

Analyst Meet

August 27, 2002



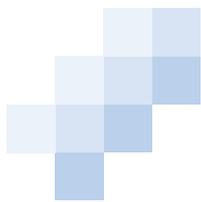
Nandan M. Nilekani

P.R. Ganapathy: Good morning Ladies and Gentleman, my name is P.R. Ganapathy, also known as Guns. Those of you who were here over last year might have met me. To set the tone for today, Theme address on 'Living up to the promise' by Nandan Nilekani, President and Chief Executive Officer of Infosys.

Nandan Nilekani: Thank you Guns. I think today being a CEO is not an enviable job. On top of that if I take too much time, my salary is going to be cut. Bala, if I finish earlier do I get a bonus or nothing like that. Welcome all of you to our Annual Conference. It is almost over a year since we met last time and as you know this time we have chosen the theme of 'Living up to the promise'. Before that, I will just spend a few minutes talking about what are the changes that we are seeing in the global scenario in the last one year. Last year when we met we talked about the fact that there was the absence of any kind of a wave, the fact that people were much more focused on technologies spending for business reasons and so on and all those things are true very much even today. And more and more I think as we talk to companies worldwide, bringing IT infrastructure and IT spending under control and making it a manageable part of the business expense is really becoming the need of the hour.

We are also talking about living up to the promise. What we have discovered all of us together collectively and discovered in the last one year is that there is a huge amount of un-kept promises out there in the market place. Part of these promises were made because of the belief that markets and growth will never slow down. Part of these promises were made out of ineptness of understanding the changes in the market place. Part of these promises were made out of deceit and all these promises have not been kept. I think what we are trying to talk about today is the fact that whatever promises that we have made we have kept and whatever promises we have made about the future we will keep, naturally the theme of what Infosys is trying to do today. We did not have a practice of giving estimates for our future earnings, but we took a decision last April that the market conditions had changed and it required us to give more precise guidance and we started doing that in April when we gave guidance of 30% growth for the year and we started the trend of actually now giving guidance every quarter both for the quarter and for the year, and that is something which we have kept consistently ever since we began.

We also believe that the market conditions are much more competitive. At the same time, I think we have to recognize that pricing pressure which people talk about or still I would not call it as pricing pressure, I would call it an understanding by the customers that IT spending is like any other spending and needs to be maintained, needs to be controlled, needs to be managed. It is actually a good thing for our business model because the demand for, what really it means is that customers are demanding more value for the IT spending and clearly when you have a business model like we have which is a Global Delivery Model, a business model that can deliver much more value for money, quality, and time-to-market than any other business model which is much more western centric. I think since everybody in the market place is feeling the same pressure from their customers that they need to bring more value into the IT service they deliver, obviously those companies in that sort of footprint as service providers who have a better business model are actually in a better position and therefore I think we need to look at these things in a comparative and a competitive sense that while there is global pressure on IT spending, it actually works in the favor of companies that have the kind of business model that we have and that global sustainable business model is actually one of the sources of our competitive strength and one of the sources of our ability to have delivered our promises in the past and our ability to deliver our promises in the future. The other important thing is that we have realized that a lot of our ability to keep our promises has to do with really being able to execute more intensely on all the opportunities that we have. What that means is that we have access to a really very wide array of blue chip marquee customers across the world. Our challenge therefore is how do we enlarge our footprint with each customer, how do we enlarge our range of services with each customer,



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how do we get earlier into the pipeline, and understand their strategic IT needs and provide solution which in turn bring value to the customer and bring revenue to us. How do we make sure that we penetrate our customers' business across the world, how do we make sure that we penetrated a customers business across different business line. So it is really a lot of it to increase the intensity of a customer relationships and that is something which all of us are focusing on and is an important part of the strategy that we have. So when we talk about providing more services or when we talk about multi-level client relationship, it is really these are all various tools and methods to increase the intensity of our customer relationship.

The second thing we need to do is really how do we increase the intensity or the use of our intellectual capital. What that means again is that today and some of that will come out in the discussions that my colleagues will present to you, we have done very valuable, very good projects, very good assignments with clients across the world, assignments that have helped our customers to become more efficient, to become more competitive, to save time, to save costs, to improve their margins, and we need to see how to improve the allocation of that intellectual capital to every assignment that we do in any part of the world. So when we do a great assignment in the US, how do we make sure that the learnings of that is used in an assignment in Europe or in Africa or in Asia. So I think the intellectual capital is enormous and using the intensity of used intellectual capital is another important part of what we need to do.

And the third part is how do we improve the intensity of our internal partnership, which is how do we make sure that all the people that we have who work in different regions, who work in different groups, who work in consulting, who work in different practices, who work in our domain group, how do they all come together and create the best high-value solution for our customers. And I think therefore a lot of what we have to do is really doing the things that we are doing better, sharing of the things that we are doing better, replicating them across the organization, and taking full advantage of the opportunity that we have. Because clearly we believe that the business model that we have is a sustainable one and Kris is going to talk about the convergence of business models and I think it is very clear that the long-term trend in the IT space is going to be much more conservative in spending, much more demand from businesses on getting value for the money, much more focus on return of investment, much more focus on execution excellence not just in strategy, much more focus on getting quick returns on the investment, much more focus on extending the value of IT assets. And extending the value of IT assets could vary from extending the life of technology purchases, extending the life of license purchases, extending the life of existing applications, integrating those applications better so that customer value is delivered, using outsourcing and offshoring more aggressively so that more value for money is delivered. The main technique that customers are using, but all of them are really broadly in the same space, which is how to get more for less and how to get more value for the existing investment that they have. So, clearly there is a lot of that happening out there in the market and that is really what makes our competitive position even better.

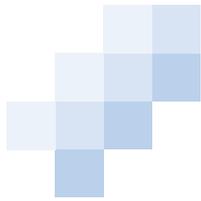
Now, our promises that we have kept or promise that we intend to keep are really for many stakeholders. For a customer it is expressed in the kind of services that we have offered, we intend to offer in the future, our offering of end-to-end services, our offering of high quality, our high potential and our repeat business which has demonstrated time and again that we have met our commitments to our customers. Our brand survey, the customer surveys all indicate a high level of customer appreciation of what we have done and that is all even the principle reasons why we have a high level of repeat business. Similarly with employees, we continue to believe and endorse that our employees are a most strategic and our most important asset. We have done what it takes to make sure that we get a world-class environment, make sure they have the best possible learning capabilities and learning experiences. We have made sure that we have kept all our commitments to our employees, all our commitments to our employees whom we had made offers to on campuses. So even with respect to both existing and potential employees, we have made sure that we have kept our commitments.

Similarly, with our investors, we have kept our commitments, whatever we have said we do in terms of growth rate for last year. I think we did that. We are among the few companies in the world, which actually said we will do and did it and maintained our promises we kept and we will continue to do so as we go forward for this year and the years moving forward. Another important thing in the sense, which we are ensuring, is compliance. Part of people promises is complying with the rules and regulations of the countries where we operate and we have chosen to do that in every country that we operate and make sure that we follow the law. And this again has a price and Mohan will talk about the compliance issues. But every time we choose to make sure that we comply with every law in every country, it has a price in the sense that you have to pay the appropriate taxes, you have to make sure that the labor laws indicate a certain minimum compensation that has to be paid and so forth. And that again is keeping the promise because we are making sure that whichever country we operate in we are a good corporate citizen in that country. Of course, keeping our promises to all the stakeholders outside society and so forth. So I think keeping our promises to everybody is an important part of what we are doing.

It is also important that when we understand that the reason why we are able to be so consistent in keeping our promises has a lot to do with our philosophy of de-risking. We have taken the view and we have been talking about de-risking now for almost three four years that really you can't build a business on one trend, one fashion, and one technology. You have to build a business, which spans technologies; you have build a business that spans geographies, you have to build a business that spans verticals, you have to build a business that spans customers and so on and so forth. Because you cannot really predict at any point in time, which particular part of the market is going to boom or which part of the market is not going to boom. And we have seen that in the last three four years. We had a dotcom boom and then we had a telecom boom and you know at different points in time, different parts of the world experience different kind of a thing and nobody can predict really which of these is going to take off or which of these is going to come down. And therefore, the only de-risking that you can do is making sure that you have a wide portfolio of services of customers or verticals or geographies of service offerings and I think that is something which we have done.

But that is only a part of the de-risking that we have done. I think the de-risking also has to be done from a point of view of business continuity and that came out very clearly from the point of what happened in the month of June when we had this whole issue of the potential of travel advisories and business dislocation and therefore it is a whole philosophy of how to make sure that if a particular location is in any case is not able to provide service, how we provide the same service from other location or the whole area what is called as disaster recovery or business continuity planning. So that is another aspect of de-risking. It is not just about the business mix part of it, but really having a business model, which can offer continuity of business even in the case of dislocation or disruption of any one part of your service capability.

The third part of de-risking which is equally important is about people and that again we have tried to make sure that we build systems, we build processes, we build all kinds of techniques to ensure that people dependence is reduced and really the system is able to deliver and along with that making the necessary investment in developing the right kind of leaders so that we have enough leaders in the organization to take this company forward for many many years in the future. So, I think de-risking is not just a business de-risking thing. It is de-risking on the business, which is all about verticals, and geographies, and technologies and so forth. It is de-risking about people and making sure that you have leadership to able to take the company forward and making the company immune to any kind of leadership transition issues. It is also to do with making sure that the business is able to continue even in an atmosphere where there is potential disruption of the business. So really I think this is de-risking on three different dimensions and this focus on de-risking has enabled us to be able to again live up to our promises no matter what the different condition that have arisen. At the same time, I think we have paid a lot of attention to corporate governance to making sure that



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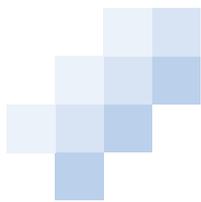
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information is disclosed, to making sure that we follow all the laws of the land, make sure we sign all the acts that the SEC passes, the US government passes, and Mohan will talk about some of these things in his speech about how will you adhere to the promise.

Finally, let me add something which is that important thing about 'Living up to the promise' is really doing many many small things in the right possible way. Today, we have an atmosphere where everybody wants to know what is the next thing you are doing. You know we are culture shaped by 24-hour business news channels, we are cultured by whisper web sites on the Internet and everybody is just waiting for the next thing. There is no next thing. Business is not about next deal or next acquisition or next thing. Business is about day-by-day coming in and doing the right things and building a better company. And that's is not exciting stuff, that is boring mundane stuff, but that's a real stuff, that is the stuff that makes companies build to last. And that is what we have to understand. Building the innings is not about just glorious sixes, but also hitting the singles. In football parlance, building the football game is not about a hail merry pass, but three-hour rush. So, clearly we have to realize that internally building the company is about doing many many things systematically, doing many small things, doing the right things at the right time without fanfare and all these things overtime, over years all add up and create a formidable capacity to deliver business value. And that is what really we need to start getting under the covers looking at those kind of changes that are happening.

And there are many many of those changes that have happened in Infosys whether its not just on the business side, but internally the kind of the things we have done, whether it is introducing internal balance scorecards, goal alignments, performance based high performance work ethic, variable compensation, roll-based architecture. There are whole host of internal architectural changes that are written into the organization, all of it making the organization more light, more malleable, more aligned with the market place. And those are some of the things along with the wins we have in the market. Those steady things really which contribute to the long-term success of the organization. And that to my mind is really how long-term promises are kept and long-term goals are met. And that I think is a very important thing that we have to understand in this day and age where everybody is just waiting to know what is the next new thing. There is no next new thing. Life is about doing things systematically everyday and going towards the goal that we have. And, therefore what really gives us happiness is every time we make a customer deal where all the pieces that we have brought together come together. When we score a multi-million dollar win we realize that our consulting people have played a role, when we realize our domain people have played a role, when we realize our service line people have played a role, when we realize that we have won against one of the big five, won against one of these large competitors. We have won not because we are cheaper; we have won because we are better. That's the time we get the confidence that our strategy is in place and all the investments that we are making are paying off. And I think that is really the spirit in which I would like you to view today's discussion as Bala has said very clearly we are not here to make some announcement. We are here for all of you to really get an understanding from within Infosys from the people who do the things. We have people like Basab here, we have Sriram here, we have Sanjay coming in. We have people who are actually on the field who are dealing with the market, understanding the market game, understanding the realities, understanding the competitive situation, understanding how over the last one year we have been able to change our competitive position and get better and win better deals and get better things. And that's what we are trying to bring out because other important thing is about this market is really the huge growth in outsourcing. I think one thing which has become even more evident over the last one year since we last met is how mainstream outsourcing and outsourcing to India have become.

The outsourcing has become I think very important for many reasons. Companies are realizing that they really cannot hire the kind of technology or business skills they need. They also realize that as economies become more volatile, it is not a great idea to have a huge fixed cost of internal people to address business needs and therefore outsourcing as a model



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where you have a smaller set of people within the company and use partners to really handle the ebb and flow of people needs, is increasingly becoming an acceptable concept everywhere. Moreover, having looked at outsourcing people are realizing that the global delivery model, the value time, cost and all the other benefits that arise from having done from India are very evident and on these two are based the fact that people are looking for strong names, for brands, for well-known companies, and the track record. And therefore, we are right at the center of this movement towards outsourcing and outsourcing towards India, which I think is a very strong motivation in a lot of our client minds. Now, as I explained this is with obviously price. Value is very important and that's why we are seeing the pricing issue, but as I have very clearly said what is important is if we are feeling a pricing issue what about the other guys. Guys who have a much bigger cost structure. They are feeling it even more and therefore I think rather than worry about price as an issue for 'a' company, I think you have to look at the impact of the global pricing pressure on an industry and figure out if there is pricing pressure across the whole industry then who are going to be the winners? And that's really where the argument should be going to and if you start going to that argument you will realize that we have a very strong case. So I think that is the kind of thinking that I would like all of you to do. Once again, I welcome all of you to this conference. We have tried to make sure that we have projected all the various things that we are doing, try to give an insight into the inner workings of the organization, try to give an insight into our strategies, try to give an insight into the factors that have enabled us to keep our promises for the last so many 20 years and also the factors that we believe will enable us to keep our promises in the future. Thank you very much.

Ganapathy: If you want to ask questions just raise your hands, we will select who ever, then just put on the mike and then one person at a time can speak. When that red light comes on, it means your mike has been enabled and you can ask your question.

Rajashekar Iyer: Nandan, you mentioned about pricing pressures. It is very clear that you know companies are trying to get more value from the IT spending that they are doing. I would like to get your views on two issues here. I remember a couple of years back there was a study done by I think Harvard Business Review, where they mentioned that about 82% of IT projects which are done are massively over budget and never delivered the benefits that they were expected to deliver. Not necessarily in any particular segment, but across the board. Clearly that is one of the reasons why companies want to take a closer look at what they are spending. So while the point that you make is that people of higher cost have a higher problem with this kind of closer look. Doesn't it sort of cut into the kind of if I could call it service providers surplus that was existing before which should be reducing now?

Nandan: What do you mean?

Rajshekar Iyer: If existing service providers are producing services at extremely high cost; you came in and started services which was costing you much lower, but in a sense you are cutting into that surplus which they had already. Now if that surplus itself is shrinking, it should have some impact on your business profitability over a period of time. Is it right?

Nandan: Well, I think the difference between the 1999-2000 scenario was there was a price umbrella which was set by say a US provider, which was actually going up. So the thing was we were moving towards that. Right? And that was the whole thing and that is how our productivity went up from \$42,000 in 1997 to \$91,000 in 2000. Now that has not only stopped, that may be coming down, because of the overall pressure. But, there is still plenty of room for us to grow in that. It is not that there is no growth, except that the ability to grow that is going to be you can't go and say you know I am going to charge you a higher price tomorrow because you know there is shortage of people. It has to come because you are able to put together a package of bundle of multi-skilled offering, which creates the value perception that enables him to justifiably pay you the higher price. So I think there is room for making sure that the margin side of it is protected in spite of this whole thing. And I think the more important thing is as I said the kind of dislocational impact of this is really quite high. Not so

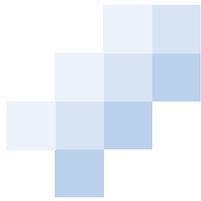
much on us and we have shown that in the last six quarters. But, on major skill players and that I think is frankly that is a good thing to be there, right? Fine there is pressure, but if the pressure is going to be much more on somebody else in a competitive landscape that actually gives an opportunity for you to grab market share in that environment. So, I think it is a perfectly valid thing.

The other important element of this environment is the focus is on delivery or execution excellence, because people are not going to be satisfied with a nice powerpoint presentation about some strategy, that you know is yesterday's stuff. They want hard-core, on the ground results, which can be quantified, measured, and delivered on-the-ground results. And that is actually the forte of people like us that we can deliver on the ground, we can make sure it happens on time, make sure it is of high quality, make sure it meets the budget, make sure it meets the numbers. And so I think both from the market value perception point of view as well as the focus moving from the strategy end of the value chain to the delivery end of the value chain, both these things are actually playing towards our advantage. You still have to make sure. We extract the margins and that's the smartness that we will have to show in terms of the way we package our solutions and so on and so forth. But, that's fine I think that is a better problem to have because these other two things are actually driving it towards our favor and that is why you know Kris will talk about the convergence of the business model. Right Kris? You know, there is only going to be one business model in the future, which is really a global delivery capability like ours, which has the customer solution delivery capability attached to it, which we are keeping improving now and everybody will have to come to this. We will have to go to it by improving our customer facing capability, our solution capability, our consulting capability, and so forth. And the guys who do not have a global delivery capability they will have to do it in our way. But they will have to do it in our way at the scale that we do it, which means that they will have to deliver 70% of their output from a place like India to really create the same competitive economics. And that is a major restructuring, that is wholesale restructuring. So, I think there is convergence of the model, Kris will also talk about it, and this convergence of the model is playing towards our strength. Everybody has to change, nobody has the full design of the template or the architecture of the company of the future. But, people like us are in a good position to make it happen.

Vijaykumar: This is Vijaykumar from InvestMart. I just want to ask three questions. One is on the business continuation issue. Just taking on from where you mentioned about convergence of models. First, the business continuity issue seems to be driving in the longer term, if you look at a longer term, about different multiple locations for even delivery. May be one thought is that may be you could be driving your costs up, cost of the delivery end of these model. In terms India is no more the only preferred location. It could be other countries like Malaysia or Mauritius or any other place. I understand that investment approximation does in US which is spare capacity available, which is not going to be used. So that is one question. How much will that impact in the long term? That is one question.

The second related question is as the global consultancies move towards convergence to India; there are other parts of the play which will also come in, possibly in terms of because of their size, they also may be able to build an economy and the overall rat race of pricing may be coming down. So the headroom available to move up in terms of the gap that you mentioned about, the pricing available for global five and the India centered and focused delivery players, which are at a much lower rate. The gaps not immediately but in the longer term could you know significantly narrow. I just want your thoughts on these two.

Nandan: Well, know I think see one thing before I get into the business planning. I think there are key points that we have in our model, and forget about India and all that. Our ability to take complex large-scale software solution projects, I will use that phrase. Disaggregate that into its component value elements, relocate those value elements for what shall I say value creation to different parts of the world, reassemble that and deliver it to the customer in a seamless way. That is really the intellectual capital that we have. Right? It happens that in an instantiation of that it may be a customer based in San Francisco and the delivery is



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Bangalore, or customer based is in Tokyo and delivery is in Bangalore. I mean that is an instantiation, but conceptually, so what we have done is we have introduced a degree of freedom in the way that you deliver solution. Whereas if your solution delivery is a bunch of guys sitting in one country and delivering, you don't have that flexibility. So we have created a whole dimension or whole access of freedom into solution delivery, which is really the strength of what we have. It has come out of the global delivery, but now it is really a virtual model and therefore, we don't have to have a center of this size there or center of that size there. It is just sufficient that if you have a few people in this county, few people in that country based on what, because the whole game is that, if the whole world is in flames then you know it doesn't really matter, but it is a problem somewhere then we are able to take that and relocate that and do a load balancing in the other parts of this net world in a way that is seamless. So, I don't think the costing is that big because and that is a point that the degree of freedom we have introduced into the business solution thing is itself the value of our competitiveness. So, I don't think the cost of that is much and we have done the analysis on that.

Coming to the second question, I think if you are a US centric supplier, lets say that you have 100,000 employees. Now if you want to deliver a solution in the Infosys model 70,000 of those employees have to be outside in an economy where it is more affordable. 70,000. Having 500 guys in a Bombay suburb he is not going to hack it. Right? It may hack it from a market perception point of view, because I also have offshore delivery kind of stuff. But, he is not going to hack it from a delivery perspective, because you are not going to make one-dime difference to your cost structure. So you are going to deliver genuine cost advantages you have to fundamentally restructure your business model. You have to dislocate 70,000 people and that is where the challenge is. Get me? What are the difference between Dell and Compaq. They both sell PCs. Why is Dell's market share low at 11% last year, because Dell has a different business model. It is selling direct, but can a Compaq become a Dell overnight. No. Same thing. Okay.

Vijaykumar: Thank you.

Male Speaker: Thank you Nandan.