Nandan Nilekani *- Infosys Technologies – CEO, President and MD*

Thank you. It's a great pleasure to be here and I hope to spend the next 20 minutes just giving you my impressions of the lay of the land, and how the business looks like and how we see the future. I think the last year has been a good year for us. As you know, when we went public on the NASDAQ in March of 1999, the year ending March 31, 1999, we had revenues of $121 million and by March of 2004 our revenues crossed $1 billion. So we grew eight times in those five years through the very difficult and tumultuous boom and bust. And we are on track this year to close, as Mr. Murthy mentioned, at around $2.14 billion, which means we'll have doubled from $1 billion in '04 to over $2 billion in '06. And across Infosys group today we have 46,000 employees across all our group companies and we are on target to do what we said we'll do.

I think for a long time we have been arguing that what we represent is a new business model. What we have done is really leverage the power of global delivery, leverage the high quality talent we have in India and other places, use modern technology and communications, use the latest practices and processes and systems to build a whole new business platform for delivering high quality IT services. We believe that this model is a genuine business innovation. It is as big business innovation as Google is to classified ads. We believe that what we have done is brought in a faster, cheaper, better way of delivering IT services and therefore, what we do is essentially an element of substitution in the global IT
services arena.

In the last 40 years, the U.S. companies have spent an increasingly larger part of their expenditures on technology. Technology spending in the U.S. has always outstripped GDP growth from 1960 to 2000 and for many corporations today, the bulk of the capital spending is related to technology and there are many, many firms today who spend billions of dollars on technology.

However when you go around the world and meet CEOs and other people in the boardroom, there's a fair amount of unhappiness that they haven't really got what was promised. That very often they end up spending too much money, very often they don't get the outcomes they want, very often the technology spending is not aligned with business goals and very often they spend more money on maintaining what they have, than on developing new software or new applications for their business.

I think the market was therefore looking for a solution which offered a cheaper, faster, better way of doing things because all over the world people don't want to increase their spending on technology. But even as the complexity of their business is going up, they want to get more value from the money they spend on technology and therefore I think our message has played very well in this audience. And the simple fact that the last five years the global IT services industry has grown at about 5% per annum CAGR whereas we have grown at 45% per annum CAGR, I think gives you a sense of the impact of what we are doing.

I think what is now really becoming apparent is that our model is now universally accepted. There is no CEO on the planet who has not heard of Infosys or not heard of our business model. Therefore, we have very good access across the world to all the large boardrooms and corporates and everywhere there's an understanding that this is a model that has arrived. This is a model that is superior and Infosys in a sense is a proxy for that. Infosys is spearheading that, a symbol, the paradigm of what is happening in the marketplace. And I think that's playing eminently in our favor.

We believe that this has caused pressure on the competition. For many years our model was not appreciated by competition. It was dismissed or treated as some low cost thing happening in India. It was never seen as something that could be fundamentally threatening. But as you have seen in the last one or two years, increasingly global legacy companies which have essentially had a different model which is a high cost local model, are beginning to realize that this has a huge impact on the business and are increasingly beginning to try to change their model to become like us.

Our vision is really that the end game in what we are doing is what we call as the next generation IT services company. In the next generation IT services company, you have the best of both worlds. On the one hand, you have excellence in execution, which is what we have been famous for, for two decades. It's about delivering high

quality at low prices, predictable, reliable, on budget, on time, every time. And that's the model that we've perfected.

But that's one part of the equation. You need to marry excellence in execution with high quality business solutions because ultimately it's about applying technology to make businesses more productive, more efficient, more profitable, more competitive. And therefore, the next generation IT services company, we believe, combines the best of global execution with the best of business consulting and solutions and that's really what the Holy Grail is all about.

Everything that we're doing at Infosys is to go towards that. Our investment in Infosys Consulting, our investment in Progeon, our investment in new services like Enterprise Solutions, testing infrastructure, SI and many others are all examples of how we are broadening our service offerings so that we can offer the best of both worlds, offer consulting as well as offer excellent execution that goes with consulting. And the fact is because of our investment into new services, today 40% of our revenue is coming from services we introduced in the last five years.

Now this Holy Grail is not being chased by us alone. It's being chased also by the legacy players. But the legacy players have a fundamental problem which is how do you change? Our challenge is actually a positive challenge. It's while we are growing, it's about adding capabilities, adding high quality people, adding a brand, adding solutions, making a difference. It's a positive morale boosting kind of activity. But the legacy players, while they have the relationships and the business knowledge, they need to completely redesign and re-architect their inside. They need to completely flatten themselves and relocate and make themselves a truly Global Delivery Model.

What that means is large scale relocation of employees, which had its own consequences and traumatic implications. It's about changing the way they work. It's about defining then relationship between offshore and offsite. It's about turf issues. It's about incentives. It's about a whole host of internal problematic issues. And therefore, our view is that fundamentally the organic approach or the growth approach that we have, to create this company, which we say is the Holy Grail, the next generation IT services company. The other guys are approaching it from the other side and we think the consequences and the challenges for them are far more and we are seeing some of that in the market.

The other thing which is happening is that I think what we are doing and seeing, is in fact creating a global compression of IT services pricing. This is very important to understand. Because you are delivering a superior value proposition at a lower price and the price discovery mechanism is fully in place so that everybody knows about this. Even if we don't get the business, the expectation is that our global legacy competitors will also have to sell at our prices and give the same value.

And therefore in effect it's not just the business that Infosys gets from this marketplace, which is certainly an important thing but also I think it has the impact of creating a whole new dimension of impacting and compressing prices in this industry. And therefore, you can understand what will happen in this price compression when your costs structure is the legacy cost structure. And you're seeing a lot of that happening in the marketplace and a lot of the performance of companies or lack of performance of companies is linked to this fundamental strategic thing that's happening out there.

So I think strategically we are at the right place at the right time. We have been saying this for many years now but I think now there is widespread appreciation and understanding of what we have been saying. It's now accepted universally by customers, by investors, by thought leaders and I think that in the next two years, we are going to see this whole thing playing out.

The next thing that I think how Infosys has built the brand and the market access. For many years we have been saying that it's all about building our own brand. We are not an electronic, manufacturing company at the bottom of a production food chain. We are an independent company which has direct access to 400 of the world's largest companies where everyone in those companies knows Infosys as a brand. And we took the decision a long time back that we didn't want to be a subcontractor, we didn't want to be part of some food chain. We wanted to build our own brand, we wanted to build our own client access, we wanted to build our own relationships. And while that has been a long and tough process, we are now harnessing and reaping the benefits of that investment. And today, Infosys is truly seen as an international brand. Everywhere I go, everywhere I meet a lot of very eminent people, thought business leaders and they all have heard about us, appreciate what we have done and are willing to have a conversation with us. And I think, therefore, the branding and creating that position that we have done in this new world, has been an important strategic decision which is now beginning to pay its dividends.

The other dimension is how do we build the company for scale? You know, just to give you some idea, and Murthy mentioned some of that. We are at 46,000 employees at the end of the last quarter. This year alone we are going to add on a gross basis 20,200 employees. To arrive at these 20,200 employees, we are going to look at 1.4 million applicants. When we hire these people, we hire them in batches of say 5,000 each. We train 5,000 people

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at one time. We have a campus in a city called Mysore, which is probably the world's largest corporate university which can train 5,000 people at one time on a residential basis. At any given point, we are building millions of square feet of office space in a matter of months. This year we will be giving 600,000 person-days of training to our people.

I'm just giving you these numbers because it's important to understand that right from day one, we have looked at how to scale up this operation. How do you recruit high quality talent in large numbers? How do you make sure they go through the same intensive training? How do you make sure that when they work on projects they do the projects the same way? We do that by having a global process engine where we have captured all the processes and systems and the methodology that we use and it's all very transparent, so that anybody who joins the firm, whether it's in Boston or Bangalore or Belgrade or wherever, does it in the same way. So behind this rapid growth, behind all this is really what we believe is a global process platform, a global process engine which knows how to find the best people, recruit them, train them, deploy them and structure the organization in a way that we continue to give very good service. In fact, this year, even as we grew at 34%, our customer satisfaction has gone up. And let me tell you it's not easy because when you grow at this rate and you hire thousands of people, you run the risk that your quality is suffering. But because of our huge methodical focus on systems, on process, on technology, on training, on orientation, on culture, the whole gamut of things that we do to make the engine work very well, we believe that we have been able to achieve this combination of creating scale as well as maintaining quality. And that's a very important part of the game.

Now, our scalability is not limited to just people or infrastructure. We are also getting scalability in our projects. We're doing thousands of projects and we have the management systems and the tools to manage thousands of projects and ensure that they're all happening on time, on budget, on quality. We have scalability, as I said, by adding new services and we expect these services to grow. We are finding great traction on the consulting side. Today we have 25 customers on the consulting side. People are getting our message that you should be able to get the best of both worlds from us. And today, between Infosys Consulting and our ES practice, we have over 2,000 consultants.

On the BPO side we are having tremendous traction. We took a decision a long time back when the BPO firm was set up that being in the BPO business is not about managing call centers. We leave that for somebody else to do. The BPO business for us, for an IT company, is to be in the space of business transaction because ultimately customer benefit comes from marrying technology to business transactions. And therefore, the work we do, whether it's processing sales orders or accounts payable or settlements or financial transactions, is all about transactional BPO. And this is a decision we took three years back when we set up Progeon and that decision is now proving to be the right decision. So that's growing very rapidly. We expect it to grow something like 100%.

We have found all our new services doing very well whether it is enterprise solutions. Today we are one of the world's biggest implementers of Oracle, SAP and all these projects. New services like infrastructure management, systems integration, testing, all these things are resonating very well with the customer. So we have also got scalability in the services that we offer.

Another dimension of scalability which has helped us in the last two to three years is verticalizing the organization. Increasingly, we have a requirement that our customers expect us to have a much deeper domain and business knowledge. So in the last couple of years we have verticalized, certainly in the U.S. where we have verticals for banking and capital markets. In fact, Mr. Ashok Vemuri is is here who heads that. We are verticalized into Europe, BG Srinivas is here he'll talk to you about what's happening in Europe. We verticalized into retail, into insurance, healthcare and life sciences and transportation, energy and so on and so forth.

So the idea of this verticalization has been that we have not only smaller groups from a management perspective but we also are encouraging these groups to have the plans and drive solutions, drive domain knowledge and drive capability that is unique to the vertical industry that we belong to. Today we have 1,300 people who have been certified with some domain knowledge. That means they've gone out there and got LOMA certification for life insurance or some other certification for accounting, or a third certification for retail. So there's a systematic program under the leadership of Shibu to really dramatically improve the capabilities of our people, capabilities in domain knowledge, capabilities in horizontal activities like quality and project management, capabilities in technology like .NET and Java. So there's a systematic program to upgrade the capabilities of our people in tune with the demand of the marketplace. And this again I think is a very, very important sort of hidden thing that's happening in the firm, which is helping us to morph our revenue and to become different.

And then, there's a whole investment we are doing on the client side. We realize that ultimately growing the business is about getting a larger share of wallet. It's about really making our accounts grow. We have many, many programs. We have programs to grow account into a $50 million account. We have programs to take them even larger than that. We have a large management plan. We have a program to specifically address the kind of people and the capabilities who are there in a particular individual account. We have programs to look at how to build

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multi-layer relationships in our account so that we de-risk the account as well as have access to more decision makers. So for every account we have a detailed account plan and account strategy on how we are going to go up the value chain, how we are going to build their relationships, how we are going to access different geographies of the customer, how we are going to access different business units of the customer, how we're going to offer new services from Infosys to the customer, how we are going to build better contacts, how are we going to be more proactive and understand the business challenges of a customer and so forth. So there's systematic plan on the client side, again led by Kris, Shibulal Dinesh and many others. And the idea is that we want to really see what does it take to take the company forward, what do we need to take many more accounts to be large. Today we have 191 customers who generate more than $1 million of revenue. What do we need to do to increase the number of customers and what do we need to do in each customer to increase the size of the relationship. So there's a whole focus on customers and account management which I think has also been one of the reasons why we have been able to show superior growth compared to a lot of other firms.

At the same time, our customers are expecting us to come to the market with what is our view of the future. And it's very clear that they are looking at us increasingly as an agent of their transformation. Our customers are beset with many challenges, challenges of stagnant prices and rising costs, globalization, global competition, regulating pressures, whether it relates to Sarbanes-Oxley or whether it's Anti Money Laundering Act or whatever. They're under tremendous pressure and they're looking for trusted mission critical capable advisory strategy partners whom they can work with over periods of time.

And this is where I think our message that we can be a player in the transformation, a message that we are conceptualizing in our consulting and in all areas. I think this message is beginning to resonate with our customers and I believe that it's really going to make a big difference to the way they think. And I think you're going to see a lot more activity in the kind of work we do, which is consulting-led or transformation-led. So that's again another part of what we are doing.

So I think to basically just to summarize, let me just say that the company has had an excellent track record. We are growing from $121 million to $1 billion by '04, plan to cross $2 billion. We have taken a point of view that this is a disruptive business model, that is a genuine business innovation. This is a cheaper, faster, better way of doing something that was done in a high cost manner and, therefore, in effect we are a substitution player in the global economy and therefore, that's why you're seeing a growth rate of 45% compounded as opposed to 5% for our legacy competitors.

We believe that we have done a great deal to build our brand, to build our positioning, to make sure that Infosys is widely known. We have done a great deal to build direct relationships with our clients so that we have access to the decision makers. We have built a model of scalability, scalability in terms of our people, scalability in terms of our infrastructure, scalability in terms of our processes, scalability in terms of our organization structure, scalability in terms of the number of services that we offer, scalability in terms of account management, scalability in terms of multiple locations, there's a whole set of things we look at which has enabled us to scale.

And I think therefore our challenges are really internal in the sense from a market specific position point of view. I think we are really in the right place at the right time. I mean you can't ask for a sweeter spot than what we have. Our challenge is really how do we continue to scale up, how do you go up from 46,000 people to whatever is the next number of people, how do you add 20,000 people in a year, how do you make sure that your organization can absorb so much of talent, how do you make sure that the culture is preserved, how do you make sure that quality is preserved, how do you make sure that customer satisfaction continues to be good. There's a whole host of issues that we have on scalability and all of us and our senior management is relentlessly focused on making sure that we have the right scalability and de-risking built into every part of our business.

The other challenge that we have is how do we continue to differentiate, how do we differentiate by strengthening our brand, how do we differentiate by strengthening our consulting capabilities, how do we differentiate by better solutions, how do we differentiate by our intellectual capital and our solutions and our re-use of knowledge, how do we differentiate by really making the people who are making the customer feel much more as trusted partners, how do we differentiate by becoming even stronger at domain knowledge. There's a whole host of things we have to do on the differentiation side.

So we see our twin challenges today of how do we continue to scale up the business so that we get the growth, we get the revenue and we make sure we don't miss any steps in scaling up, and the second part of our challenge is how do we continue to differentiate ourselves and make the right kind of investments in what is required to make us different. And we have to do both these thing in tandem because you can't segregate one from the other. And therefore, I think that's a big challenge that we have, how do we combined scale and how do we combine that with differentiation.

And to do all this, I believe that we have a lot of internal management processes and tools, which enable us to do that in a reasonably proper way. We have three cycles of planning at Infosys. We plan in the short term, we plan at the quarter, and up to four quarters ahead. And this is what we call the operational planning process, which is all about making sure it's a supply chain issue, making sure the right people are there with the right skills at the right time to service the right customer in the right location. And therefore, it's really a sophisticated global supply chain management kind of issue, making sure there are enough seats for people to sit, there is enough technology has been ordered, enough training days have been planned and so on and so forth. And that's linked to the forecasting of revenues and margins and guidance that we give you and so forth. So we have this one quarter to four quarters operation planning cycles. That's one -- that's the short end of our planning cycle.

At the long end of our planning cycle, we do what we call a five year scenario planning. We look at where the world will be five years hence and what is the nature of competition that is going to be there five years from now, what is going to be the impact of offshoring backlash, what is the impact of the rupee becoming stronger, what is the impact of some new innovation in technology coming that makes what we do redundant and so and so forth. Basically a five year what-if analysis of what could potentially go wrong. And every year we recheck these assumptions. Every year we sit down and say last year when we did our planning cycle, these are the assumptions that we had about the future. Are these assumptions still valid or has something changed in the external environment which leads us to believe that our assumptions are different. So we retest these assumptions every year. It is a five-year thing.

And then between the short term operations planning cycle and the five year scenario planning, we have this three year business planning cycle and that's to do with making sure that all our business units and all our business enabling units that are the support functions, all have a three year view of where they're going to take their group. For example, if you have BG or Ashok, who are running a business unit, they have a three year plan, saying in three years these are the revenues we plan to have, this is the kind of mix of solutions we plan to offer. This is the kind of thought leadership we plan to do, these are the kind of customers we want to have and so on and so forth.

So basically, having a short term planning cycle for operational purposes, for operational excellence, having a five year planning cycle for scenario planning and assumption identification and having a three year planning cycle to drive the strategic engine of the corporation is really finally ingrained in the firm and this combined with tools like the Malcolm Baldridge framework and using things like Balance Scorecard, are actually the nuts and bolts of really making this whole machine, this whole engine go in the right direction with a high level of probability of success that we will get where we want to.

So I think let me wrap up now because I think it's time to wrap up. But fundamentally, I wanted to give you a sense of where we are, I think strategically very well placed. The engine is moving, as I said, focusing on scale and differentiation, focusing on building a brand, focusing on growth and making sure that we deliver on all our promises. Thank you very much.