



Chairman's Speech

N. R. Narayana Murthy
Chairman and Chief Mentor

Dear Shareholder,

I warmly welcome you all to the 26th Annual General Meeting of your Company. Your continued trust and confidence in us has enabled our excellent performance. On behalf of every Infoscion, I thank you for your support.

The Financial Year 2006-2007 has been a successful year for the Company. We added nearly \$1 billion to our revenue. Our growth exceeded our initial guidance. According to the Indian GAAP, we achieved a revenue growth of 46%, while our profit after tax before exceptional items and excluding tax reversals grew by 52%. According to the US GAAP, our revenues grew by 44% while our net income grew by 53%.

When Infosys was set up 26 years ago, our vision was to build a globally-respected, professional organization, creating wealth legally and ethically. We faced several challenges, but we struggled, worked hard, persisted and built the organization, never compromising on our value system. This has enabled us to remain true to our core identity, even while stimulating change and growth in every business parameter. Infosys started as a team of seven. Today, Infosys, with its subsidiaries, is a diverse team of over 72,200 professionals of 65 nationalities.

Our growth comes not only from a strong and resilient business model, but also from our relationships with our stakeholders, built on confidence and trust. This has been sustained by creating a scalable, globally competitive, robust, technology-based business model while fostering an open, collegial, merit-based, professional work environment. We have built this institution on the foundation of world-class corporate governance standards and a commitment to our core values of fairness, transparency and accountability.

Underlying our performance is our commitment, expertise, acumen and trust built over nearly three decades. We have been expanding our geographical spread and extending the breadth of our services. We have been continuously innovating. In fact, over 43% of our revenue comes from services that we introduced in the past five years. Infosys Consulting provides our clients with services that offer a combination of technology and management know-how. Our business process management services initiative, Infosys BPO, seeks to leverage the benefits of service delivery globalization, process redesign and technology, to drive efficiency and cost effectiveness in customer business processes. In Rupee terms, the revenue of Infosys BPO grew by 75% and that of Infosys Consulting grew by 49% over the previous year.

Our future success depends upon our ability to manage rapid growth. Today, we have the vital ingredients in place to manage growth – strong leadership, best-in-class talent, mature processes, integrated systems and world class technology, and physical infrastructure. These, along with our strong value system, will continue to accelerate our growth in the years to come.

Fiscal 2007 has been memorable for us. We celebrated our 25th anniversary by remotely ringing the NASDAQ opening bell from India. In November, we completed a sponsored secondary offering of 30 million American Depositary Shares. The aggregate size of the offering exceeded US \$1.6 billion, making it the largest international equity offering from India at that time. We became part of the, prestigious NASDAQ-100 Index, which comprises the 100 largest non-financial stocks on the NASDAQ Stock Market in terms of market capitalization. We are the first Indian company to be added to the NASDAQ-100 Index. In fact, we are the only Indian company to be part of any major global index.

In line with the Company policy, I retired from the services of the Company on August 20, 2006 as the Executive Chairman. I continue to serve the Company in my current capacity as the Non-Executive Chairman and Chief Mentor. I will be primarily responsible for managing the board, for governance functions and for enhancing client relationships.

After a successful tenure of five years as the Chief Executive Officer (CEO), Mr. Nandan Nilekani has followed the Infosys tradition and voluntarily passed on the CEO baton to Mr. Kris Gopalakrishnan, a worthy successor chosen by the board. Kris is gentle but firm, consultative yet decisive, and thoughtful yet action-oriented. Mr. Shibulal will become the Chief Operating Officer (COO). Shibulal is smart, focused, detailed and result-oriented. He makes an ideal COO. Nandan will be the Co-Chairman of the Board of Directors. Nandan will assist Kris, focus on client relationships, be a brand ambassador and contribute to Infosys' strategy. These transitions reinforce the efficacy of our long-term succession planning. On behalf of all of us, I wish Nandan, Kris and Shibu, the management team and every Infoscion a brilliant future.

Our customer-centric approach and nurturing global client relationships strengthen our performance and results in high levels of client satisfaction. We derived over 95% of our revenues from repeat business. Our client base stood at 500 at the end of the year, with 160 new clients added during the year. There was an increase of over 30% in the number of five-million-dollar, ten-million-dollar and fifty-million-dollar clients, from fiscal 2006 to fiscal 2007. Additionally, we have three-hundred-million dollar clients and one of our clients contributed more than \$200 million in revenues

Managing risk is an inherent part of our corporate strategy. Geographical diversification into Asia and Europe has been a cornerstone of this mitigation strategy. European business continued to be strong and contributed 26.4% of total revenues. Our investments in Infosys Australia and Infosys China continue to benefit us. In Fiscal 2007, Infosys Australia and Infosys China reported robust revenue growth. During the year, business from Infosys Australia grew by 39%, while Infosys China served 50 clients and reported a revenue growth of almost 130%.

We continue to be an employer of choice. The Company's software operations received over 1,302,400 applications and made approximately 36,700 offers of employment. We continue to invest in physical and technological infrastructure to support our growing worldwide development and sales operations. Our Global Education Center at Mysore is among the largest corporate training facilities in the world. Phase II of this corporate training facility will be completed in December 2007. On completion, this will have about 2.0 million square feet of space and provide residential and classroom capacity to train 13,500 trainees at a time.

Our liquidity policy is based on Return on Capital Employed (ROCE) and Return on Invested Capital (ROIC). Your Company's target is to earn a ROCE which is at least twice the cost of capital, and a 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, we recommended a final dividend of Rs. 6.5 per share (130% on par value of Rs. 5/- per share). Along with the interim dividend of Rs. 5 per share (100% on par value of Rs. 5/- per share), the total dividend of fiscal 2007 would be Rs 11.5 (230% on par value of Rs. 5/- per share). The dividend (including dividend tax), as a percentage of profit after tax, is 19.9% as compared to 19.4% (excluding silver jubilee dividend) in the previous year.

Our employees are the soul of our Company, and our performance has been driven by their commitment, and their perseverance. 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 continued support. We also thank the Government of India, particularly the Ministry of Communication and Information Technology, the Customs and Excise Departments, the Income Tax Department, the Software Technology Parks – Bangalore, Chennai, Hyderabad, Jaipur, Mohali, Mysore, Pune, Bhubaneswar, Mangalore, Thiruvananthapuram and New Delhi, the Ministry of Commerce, the Ministry of Finance, the Reserve Bank of India, the state governments, and other government agencies for their support, and look forward to their continued support in the future. We also thank the authorities in China, Canada, Australia, U.S., U.K., Mauritius, Japan and the Czech Republic for their support. We are thankful to the trustees of the Infosys Foundation for sparing their valuable time and energy for its activities.

Thank you,



N. R. Narayana Murthy
Chairman and Chief Mentor

Bangalore
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