

Infosys reports a comfortable quarter

Bangalore, India – July 10, 2001

Highlights

Results for the quarter ended June 30, 2001

- Total income was Rs. 626.01 crore for the first quarter ended June 30, 2001, an increase of 68.9% over total income of Rs. 370.64 crore for the corresponding quarter in the previous year
- Earnings per share from ordinary activities increased to Rs. 28.72 from Rs. 18.34 for the corresponding quarter in the previous year
- Gross addition in employees at 315 for the quarter, including 102 lateral hires – net addition in employees at 116 for the quarter
- Free cash flows of Rs. 52.78 crore inspite of capital expenditure of Rs. 101.74 crore during the quarter
- 26 new customers added during the quarter, including marquee names such as APL, Burlington Northern and Santa Fe Railway Company, Pinnacle West Capital Corporation, Valeo, Airbus and The LexisNexis Group

Outlook for the quarter ending September 30, 2001 and the fiscal year ending March 31, 2002

- Total income is expected to be between Rs. 625 crore and Rs. 640 crore, and earnings per share is expected to be between Rs. 28 and Rs. 29 for the quarter ending September 30, 2001
- Total income is expected to be between Rs. 2,500 crore and Rs. 2,560 crore, and earnings per share is expected to be between Rs. 118 and Rs. 121 for the fiscal year ending March 31, 2002

Results for the quarter ended June 30, 2001

The audited financial results, according to Indian GAAP, for the quarter ended June 30, 2001 were taken on record by the Board at its meeting held on July 10, 2001.

The profit and loss account is summarised below: (in Rs. crore except per share data)

Particulars	Quarter ended June 30,		Growth %	Quarter ended	Growth % in Q1 FY 2002 over Q4 FY 2001
	2001	2000		March 31, 2001	
Income from software products and services					
Exports	596.30	351.06	69.86	552.47	7.93
Domestic	16.22	4.47	262.86	9.40	72.55
Other income					
Interest and others	12.23	7.69	59.04	10.58	15.60
Exchange differences	1.26	7.42	(83.02)	(0.37)	(440.54)
Total income	626.01	370.64	68.90	572.08	9.43
Staff costs	260.16	142.60	82.44	207.95	25.11
Foreign travel expenses	32.24	30.21	6.72	37.08	(13.05)
Other expenditure	79.60	45.08	76.57	83.51	(4.68)
Provision for investments	--	--	--	2.21	--
Total expenses	372.00	217.89	70.73	330.75	12.47
Operating profit (PBIDT)	254.01	152.75	66.29	241.33	5.25
Depreciation	35.48	<u>17.74</u>	100.00	37.90	<u>(6.39)</u>
Provision for tax	28.50	<u>13.71</u>	107.88	21.75	<u>31.03</u>
Profit after tax before extraordinary item	190.03	121.30	56.66	181.68	4.60
Extraordinary income (net of tax)	--	5.49	--	--	--
Net profit after tax and extraordinary item	190.03	<u>126.79</u>	49.88	181.68	<u>4.60</u>
Earnings per share (of Rs. 5)					
Basic	28.72	19.17	49.82	27.46	4.59
Diluted	28.59	18.93	48.88	27.33	4.32

"The economic environment continues to be challenging and companies around the world seek to realize higher returns on their technology investments. Our ability to provide high-value solutions to our clients is key to our success in this marketplace", said N. R. Narayana Murthy, Chairman and CEO. **"While we have exceeded our earlier guidance for the first quarter, we have not seen any material change in the external environment to revise our annual revenue growth forecast of 30% for fiscal 2002."**

Business outlook

The company's outlook for the quarter ending September 30, 2001 and the fiscal year ending March 31, 2002, under Indian GAAP and US GAAP, is as follows:

Under Indian GAAP

Quarter ending September 30, 2001

- Total income is expected to be in the range of Rs. 625 crore to Rs. 640 crore
- Earnings per share is expected to be in the range of Rs. 28 to Rs. 29

Fiscal year ending March 31, 2002

- Total income is expected to be in the range of Rs. 2,500 crore to Rs. 2,560 crore
- Earnings per share is expected to be in the range of Rs. 118 to Rs. 121

Under US GAAP

Quarter ending September 30, 2001

- Net revenues are expected to be in the range of \$ 131 million to \$ 134 million
- Earnings per American Depositary Share is expected to be in the range of \$ 0.29 to \$ 0.30

Fiscal year ending March 31, 2002

- Net revenues are expected to be in the range of \$ 530 million to \$ 545 million
- Earnings per American Depositary Share is expected to be in the range of \$ 1.24 to \$ 1.27

De-risking dot-com and venture-funded businesses

E-business engagements comprised 23.0% of revenues for the quarter, as against 25.8% in the quarter ended March 31, 2001. These engagements mainly involved building robust e-commerce infrastructure for Fortune 500 and other established companies.

Start-up and venture-funded companies accounted for 5.0% of total revenues for the quarter – down from 7.0% for the quarter ended March 31, 2001 and 17.2% for the quarter ended June 30, 2000. Accounts receivable from start-up and venture-funded companies comprises 3.9% of the total receivables as of June 30, 2001.

Utilization rates

The utilization rate including trainees was 69.5% in the quarter as compared to 64.9% in the quarter ended March 31, 2001 and 74.9% in the quarter ended June 30, 2000. The utilization rate excluding trainees was 73.2% in the quarter as compared to 73.0% in the quarter ended March 31, 2001 and 85.6% in the quarter ended June 30, 2000.

Billing rates

Software revenues in US dollar terms grew by 8.1% for the quarter as compared to the quarter ended March 31, 2001. Revenue growth comprised volume growth of 10.9% and price decline of 2.8%, as compared to the quarter ended March 31, 2001.

"We have experienced pricing pressures from both our existing and new customers, especially in new, large-scale offshore initiatives" said S. Gopalakrishnan, Deputy Managing Director. **"We have a yield-management system which enables us to maintain our overall productivity above a stipulated level."**

Expansion of services and significant projects

Infosys acquired 26 clients during the quarter and continued to strengthen its relationships with existing customers. During the quarter, Infosys expanded its client base in the United States, strengthened operations in Europe and Asia Pacific, and partnered with premier companies, helping them transform their businesses.

Contribution from Infosys' top 5 customers increased to 27.4% of revenues as compared to 26.4% for the quarter ended March 31, 2001 and 24.7% for the quarter ended June 30, 2000. Contribution from the top 10 customers increased to 43.7% of revenues as compared to 43.4% for the quarter ended March 31, 2001 and 39.5% for the quarter ended June 30, 2000.

"Our long-term relationships with Fortune 500 and other established corporations enable us to grow even in a challenging economic environment", said Nandan M. Nilekani, Managing Director, President and COO. **"Our Global Delivery Model combined with the ability to provide high-quality, high-value solutions to clients is critical to our sustained growth."**

Fortune 500 companies continue to use Infosys' expertise for cost-effective IT consulting solutions. Infosys acquired two large clients in the transportation sector. Significant among these is **APL**, which provides worldwide container transportation and logistics services. Infosys also entered into a strategic alliance with **The Burlington Northern and Santa Fe Railway Company (BNSF)**, the second largest rail network in North America, to improve the latter's operations and customer service. Infosys will establish a co-sourcing model leveraging both BNSF and Infosys teams to design, deploy and manage certain IT systems. Wins during the quarter include **Pinnacle West Capital Corporation**, a US-based company with consolidated revenues of approximately \$2 billion. Infosys continued to strengthen its presence in the financial services sector, with the addition of **GreenPoint Mortgage**. Infosys is helping this specialty finance lender in the mortgage industry redesign its processes.

Operations in Europe were strengthened with the percentage of revenues from the region increasing to 19.8% this quarter from 17.2% in the corresponding quarter in fiscal 2001. **Valeo**, a global automotive equipment supplier, and **Airbus** are new marquee clients in this region. In Germany, **BHF-Bank** chose Infosys to build next-generation IT applications as well as to meet existing business imperatives. In a highly business-critical engagement, Infosys is one of BHF-Bank's IT service providers for an organization-wide time-critical compliance program for International Securities Identification Number (ISIN). Infosys has also commenced work with **Statoil ASA** ("Statoil"), the leading Scandinavian retailer of petrol and other oil products.

Other new clients added this quarter include **Engineous Software Inc., The Stanley Works, SYSCO, The LexisNexis Group** and **Credit Agricole Indosuez**.

During the quarter, Infosys expanded its relationship with existing marquee clients. For instance, **Toshiba Corporation** has re-engaged Infosys to build the information infrastructure for its global operations across many of its business lines. **New York Life International Inc.**, the overseas arm of New York Life Insurance Company, and Infosys entered into a worldwide expansion project that began with India. Infosys was chosen to design, develop, implement and deploy robust life insurance business systems in Asia and Latin America. Infosys also recently entered into a long-term strategic alliance with a large telecom company in the US.

Projects undertaken

Infosys is currently providing custom application development, re-engineering and maintenance services to **a leading Fortune 500 corporation** in the insurance services domain and will soon be replacing a mission critical legacy application with a new-technology-based application. Infosys is developing a highly critical web-based application for tracking complaints and appeals from inception to closure for a **large health care benefits organization**. A **leading securities exchange company in the US** has engaged Infosys to study, design and develop their online post-trade processing operations, as the first step towards T+1 trading.

Infosys successfully re-engineered an online visual bill-of-materials (BOM) system for **a leading Fortune 500 company in the semiconductor manufacturing domain**. Infosys has also developed and implemented a web-based real-time transactional wholesale gas liquids portal for **a leading Fortune 100 company in the energy sector**.

Business consulting

Infosys Business Consulting Services has demonstrated steady growth during the quarter. Infosys assisted a **large insurance brokerage corporation** for globalising its primary brokerage transaction processing application. A **premier financial holdings organization** engaged Infosys to envision and develop a roadmap for implementing a first-of-its-kind collaborative portal platform. Infosys is also partnering with a rapidly **growing telecommunications and broadband player** in Belgium for implementing a new order management and provisioning solution, using leading-edge web-based technologies to support a rapidly expanding consumer base.

Infosys has been engaged to evaluate and recommend a suitable supply chain planning and retail enterprise system as well as to develop a future state application solution set that would balance the demand and supply sides of a **leading retail chain**. A **premier high-end fashion apparel marketer and retailer** in the US engaged Infosys to envision its supply chain blueprint for the future. A **leading automotive ancillary manufacturer** is partnering with Infosys to design a knowledge management and collaborative design solution. A **leading drug store chain** engaged Infosys to manage the transition from an outsourced IT environment to an in-house IT system. Infosys has also been awarded a project to develop air inventory management system for a **leading cruise line**.

Banking

Infosys' Banking Unit – with its portfolio of banking products - continued to acquire new clients as well as expand existing relationships. During the quarter, Infosys completed the implementation of its flagship-banking product, Finacle™, at **IDBI Bank**. A leading bank in Nigeria, **Oceanic Bank**, extended its relationship with Infosys by procuring additional licenses for Finacle™.

Technology thought leadership

Infosys has participated in several conferences where it has presented and published technical papers. These papers demonstrate the company's efforts in demonstrating thought leadership in areas of emerging technology and include:

- "XML-based Security for E-Commerce Applications" at the 8th Annual IEEE International Conference and Workshop on Engineering of Computer Based Systems, Washington D.C., USA;
- "Architecting e-Banking Security Solutions" and "Advancements in the Cryptographic Algorithms" at the 2001 International Conference on Internet Computing, Las Vegas, USA;
- "Evaluating On-Line-Analytical-Processing (OLAP) Tools for Web-based Applications" at the European Software Measurement Conference (FESMA 2001), Heidelberg, Germany; and
- "Performance Optimization Appraisal on Web-enabling Legacy Applications" at the 3rd International Workshop on Net-Centric Computing - NCC 2001, Toronto, Canada.

Software Engineering Technology Labs (SETLabs)

Infosys has become a member of BPMI.ORG, a business process management (BPM) initiative that defines XML-based standards to manage the business processes spanning applications and departments, both over the Internet and behind organizational firewalls. SETLabs anchors this initiative and aligns InFlux™, Infosys' methodology for business-IT integration, with emerging BPM trends.

InFlux™ has been used in several engagements including Statoil, which adopted InFlux™ to define and enact its service management processes and applications. SETLabs also started and currently anchors a .NET Center of Excellence at Infosys. As part of the .NET initiative, SETLabs demonstrated a business showcase on equity trading using web services for the Hailstorm launch in India and is currently working on several concept applications in the areas of finance, retail and knowledge management to develop prescriptive architectures on .NET platforms.

Several research papers based on green-field research were authored at SETLabs in areas such as quality of service in web servers, design of component-based applications, effective buddy finding in the mobile space, variability in software development process families and web UI which were accepted for publication / presentation in leading international forums such as IEEE. SETLabs has also started availability analysis and capacity-planning exercise across multiple applications for **Telstra**, Australia using a performance-modeling and capacity-planning framework developed by it.

Domain Competency Group (DCG)

DCG combines vertical industry knowledge and the functional expertise of its consultants with Infosys' technology strengths.

In the securities industry, DCG is assisting the research subsidiary of **a large investment manager**, build and deploy a research web site. DCG is engaged in bringing its expertise to a **major custodian bank** for building a comprehensive system that takes care of all functions of corporate action processing. It is also involved in a domain-intensive project with a **leading securities exchange company** for business-technology integration.

By positioning Infosys as a business-IT solution provider, DCG was instrumental in achieving high-end breakthroughs with **two key supermarket chains in the US**.

DCG's insurance domain experts complemented the technology team in a key project for **New York Life International Inc.**, thereby, strengthening the existing relationship. Consultants in the utilities domain brought their industry understanding and knowledge in the execution of a unique web-based real time transactional wholesale gas liquids portal for a **leading Fortune 100 company in the energy sector**.

Liquidity and capital expenditure

Cash and cash equivalents increased by Rs. 52.78 crore during the quarter, after incurring capital expenditure of Rs. 101.74 crore, from Rs. 577.73 crore to Rs. 630.51 crore.

Operating cash flows for the quarter ended June 30, 2001 were Rs. 205.98 crore (Rs. 69.74 crore for the quarter ended June 30, 2000). The company spent Rs. 101.74 crore on capital expenditure during the quarter as compared to Rs. 85.84 crore and Rs. 463.35 crore during the quarter ended June 30, 2000 and the year ended March 31, 2001. Despite this, the free cash flows for the quarter ended June 30, 2001 were Rs. 52.78 crore (Rs. -36.44 crore for the quarter ended June 30, 2000).

“The pricing environment has become challenging since our customers are looking for higher returns on their technology investments”, said T. V. Mohandas Pai, Director - Finance and Administration, and Chief Financial Officer. **“Therefore, we pro-actively took several cost control measures to maintain our net margin within an acceptable band. We had high free cash flows during the quarter despite a higher spending on capital expenditure.”**

Human resources

Infosys increased its total employee strength to 9,947 as on June 30, 2001, up from 9,831 as on March 31, 2001 and 6,445 as on June 30, 2000. The number of software professionals as on June 30, 2001 increased to 8,724 from 8,656 as on March 31, 2001 and 5,594 as on June 30, 2000. Of these 8,724 software professionals, 106 are still undergoing training and 149 belong to the Banking Unit.

The net addition to employees during the quarter was 116 as compared to 921 during the quarter ended March 31, 2001. Gross addition to employees during the quarter was 315, of which 102 were lateral employees.

More than 1,500 employees of Infosys, most of them senior management and key employees of the company, are covered under the 1994 stock option plan, which created substantial wealth for them. Further, a part of the options issued under the 1998 and 1999 stock option plan has already vested and the balance will vest over the next three years.

“We have phased-out the joining schedules of campus recruits to align them with our business requirements. However, our plans for adding 1500-2000 employees on a gross basis in fiscal 2002 remain unchanged”, said K. Dinesh, Director – Human Resources Development, Information Systems, Quality and Productivity.

Globalization

During the quarter, Infosys opened a marketing office in Singapore.

Infrastructure development

Capital expenditure of Rs. 101.74 crore (Rs. 85.84 crore) was incurred during the quarter ended June 30, 2001 (June 30, 2000).

Bangalore

The construction of the Management Development Center block is on schedule. An additional 60,000 square feet (“sq. ft.”) of software development infrastructure to accommodate 600 professionals was completed. Construction of three software development blocks comprising 3,14,500 sq. ft. with a capacity to accommodate 1,750 professionals is on schedule. The existing capacity at Bangalore comprises 9,42,500 sq. ft. capable of accommodating 4,410 professionals – this excludes 690 seats due to the creation of several laboratories upon customer request.

Pune

Phase II of the campus is on schedule. The existing leased premises are being vacated.

Mangalore

The Mangalore campus has a built up area of 1,98,000 sq. ft. to accommodate 950 professionals. The existing leased premises were vacated during the quarter.

Bhubaneswar

The second software development block of 75,000 sq. ft. to accommodate 600 professionals, along with a food court of 28,000 sq. ft. was completed. The existing capacity at Bhubaneswar comprises 189,000 sq. ft. capable of accommodating 1,200 professionals.

Chennai

Phase I of the software development center comprising 198,000 sq. ft. capable of accommodating 1,300 personnel is complete. Construction of Phase II of the software development center comprising 2,36,000 sq. ft. to accommodate 1,300 professionals is on schedule.

Hyderabad

Construction of Phase I of the new campus at Hyderabad comprising 2,73,000 sq. ft. with a capacity to accommodate 1,200 professionals is on schedule.

Mysore

Phase I of the software development center and the Infosys Leadership Institute (ILI) is on schedule.

As of June 30, 2001, the company had 18,67,300 sq. ft. of space capable of accommodating 10,410 professionals and 17,00,100 sq. ft. under construction including the ILI.

About the company

Infosys is an IT consulting and service provider, providing end-to-end consulting for global corporations. The company has partnered with several Fortune 500 and other established corporations in building their next generation information infrastructure for competitive advantage. The Infosys portfolio of services includes e-strategy consulting and solutions, large application development and enterprise integration services. Infosys also has product co-development initiatives with numerous communication and Internet infrastructure companies that are creating the building blocks for the digital economy.

The Global Delivery Model of the company leverages talent and infrastructure in different parts of the world to provide high quality, rapid time-to-market solutions. Infosys' US headquarters is located in Fremont, California; the company also maintains offices throughout the US, Europe and Asia. For more information, contact Sumanth Cidambi at +91 (80) 852 2380 in India or visit us on the World Wide Web at www.infy.com.

Safe Harbor

Certain statements in this release concerning our future growth prospects are forward-looking statements which involve a number of risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. The risks and uncertainties relating to these statements include, but are not limited to, risks and uncertainties regarding fluctuations in earnings, our ability to manage growth, intense competition in IT services including those factors which may affect our cost advantage, wage increases in India, our ability to attract and retain highly skilled professionals, time and cost overruns on fixed-price, fixed-time frame contracts, client concentration, restrictions on immigration, our ability to manage our international operations, reduced demand for technology in our key focus areas, disruptions in telecommunication networks, our ability to successfully complete and integrate potential acquisitions, liability for damages on our service contracts, the success of the companies in which Infosys has made strategic investments, withdrawal of governmental fiscal incentives, political instability, legal restrictions on raising capital or acquiring companies outside India, and unauthorized use of our intellectual property and general economic conditions affecting our industry. Additional risks that could affect our future operating results are more fully described in our United States Securities and Exchange Commission filings including our Annual Report on Form 20-F for the fiscal year ended March 31, 2001. This filing is available at www.sec.gov. Infosys may, from time to time, make additional written and oral forward-looking statements, including statements contained in the company's filings with the Securities and Exchange Commission and our reports to shareholders. The company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the company.

Infosys Technologies Limited
Balance Sheet as at
in Rs.

	June 30, 2001	June 30, 2000
SOURCES OF FUNDS		
SHAREHOLDERS' FUNDS		
Share capital	33,08,05,085	33,07,58,335
Reserves and surplus	1562,52,96,675	927,12,34,168
	1595,61,01,760	960,19,92,503
APPLICATION OF FUNDS		
FIXED ASSETS		
Gross block	738,74,44,287	373,65,25,244
Less : Depreciation	278,86,97,454	151,26,93,565
Net block	459,87,46,833	222,38,31,679
Add : Capital work-in-progress	164,01,15,365	53,04,58,784
	623,88,62,198	275,42,90,463
INVESTMENTS	44,44,22,821	36,16,97,129
DEFERRED TAX ASSETS	16,59,00,000	-
Sundry debtors	309,12,07,202	228,39,91,832
Cash and bank balances	446,28,93,265	426,00,41,918
Loans and advances	468,17,78,978	196,24,84,174
	1223,58,79,445	850,65,17,924
Less : Current liabilities	154,53,25,723	116,79,86,403
Provisions	158,36,36,981	85,25,26,610
NET CURRENT ASSETS	910,69,16,741	648,60,04,911
	1595,61,01,760	960,19,92,503

Note: The audited Balance Sheet as at June 30, 2001 has been taken on record at the Board meeting held on July 10, 2001.

Profit and Loss Account for the quarter ended June 30**in Rs. except share data**

	2001	2000
INCOME		
Software development services and products		
Overseas	596,30,21,488	351,05,78,423
Domestic	16,21,65,861	4,47,21,726
Other income	13,49,39,605	15,11,07,532
	626,01,26,954	370,64,07,681
EXPENDITURE		
Software development expenses	318,32,88,293	189,39,05,266
Administration and other expenses	53,67,64,710	28,50,11,949
	372,00,53,003	217,89,17,215
Operating profit (PBIDT)	254,00,73,951	152,74,90,466
Interest	-	-
Depreciation	35,48,03,492	17,73,71,717
Profit before tax and extraordinary item	218,52,70,459	135,01,18,749
Provision for taxation	28,50,00,000	13,71,00,000
Profit after tax before extraordinary item	190,02,70,459	121,30,18,749
Extraordinary item – transfer of intellectual property right (net of tax)	-	5,49,44,000
Net profit after tax and extraordinary item	190,02,70,459	126,79,62,749
AMOUNT AVAILABLE FOR APPROPRIATION	190,02,70,459	126,79,62,749
Balance in Profit and Loss Account	190,02,70,459	126,79,62,749
	190,02,70,459	126,79,62,749
EARNINGS PER SHARE* (equity shares, par value Rs. 5 each)		
Basic	28.72	19.17
Diluted	28.59	18.93
Number of shares used in computing earnings per share		
Basic	6,61,59,038	6,61,51,036
Diluted	6,64,65,149	6,69,81,506

*Calculated on net profit after tax and extraordinary item

Reconciliation of accounts as per Indian GAAP and US GAAP

	In Rs. crore
	Three months ended June 30, 2001
Net profit as per Indian GAAP	190.03
Amortization of deferred stock compensation expense	5.91
Net income as per US GAAP	184.12

Reasons for differences in net income as per Indian GAAP and US GAAP

Amortisation of deferred stock compensation

The Accounting Principles Board Opinion No. 25 of US GAAP requires the accounting of deferred stock compensation on issue of stock options to employees, being the difference between the exercise price and the fair value as determined by the quoted market prices of the common stock on the grant date.

In complying with this requirement, Infosys has charged to revenue under US GAAP an amount of Rs. 5.91 crore for the quarter ended June 30, 2001 as deferred stock compensation.