



Chairman's speech

Annual General Meeting 2003-04

Infosys Technologies Limited

Dear shareholder:

A warm welcome to every one of you to the 23rd Annual General Meeting of your company. Your trust and support serve as great motivators for us at Infosys, to work harder and smarter. On behalf of all Infoscions, I thank you for your encouragement.

Fiscal 2004 has been a historic year for your company. Your company became the first listed Indian software company to cross the magical "Billion Dollar" mark in its revenue. It is also the fastest in reaching this milestone revenue mark. What is equally satisfying is the fact that your company continues to be the largest (in revenue) and the most profitable listed software company in India. Under Indian GAAP, our revenues grew by 31.0% over fiscal 2003, while our profit after tax from ordinary activities grew by 30.0%. According to US GAAP, revenues grew by 41.0% over fiscal 2003, while net income grew by 38.7%. This exceeded our initial estimates for the year. In fact, during the year, we increased our guidance for revenues and Earnings Per Share (EPS) for fiscal 2004.

As I stand here, my mind goes back to that wintry day in December 1992 when we took the decision to have our Initial Public Offering (IPO) in India. As is our norm, we debated the underlying philosophy that would motivate us in this initiative. I am happy to say that the unanimous decision was that we would maximize shareholder value on a sustainable basis, while ensuring fairness to every stakeholder - all of you (the investors), customers, employees, vendor-partners, government of the land and the community. This, as you know, is the fundamental principle of corporate governance. We resolved to assure our investors of our consistent commitment to fairness, transparency and accountability. At Infosys, we use simple yet powerful expressions to remind us of our values. Some of these expressions are - The softest pillow is a clear conscience, and When in doubt, disclose. I am glad that we have followed these precepts over the ten odd years we have been listed.

Last year was a tumultuous year. The jobless recovery in the US, slow growth in Europe and the outcry against outsourcing were all part of the landscape. Amidst all of these, we witnessed several interesting global phenomena last year. While most companies in the global marketplace shrank in revenue, we sustained a healthy growth. While reduced margins were accepted as inevitable, we protected our margins. While companies were retrenching their employees on a mass scale, we hired aggressively. These happy events were not due to serendipity but due to the customer focus, dedication, commitment, hard work and creativity of every Infoscion. These men and women showed that Infosys can and will succeed despite any challenge that confronts us.

As an organization ever watchful of the marketplace, we helped our customers define a new game with a new set of rules. The battle is now being fought on our terms. Infosys and offshore companies have become leaders, and the global incumbents have become the followers. Offshore development is now a mandatory component of any offering in our marketplace. The Global Delivery Model (GDM) invented and refined by Infosys has become the mainstream model for every player in the market. In fact, your company is now taking the power and benefits of the GDM to activities like consulting. These activities were, hitherto, not considered amenable to offshore. Having tasted the success of the Infosys experience, the customers now want every player to demonstrate precept to practice. Thus, there is now an even greater focus on walking the talk. Business value creation with measurable EVA has become the mantra among Infoscions. The creation of Integrated Business Units and the strengthening of our research activities in business areas are aimed at better value creation for our customers. Our customers want tangible demonstration of the benefits that accrue to them from our expertise and skills. Thus, at Infosys, every project - either for the customer or internal - has to be justified using quantifiable models for return on investment (ROI).

I have articulated our strategy for acquisition several times in the past. Let me restate it here. The company that we acquire must bring scalable complementary revenue streams, skills and expertise. It should have industry-respected senior management. It must have an enduring value

system, similar to Infosys. Finally, it should be possible to bring up the net income margin over a reasonable period to the level of your company. Obviously, these are very stringent conditions. I am glad that we could find such a suitable candidate in Expert Information Services, Australia. Infosys - Australia, the result of amalgamation of Expert Information Services - Australia and our Australian operations, gives us greater depth in market access in Australia. Since our search for a top-quality consulting firm in the US did not yield success, we decided to build our own with a team of top-notch consultants from the industry. That is how Infosys Consulting was born in April. We believe that Infosys Consulting will position us as a premier, one-stop, board-room-to-boiler-room company, delivering robust and effective technology-leveraged, end-to-end business solutions to our customers.

China will play an important role in the future of any multinational corporation. Hence, it is important for Infosys to have a presence in China. Keeping this in mind, your company has started a subsidiary in China, headquartered at Shanghai. We believe this will be a very important initiative.

Our liquidity policy is dictated by Return on Capital Employed (ROCE) and Return on Invested Capital (ROIC). Your company's target is to earn an ROCE which is at least twice the cost of capital, and an ROIC which is at least thrice the cost of capital. Our dividend policy dictates that we limit any dividend payout to 20% of the net income generated during the year. In keeping with our dividend policy, your directors recommend a final dividend of Rs. 15 per share (300%), making it a total dividend of Rs. 29 per share (590%) for the year.

Personally, I am averse to huge dividend payouts since I believe in the adage: The real happiness in a company is cash in the bank. However, I have received hundreds of letters from you expressing your opinion that there is excess liquidity in your company. Our board listened to your request, ensured that our ROCE and ROIC requirements were met, and decided to recommend a *one-time* dividend of Rs. 100 per share (2000%). This year, being the "Billion Dollar Revenue" year, was perhaps the most fitting year for such a special dividend. After making a detailed analysis of the business parameters of Infosys, the board also felt that this was the right time to accede to your other constant request - issue of bonus shares. The board has recommended a bonus share issue of 3 bonus shares for every subscribed share.

I have often said that the market capitalization of your company is zero at 5.15 pm when our employees leave for home. Our employees are our soul, in addition to being our engines of growth. In the words of J. Stanford: *We get our power from the people we lead.* Any decision that does not uplift them is not a welcome decision at Infosys. The board felt that the employees who have helped us take these positive decisions for you should also be rewarded on this occasion. Consequently, the board decided to distribute Rs. 100 Crores as a special bonus for our employees.

As in the past, our performance this year has been driven by the commitment of our fellow Infosians. On your behalf and on behalf of the board of directors, I salute them on yet another year of sterling achievements. We also place on record our appreciation of our clients, vendor-partners, investors and bankers, for their unwavering trust and support. We are also grateful to the Government of India, particularly the Ministry of Communication and Information Technology, the Customs and Excise Departments, the Software Technology Parks - Bangalore, Chennai, Hyderabad, Mangalore, Mohali, Mysore, Pune, Bhubaneswar, Tiruvananthapuram and New Delhi, the Ministry of Commerce, the Ministry of External Affairs, the Ministry of Finance, the Reserve Bank of India, the state governments, and other government agencies for their support. We are thankful to the trustees of the Infosys Foundation for sparing their valuable time and energy for its activities.

Your company has redeemed the promise that it has made to its investors, year after year, for the last ten odd years. Our desire is to continue to do so. As we do so, we keep in mind the words of our national poet, Rabindranath Tagore: *Where tireless striving stretches its arms towards perfection.* Your trust, confidence and encouragement will continue to motivate us in this pursuit.

Thank you.

Bangalore
June 12, 2004



N. R. Narayana Murthy
Chairman of the Board