, increased from 66.7% in the previous quarter.

S. Birer — Can you give us the respective utilization rates for both onsite and offshore, as well as the bench sizes or bench percentage in both areas?

Mohandas Pai — We do not have an onsite bench, we do not have an onsite bench, we do not have people outside India who are on a bench. We have a utilization rate, excluding training, of 73% and that 27% which has not been billed, consists of the bench as well as people on leave, as well as people who are in management, in research and development, internal IS projects, etc.

S. Birer — Okay; let's look at India, the bench that you have in India at the current time. What's the total headcount and how many people are on the bench?

Mohandas Pai — How many people are on the bench? We have approximately, slightly more than 1,000 people on the bench, at the end of the quarter.

S. Birer — That's versus how many total heads in India?

Mohandas Pai How many total heads in India? We have about 9,800 people overall in the company, as of the quarter end. All of the software people, 8,910, of these people approximately 1,840 were outside India and the balance were in India.

S. Birer Okay. Now, if we look at the new projects you're signing, and I'm assuming that a significant portion of the new projects you're signing are for offshore type of work. I was wondering if you could give us a feel for the nature of the projects you're signing, are they shifting in the demands versus what you've seen in the past, or is it more just an onsite versus offshore decision?

Phaneesh Murthy Hi Steve, Phaneesh here. Actually it's quite interesting, the engagements or the assignments are really not dramatically shifting to the large offshore kind of initiatives. What we're finding is that we're doing a lot of convergence kind of projects in the financial services industry. You know where you're talking about converging across multiple lines of business to provide a single view to customers and stuff like that. So that will facilitate the company the company to cross-sell, upsell its services and so on.

Now I think this is probably a result of the fact that the e-integration space is now almost vacant in the market. There are just one or two companies left out there who have credibility. Most of the other players have zero credibility, so that space, I think, has kind of fallen vacant and that's probably one of the reasons why we ended up getting a lot of those kinds of engagements.

S. Birer — Okay. Then finally, if you could give us the exact numbers, by percentage of the revenues that come from Telco and from Financial Services.

P R Ganapathy — Yes, 18.3% came from Telecom, Financial Services was 33.6%.

S. Birer — How did that compare to last quarter?

P R Ganapathy — Last quarter Financial Services, Insurance and Banking was 36.6% and Telecom was 17.7%. Retail has grown from 8.7% to 11.1%; Manufacturing has grown from 16.7% to 17.9%.

S. Birer — Alright. Actually I will have one last question. It sounds like, to a significant extent, your confidence doesn't sound to be in place as it was in the past, and given the environment, I think that's suitable. Can you give us a feel for your visibility though on the current quarter, what percent of revenues you have a target on or have under contract and then how that compares to prior quarters?

Narayana Murthy — Current quarter we do have visibility of about 80%, very clearly, Q1.

S. Birer — Okay and how does that compare to what you normally enter a quarter?

Narayana Murthy — It's about the same; there's no material difference.

S. Birer — Okay. Thank you very much.

Coordinator — Our next question comes from Anil Tewari from Goldman Sachs.

A. Tewari — Hi gentlemen, just a couple of quick questions to follow up on what's already been asked. I think the main question here is basically on the 30% guidance going forward. In terms of your new contracts and this 30% beyond the customer checks, Mr. Murthy, you mentioned just now in the past question that you have about 80% visibility into this quarter. What sort of contractually obligated visibility do you have towards this number for the next four quarters?

Phaneesh Murthy — Traditionally the number we have projected for the year, we've always felt that we had 60% to 65% visibility for the year, for the next four quarters and that's what we have right now.

A. Tewari — Is that a contractually obligated pipeline or is that a gauge based on the past, can you give me something more concrete?

Phaneesh Murthy — No, this is the same as what we have been having in the past few years. This is our relationship model, the way try to do this is we sit down with clients and we understand the initiatives that we are participating in and we understand the kind of money that they are spending on these initiatives. So on the figures that we are projecting, the confidence level is that that 60% or 65% visibility is already there.

Nandan Nilekani — One thing we have done this year is, given that now we have a trend where people are potentially going to cancel projects because of lack of funding or because their business environment worsens, when we look at the visibility, we are looking at the total visibility of business and then applying a cancellation factor to that. So when you talk about visibility today, it is after applying this cancellation factor, which we believe is a discount we are applying for the market environment only.

A. Tewari — Okay. Can you maybe elaborate on how that cancellation factor has changed over this quarter versus last quarter or the past couple of quarters?

Narayana Murthy — Well, very clearly Q1 is much higher than Q4; there's no doubt at all.

A. Tewari — Okay. Also to highlight on new business, you were able to book a significant number of clients this quarter. I assume, given that since you haven't been able to contractually book as much revenues from these new clients, is this pretty back end loaded, i.e. did you book these folks towards the end of the quarter, number one? Number two, on the same question, what sort of relationships are these in terms of contract size and implied duration?

Phaneesh Murthy — We did see, towards the end of March, some good traction in customers signing off, taking decisions, a few interesting size projects. But the bulk of the customers that we have opened are our classic relationship models, where we will start off with one or two projects or engagements and then we typically tend to ramp up. In most of our customers, if we look at historical perspective, we tend to ramp up in the third or fourth quarter, after the engagement has started.

A. Tewari — Okay, so there's no sort of contract here, it's more of an open sort of relationship?

Phaneesh Murthy — It's no different from our standard model.

A. Tewari — Okay, got it. One other thing, in terms of your growth again, on the 30% number, is that going to likely come from any increases in pricing power or is it primarily volume driven?

Phaneesh Murthy — The way we have estimated it for the coming year, most of that increase is going to come actually from volume and hardly anything from the revenue productivity or the pricing changes.

A. Tewari — Okay, just a follow up on that point.

Nandan Nilekani — One other point, I want to add on new customer acquisitions. For the whole year we added 122 new clients, but if we look at the first nine months we added 85 clients, of whom 26 clients were startup clients. But once we realized that that market segment was high risk, we know we are focused on more mainstream kind of companies. In the last quarter we added 37 clients, only five are startups and 32 were from the mainstream. So I think there has also been a qualitative shift in the kinds of customers that were acquired in the last quarter.

A. Tewari — Okay, great. In terms of your large….

Mohandas Pai — In the last quarter, in the last fiscal year, for the 103% growth that we have had, if you look at the growth due to volumes and if you look at the growth due to rates, you'll find the growth due to volumes last year was 60%. The rate variance or the growth due to increase in rates, was approximately 41.4%. So growth due to volume last year was 60%, growth due to rates was 41.4%, of the total 100%. So next year we're looking at basically volume driven growth.

A. Tewari — I see. One of the things that I noticed in the numbers, that sort of stood out, was your top customer, Mohan was 7.7% the last quarter, it was down to, I think, 6.6% this quarter. In absolute numbers that's down 10% and your top five customers seem to have also been relatively flat. I'm wondering why your existing clients are not taking more advantage of cost savings and shifting more business offshore, if that is indeed a trend that we expect to see?

Phaneesh Murthy Well actually, just to put it in perspective, the bulk of the top clients are in the Financial Services and Telco space, and you know what's happened in that space.

A. Tewari Right. So for example, for maybe Northwestern & Mutual Life, Apple, Nortel, some of your top names, do you expect to see increases, can you give us some sort of comfort level for other clients?

Phaneesh Murthy Actually I didn't hear you, can you repeat the question?

A. Tewari Yes, in your top five or so client profile companies that we hear about, in terms of having some difficulties, such as Nortel or Apple Computer, whereas Northwest & Mutual Life, in terms of other customers, are you comfortable with them perhaps increasing their percentage of business with you and taking advantage of pricing power? Or do you see, sort of the new volume growth, which you speak about, do you see that coming from new customers?

Phaneesh Murthy: Actually we think that there may be, if you look at the top ten or fifteen customers, there may be a couple of other customers who will come into that list, which are showing a lot of promise. So because of the problem that some of the customer are going through, we may see some relatively flat, but a few other customers who have kind of tied up fairly interesting agreements with us, they might come into the top ten.

A. Tewari: Okay great. Just a couple very quick questions. You were able to maintain, if not actually expand margins, when the overall gross utilization rate took a bit of a dip. I think onsite as well as offshore pricing came down a bit as well, and you were able to shift more money offshore it looks like. What sort of margins do you get on a blended basis, offshore versus onsite and do you expect pricing power to continue to decline in the next quarter or two?

Mohandas Pai: The margins, the gross margins onsite are in the range of about 32% to 38% and off shore are in the range between 60% to 70% with the various clients. So in case the mix were to change, you could see an increase in the gross margins, if the business becomes more offshore centered.

A. Tewari Okay. So more in terms of maintaining your margins going forward, given that the pricing power is more difficult, it looks like, at least in the past two quarters. Do you expect to be able to get the 3% or so blended pricing power increase in order to maintain the 30% or so, given that you are hiring and obviously expanding infrastructure?

Mohandas Pai Yes, we'll require maybe a 3.5% to 4% increase in per capita blended rates, in order to maintain the margins, if you assume that's the increase in salary costs for next year. Quite possibly all of this, maybe a couple of percentage points could come from economies of scale or stricter cost control, and the balance could come from rate increases. Even if the rate increases do not happen and the per capita revenue is flat, in case there is a greater degree of offshoring, then we'll be able to protect our margins. So margins depend upon the mix, significantly.

But in any case, we have given a range of earnings, EPS earnings for the next year within $1.24 to $1.27, we can take care of any such fluctuation.

A. Tewari Okay, good. The final thought is, in terms of your confidence level, obviously this 30% number has come down from I guess the previously implied, I think we spoke on the Q&A last January, being close to 50% to 55%. I'm wondering if this number, how much confidence you have on this or what sort of risks you see to it, coming down further.

Narayana Murthy: Well you know, we have this model of computing the visibility where we said we look at the repeat business, which is about 85% and this year it is about 81%, right. Then we have, we're in constant discussion with these people, and we are part of the budget cycle, so about 60% of the thing comes from that. Then we look at new segments and that's how we generally come up with about 60% visibility for the next four quarters.

What we have done this time is that we have done that exercise and then we have discounted that by our estimation of the cancellation rates based on the data that we have had. So the 30% growth rate that we have arrived at is based on, one, the traditional Infosys estimation model for future revenues, which has been working for the past six or seven years, and then applying a certain discount factor for cancellation.

A. Tewari: Okay great. Thank you.

Coordinator Our next question comes from Sandeep Dhingra from JP Morgan.

S. Dhingra Hi, this Sandeep Dhingra here at JP Morgan in Bombay. Just a couple of questions, can you throw some light on the pricing environment? I mean there is a lot of talk in the media and elsewhere saying that onsite rates are coming off very sharply and there is also pressure on offshore rates. You know it's critical for your forward predictions also, that you probably keep rates flat if not get inflations. Could you throw some light on the pricing environment?

Phaneesh Murthy Yes, I think what we're finding is that our price per consultant came down primarily because the mix changed when we moved away from the dot-com's. Basically what happened was that the customer mix became more of the Fortune 1000 segment, which is our mainstay segment. That operates at a slightly lower price point than the dot-com's. Within that segment, per-se, we are not having pricing pressures at our current ranges of pricing, so that is not something that we have noticed ourselves.

However, having said that, if all of the deals that we end up getting become very largely competitive with only offshore players then we don't know, that may be there, then it may be at a slightly lower price. But currently we are really not facing any pricing pressures at our price ranges.

S. Dhingra Just a follow up on that, if you were to see some fairly large inquiries, which come in for say big ticket offshoring, but at substantially lower prices, say the $24 or $25 kind of prices. Would you be inclined to accept such assignments or is it something you will stick to your floor pricing in deciding these?

Narayana Murthy You know Sandeep, that is a hypothetical question, but certainly it's a very, very good question. What we would say is this, that this company is generally averse to going after low margin business.

However, having said that, it all depends on the volume of business, it depends on the period over which you have a certain contract. It depends upon how much we can reduce fixed cost, how much we can reduce sales costs. If we incorporate all those things and if the margin that we want still is there, well, then we will take it. But let's say we are not people who want to go for low margin business.

Phaneesh Murthy Just to add to that, we actually try to use a yield management system, which basically tries and sells different capacities, based on different commitments at different prices. So effectively what we're saying is that, based on our estimate of how much new demand we can pick up at what rates, etc, we try to book capacities at slightly different rates.

So if your question is, it's a hypothetical question, and until I have all the facts on the table it's a little bit difficult to answer. But yes, we do have a yield management system in place.

S. Dhingra Just one last thing, on the telecom side you did mention that there is a slowdown in various areas, but last quarter we've seen the telecom proportion going up, is there something to read into that? Is it new clients ramping up?

Phaneesh Murthy Yes, it's new clients.

S. Dhingra Okay, thank you.

Narayana Murthy You know Sandeep, we haven't had any such occasions when customers have come and said, look we want to reduce the rates. It's not happened so far, but who knows. But so far we have not had any of our existing customers come back to us and say we want to renegotiate… right Phaneesh? It's not happened, so that's the best we can say.

H. Sharma — Hi, this is Harish Sharma, from JP Morgan, again. Just a follow up on the telecom thing, in the last result Q&A you had mentioned that you would be monitoring the telecom domain very closely, because of the inherent risk in that sector. That's a reason why you had actually seen the revenue percentage go down. So is it that the scope has changed in the telecom domain, are you seeing some different kind of projects being done in that?

Phaneesh Murthy — Yes, I think the change is basically that we moved to doing the OSS CCB kind of work in the Telco service providers. So that's something that we have started doing so that's effectively customers like Telstra, Vodaphone, Telnet, etc. So they're all service providers and we are effectively doing the OSS CCB work. So the segment that I was telling you that we are going to be watching very closely, is the start-up datacom, telecom, because they were under pressure from the venture funding perspective.

A. Sharma — Thank you.

Coordinator — Our next question comes from —.

Narayana Murthy — We have another, we can take perhaps another couple of questions, because then it will be seven o'clock.

Coordinator — Okay, our next question comes from Bill Zinsmeister, from Deutsche Bank Alex Brown.

B. Zinsmeister — Hi. Your earlier guidance of 1,500 to 2,000 net people increase next year, has that changed or declined from earlier headcount growth assumptions in your earlier plans?

Narayana Murthy — Yes, simply because remember we are now saying our estimate of growth rate is 30%. Then we have looked at the number of people that we already have on bench. So we looked at the requirement for 30% growth ….

B. Zinsmeister — Sorry about that, again the question was, it appears that the 15 to 200 net people adds is the reduction from earlier higher assessments.

N. Murthy Yes, it is lower and obviously, but Hema, do you want to comment on that?

Hema Ravichandar Yes, our model of recruitment is based on two or three factors, one is that we recruit laterals and junior laterals every year other than from campuses. The regular recruitment what we do is that we look for freshers who come from campuses. The campus recruitment is usually about a year ahead. So the lateral part is the area where we can adjust and that is adjusted based on the growth that we predict. So this year to be prudent, we have adjusted that number and productions have gone down.

B. Zinsmeister Okay. You've talked a lot about cancellation rates this morning, could you talk about how those have trended over the quarter and so far what you're seeing in April?

Phaneesh Murthy Basically what's happened Bill is that projects, we did, the impact is on this quarter, it also has some impact obviously through the rest of the year. But there you might have a little more time to recover or whatever it is, but the immediate impact is always felt on the first quarter and maybe the second quarter immediately after the cancellation.

B. Zinsmeister: Right, I guess the question is, how have those cancellations trended from January into March?

Phaneesh Murthy: Oh actually, probably up to March 15th or so, after that we actually got only positive news. Until March 15th or so, we got cancellations, after that most of the news has been fairly positive in terms of new projects having signed off on and stuff like that.

B. Zinsmeister: Okay. Then the final question, I think some people have touched on this, but it looks like the deal flow has actually improved from the prior December period. I guess the question is, how can you compare and contrast in terms of rates and in terms of size, which would lead you to believe that overall growth would diminish this year if deal flow is improved?

Phaneesh Murthy: I think Bill, we are getting good traction from new customers, like you said, deal flow is improving. However, because there was a surge in the revenue productivity, what we call the revenue per billed consultant, last year, because of that dot-com segment, where everything was in cutting-edge stuff and we were able to charge premium rates for that segment. So that was a small percentage of our revenue. The revenue productivity would be increased disproportionately, obviously to the revenue.

We are, I think what is weighing on our minds fairly heavily is the fact that a) we have seen a fair number of cancellations; and b) the external economy seems to be so bad with almost, I actually think all our customers, all, I don't even think there's one of our customers, who has not pre-announced the quarter or has not taken big hits, because almost the entire market is like that.

So under those conditions and … so on and so forth, we felt that the right number to talk about was the 30% growth rate.

B. Zinsmeister In this quarter, your European business for the first time, finished north of 20% out of total revenue. How concerned are you going forward, that there might be a lag effect, where you might see what you're currently experiencing with the U.S. customers, you might experience later on this year with your European customers?

Phaneesh Murthy We are actually anticipating that that will probably happen, because we've always found that the U.S. is two quarters ahead or Europe is two quarters behind or that about from the U.S., in terms of the economy. So it's quite likely to happen.

B. Zinsmeister: Thank you.

Coordinator: Our next question comes from Jackie Moss from Thomas Wiesel Partners.

J. Moss: Good morning, I have just, I'd say a couple of more specific questions, the first relates to the balance sheet. Last quarter unearned revenue declined slightly and I think we discussed that, and it happened to decline this quarter, I was wondering what the explanation for that is?

Mohandas Pai: I think the unearned revenue decline is about $3 million compared to the previous quarter, on a comparative basis. This is because of the fact that fixed priced projects get complete, that's fixed price projects as separate from time and materials, so they got complete. It was $5 million of fixed price projects in the earlier quarter got complete, and we had about $2 million to $2.25 million added on to unearned. So the sequential decline is about $3 million.

This is a normal trend that you see, quarter to quarter, there is a shift, it went up in the first two quarters, and the third and fourth quarter, it came down. It all depends on the total life cycle time of the project, it all depends on the deliverables, how often the deliverables are there. So I think it's very, very difficult to predict a certain pattern for these.

J. Moss: Okay, so there was nothing unusual that went on, it was just in the normal course of business?

Mohandas Pai: Yes.

J. Moss: Okay, the next question that I have is also on the technical side, I'm not sure if you already said the onsite and offshore person month per quarter?

Mohandas Pai: Yes, let me give the details onsite and offshore person month for the fourth quarter. The billed effort, onsite for the fourth quarter was 5,188, offshore 11,616, making a total of 16,804. In quarter three onsite was 5,124, offshore 10,272, total 15,396, and increase of about 9% in billed effort months.

That means we billed about 1,408 more person months in the fourth quarter over the third quarter, an increase of 9.1%. That's about 4% or so, basically because of the fact that there was a decline in per capita revenues, as also the mix changed in favor of offshore. The rate variance for the negative $2.19 million, that is negative 1.9% and the volume variance in terms of revenues was 7%, giving an overall variance of 5.1%.

J. Moss — Okay. Did you continue to see rather low attrition? What was your attrition?

K Dinesh — This is Dinesh here. We ended this quarter with an attrition of 10%.

J. Moss — Great. Thank you very much.

Coordinator — Our next question comes from David Grossman from Thomas Wiesel Partners.

D. Grossman — My questions have been answered, thank you.

P R Ganapathy — No, David's questions have been answered. Amy, I think now I'll take over and ask a few of the questions that came on the e-mail and then we'll conclude the call.

A question to Mr. Murthy and Mr. Pai – considering the sharp fall in share prices, will Infosys be re-pricing downward to stock options that already have been granted in the U.S. and in India?

The question comes from someone in Singapore who asks, "Given the sharp fall in the share prices, is there any consideration to re-price options that have been granted to employee?"

Narayana Murthy — We will not do any repricing of options.

P R Ganapathy — Okay. Then another question is, "As companies grow in size, it becomes difficult to match the pace set in the earlier years of triple digit growth, has Infosys reached a size large enough to warrant lowering long-term expectations? In layman term's, will the next five-year growth rate be in the region of 10% to 20% or higher?"

Narayana Murthy — I think he's right, the person is right, as the company becomes larger, as the base becomes larger, very high growth rates are not easy. I don't know if we can give a long-term growth rate, particularly at this point in time, so I would say that we've already given the growth rate over the next four quarters, which itself, I think, is a fairly good thing. I don't think at this point in time, we can talk about five-year, ten-year or fifteen-year growth rates.

P R Ganapathy Okay, a question comes, "What is the outcome of the much touted signature of an agreement with Microsoft last year, has there been any developments on the positive side because of that?"

Kris Gopalakrishnan We're still working with Microsoft in some sales and projects and opportunities. So this is an ongoing thing. We cannot talk about any specific projects yet.

P R Ganapathy Last question. "In your opinion Asia Pacific economies would be affected by the U.S. slowdown, as these economies are export oriented. What kind of growth opportunities will Infosys see in these economies, if the slowdown begins to affect them?"

Phaneesh Murthy I think we answered this question. We said we had already anticipated a slowdown in the European economy, maybe about two quarters after the U.S. slowdown, so that is built into our model.

Coordinator: Our next question comes from Greg Gore, from WR Hambrecht.

G. Gore: Hello, I just had a couple of additional questions. First of all, what was the utilization rate, including training, please?

Mohandas Pai: The utilization rate, including training this quarter is 64.9% as against 66.7% the previous quarter. For the whole year, utilization rates including training was 67.4% as against 72.9% in fiscal 2000.

G. Gore: Thank you. Then secondly, the client concentration, both for the top client, top five and top ten customers in the quarter, please? Then lastly, if there was any impact from rupee during the quarter? Thank you.

Mohandas Pai: The top client was 6.8% this quarter as against 7.7% the previous quarter. The top five clients were 26.4% this quarter as against 28.1% the previous quarter. The top ten clients have gone up to 43.4% as against 42.5%. The growth has essentially come from client six to ten, in this quarter, as compared to the previous quarter. Is that okay, Greg?

G. Gore — Yes, thank you. Then lastly, if there was any impact from the rupee/dollar exchange rate during the quarter? Thank you.

Mohandas Pai — Not really, the rupee/dollar was almost steady for the whole quarter.

P R Ganapathy — Amy, could we go to the next question?

Coordinator — Our next question comes from Bhavin Shah from Credit Suisse First Boston.

B. Shah — Hi, Mr. Murthy. Congratulations for the very strong results, in spite of the environment. I would like to ask the following, the 30% earning growth guidance is based on, as you pointed out, assumptions of even cancellations. Typically you have 60%; you have visibility for 60% of your revenues over the next four quarters. Does that mean that your current visibility on a 30% revenue growth is higher than 60%, however you are factoring in some cancellations, just to be cautious?

Narayana Murthy — This is after in fact doing the cancellation. I anticipated cancellations, based on the data that we had, based on a certain sample size, we have extended it for the whole year and based on the cancellations and the anticipated cancellations, we believe that we will be able to get to $530 million $545 million.

B. Shah: Okay. Maybe it is that, historically the 60% visibility was what traditionally you have talked about. Are you factoring the 30% revenue growth guidance and the numbers you mentioned, is it implying a higher than normal visibility, since you're factoring in cancellations? I'm sorry for asking it again.

Phaneesh Murthy: This is Phaneesh, Bhavin, if you look from objective parameters, probably the visibility is higher than the $530 million to $545 million at the 60% level. But because we have had cancellations, we have been a little more prudent and taken that factor, to bring the number down.

B. Shah: Okay, thank you. The second question was, in the last quarter results I've seen a development that I just want to get your thoughts on. One is that the new development revenues came down, however, the other revenues, which include anything in test services, consulting, package implementation, went up nicely. Could you explain what is behind that and is that an indication of what's going to happen over the next 12 months?

[Unknown] [Inaudible]… and various other things. Some of these things are looking very interesting, like the [inaudible] has grown over the last quarters. Also the [inaudible], especially in New York.

B. Shah Right. So is this, again, putting he macro environment in context, what does it mean? The new development is not growing, but all the other areas are growing. Is that a result of an environment where companies are not doing development, any thoughts on that please?

Phaneesh Murthy Bhavin, yes it is true that the development has come down. But I think we have to look at still more pieces of data before we can talk about a trend. Because what happens sometimes is that certain projects close, the number of projects close during quarters, etc. It all depends on the number of projects that get closed during the quarter and the number of projects that we start.

I would not like to draw any conclusion at this point of time, because I think this is the first time we have seen this kind of data…

B. Shah Okay. Just a couple more questions. The last time you granted options was in March 2001, I'm not talking about the new hires, who got it when they joined, but across the department option issue. It's been more than a year since then, so would you consider issuing options? I'm not talking about repricing here; I'm talking about fresh issue, would you consider that at this point?

K Dinesh — I think we have already given the options, again as of February 26th of this year, as a part of the regular grant of options.

B. Shah — Okay. Thank you very much.

Narayana Murthy — Bhavin, let me say this, certainly I think we will look at the performances of people, as we've said, this year we have set a target of 30%. If we see people performing well, if we see that there is reason to reward them, certainly we will do that. It's just a question of timing, but certainly we'll do that. I don't think we'll foreclose on the possibility of issuing new options. We have done it in bad years too; it may not have been last year, but other years.

Coordinator — Our next question comes from Lia Levenson from Zurich Scudder.

L. Levenson Hi, guys. I just wanted to follow up on a couple of things that people asked. What's the average size of the new contracts that you've acquired in this quarter, of the 37 new contracts?

Narayana Murthy Can you repeat that question please?

L. Levenson Yes, what's the average size of the new client contracts that you've acquired in this quarter?

Phaneesh Murthy We don't…, let me just state again, these are 37 new accounts, ours is a relationship model, so we actually measure ourselves based on the accounts. So as long as we are getting in the strategic perspective in the accounts, because we have a very strong execution model, so we know that we are going to get a repeat business kind of model. The initial project can be anywhere from $200,000 to $3 million. That's really not our focus, our focus is really more on how we built that account to a strategic size and relationship.

L. Levenson Well presumably they do start billing at some point in the year, and they've given you an indicative order of what they'd like to do with you. So I guess my question is getting out whether this initial contract size is bigger or smaller then it used to be?

Phaneesh Murthy Actually we have not noticed, but we can come back to you with the exact figure, but I don't think we have noticed any significant trend either way. It has been roughly, with the mix up, some of the smaller projects; you know a quarter of a million dollars and some of the bigger projects. So I don't think we have seen any noticeable or appreciable trends either way.

L. Levenson Okay. You mentioned that the attrition rate is about 10%. That's lower, as far as I remember from where it used to be, and sort of other companies have been mentioning that their attrition rate is do declining. Yet salaries still went up 15% and yes it is lower than the 25% increases you gave last year. But is there any scope for that to come down further as people are sort of starting to stay put or do you still need to give salary increases like that?

Narayana Murthy We do believe that the attrition rate is likely to decrease, due to the softening of the labor market. But given our own exacting recruitment standards, the quality of talent within the company is very high and we would do everything possible to ensure that this talent remains within the company.

L. Levenson So you anticipate that you would keep the 15% salary increases going forward?

Narayana Murthy Could you repeat your question?

L. Levenson Do you anticipate, given the current situation and assuming no significant change, would you expect to continue to give the 15%, is that the base level or that will never come down is what you're saying?

Narayana Murthy You know this year we have taken a 15% salary increase in India. I think when we look at it next year, certainly we'll look at all the factors, we'll weigh them in, and then we'll decide on the salary increase. I don't think anything is carved in concrete.

L. Levenson My final question is, your cap ex, I understand, the target is $80 million.

Mohandas Pai The anticipated cap ex expenditure for the next year is $80 million.

L. Levenson Can I ask you why you're still keeping it relatively high, given that you've been so successful in building out the infrastructure very quickly. Why do you need to, given that the environment is softening and is uncertain, why do you need to go ahead and spend this now? Given that, from what I understand, the capacity already exists for the additional hires for the 2,000 that you hired, and you could probably even accommodate more than that. Why do you need to go ahead and build the capacity out right now?

Narayana Murthy Well I think, look at this way, $80 million will give us approximately about 6,000 seats, maybe 5500 to 6000 seats. We have plans to add between 1500 and 2000 and then if we, even if, let's say it will take us nine months in general, but in some places, there are some parts of the country it could take 12 months. So it means that we have to start it in time, so that next year when we have the people joining, we have enough place for them to work.

So I think that's the, some of them are already a work in progress, so we have to complete those things. I would say, also what happens is this, it can't be that we can say, look, all the people come to Bangalore or all the people go to Mangalore or Pune. In each of these, even if you have 80% or 85% capacity utilization it's a good thing. So we can fill up all these things 100%. So if you are [inaudible] that's how it comes to 6000 seats or $80 million.

L. Levenson Thank you.

P R Ganapathy Amy, we'll conclude now, so I'll make —.

Narayana Murthy Also in management we are building the Infosys Leadership Institute and that's going to take some, and the management development center here in Bangalore. Leadership is the need of the day, and we certainly have to spend some money to make it, so that we have a good infrastructure for the leadership institute. So if you factor in all those things, in fact number of seats could be lower.

P R Ganapathy Ladies and gentlemen, thank you very much for participating in this conference call, which as gone on now for almost and hour and a half. I am available at 510-742-3030 to answer any questions that you have during the U.S. day. You have my e-mail address too.

A transcript of this conference call will be placed on our Web site and a replay of course will be available for a month. Thank you for joining us and we look forward to speaking to you at the end of this quarter, some time in July.