



INFOSYS PRESS CONFERENCE

May 11, 2003

Tina George: Good afternoon everybody and welcome to Infosys. Let me thank you all very specially for coming in on a Sunday afternoon at this short notice. We will begin the press conference with opening remarks by Mr. Narayana Murthy, and then we will throw the floor open for questions. Over to Mr. Murthy.

Narayana Murthy: First of all, our sincere apologies for making you people take time away from families, loved ones, favorite pastimes on a Sunday afternoon. This is not something we would like to do it to our friends, but then we felt that this is the most appropriate time for us to bring to you people the latest information about the case that had been filed by Miss Reka Maximovich. What I will do is I will give you people the basic parameters of the settlement and then I will also try and give in some sense, answers to the most likely questions, say few of those, and then we will be very happy to answer your questions. I have all the required people here. I have Nandan, Kris, Mohan, so we will be in a position to provide you as much answer as possible without causing unnecessary embarrassment to any individuals because this company has always believed in being fair, in not causing unnecessary embarrassment to any individual. Although that is the only constraint we have, otherwise we will certainly provide you all answers.

First of all, the parameters of the settlement. Recently we settled with Miss Reka Maximovich. The total payment to her is US\$ 3 million. Of this Infosys will pay US\$1.5 million and the insurers would pay the remaining US\$1.5 million. Second, there is no contribution to this from Mr. Phaneesh Murthy. Third, the insurers will pay about 80% of the total legal fees, which is about \$900,000. Fourth, we reserve full right to proceed against Phaneesh for his conduct and for his lack of contribution, if it is deemed necessary by the management. Fifth, we have further strengthened our processes and training procedures to have better checks and balances in handling such situations in the future. Finally, there will be no material impact on the earnings per share of the company either this quarter or for the whole year. That means this issue will not or this settlement will not impact our guidance for Q1 2003-2004 and for the whole year 2003-2004.

Now, let me give you our view of why we settled this case, why we agreed to pay US\$1.5 million with the remaining coming from the insurers. There are several reasons. The first one is the allegations in the lawsuit were serious. The alleged harm to the plaintiff was also serious and the demanded compensation was well in excess of several multiples of what we finally paid. Second, there was a risk to the company because under the California law, the company might have been found to be automatically liable for the conduct of Mr. Phaneesh Murthy because he was both an officer of the company and a member of the board of directors. Third, the distraction to the company was likely to be significant in the months ahead, especially as the trials start. In addition, the lawsuit was draining management time and attention. Fourth, the amount of Infosys' contribution is well within what we considered acceptable based on the facts and circumstances known to the company at the time we settled with the plaintiff.

Next, Mr. Phaneesh Murthy did not disclose to the company certain important facts including the fact that he had a relationship with Miss Reka Maximovich. Number two, that unknown to the company she had filed a charge of discrimination against him and against the company. Third, that she had previously filed with the court, a request that it issue a restraining order against Mr. Phaneesh Murthy.

Next, the failure to disclose these facts, we believe, was inconsistent with Phaneesh's duties as an officer and a director and increased the company's risk in this matter.

Now coming to the contribution of Phaneesh, I already said that he is not contributing anything to this settlement. Phaneesh is not required to contribute any money as part of this settlement. It is still an open issue between the company and Mr. Phaneesh Murthy. Phaneesh consented to this settlement without the company releasing him from any claims it may have against him. Thus we have retained all rights to proceed against Mr. Phaneesh Murthy should we deem it necessary. Now that the lawsuit with the plaintiff is behind us, we will consider our options with respect to Mr. Phaneesh Murthy, his conduct, and his contribution.

Let me finally come to another issue. We have paid Mr. Phaneesh Murthy a total sum of US \$570,000 as a total settlement of what was due to him. I would say these are the major parameters of the settlement and if you people have any questions, I would ask the relevant person to answer or I will answer them myself.

Participant: Who are the insurers?

Narayana Murthy: Mohan, who are the insurers, is the question.

Mohandas Pai: It is a consortium of three insurers and it is part of our regular D&O (Directors and Officers) policy. The insurance has been done abroad, not in India.

Participant: Who are the insurers?

Mohandas Pai: I don't think the names are relevant at this point of time because this is an insurance policy. It is D&O insurance taken outside India.

Narayana Murthy: If you people speak into the mike it is better, because this is being recorded, so that we can put a transcript of this on the website as per regulation. So if you press the button, then ask the question, we will be in a position to do so.

Srinivas: I have a question, myname is Srinivas, I am from Associated Press. Is it the view of the company now that Mr. Phaneesh Murthy did indulge in a relationship and did indulge in a wrongful conduct? Has the company come around to that view, and in addition to the legal action that you might take outside, what are the kinds of internal action that you might contemplate?

Narayana Murthy: No, remember I said it is not for us to come to judgment on this issue. We did say that there was a relationship between the two individuals, but I think the fact that we have settled the case means that we really are not interested in wasting our time in going to any further details. On your second question, I pointed out that we have put in further strengthening of the processes and the training procedures so that we will have better checks and balances to handle such situations in the future.

Lady participant: Mr. Murthy, a few clarifications in what you said, at one point you mentioned that Phaneesh Murthy agreed to this settlement without consulting the company, did I mishear it or what was that in relation to?

Narayana Murthy: No I am sorry, I did not get the question.

Lady participant: At one point you said, Phaneesh Murthy agreed to this settlement with consulting the company.

Narayana Murthy: No, I did not say that, no. It is all on record. What I did say was that we retain the full right to proceed against Mr. Phaneesh Murthy. Number two, that he has not contributed anything to the settlement, and number three, I explained the circumstances why we decided to settle the

issue. Then I also said that we have full rights and Mr. Phaneesh Murthy has consented to the settlement without any rights to question that. It is there in the press release, yeah.

Lady participant: You also said that Reka Maximovich had filed a restraining order against Mr. (Phaneesh) Murthy. Could you just tell us a little bit about what that was on?

Narayana Murthy: No, I think what I would say is this. I don't know whether I really need to go into those. Those are all matters of public record. I think you are all smart people; you have enough access to the US court records, so I don't know if I should get into those issues. It is all available in the public domain; it is just a question of you people doing a little bit of research.

Male participant: Mr. Murthy, two or three points of fact before we come into one or two other things. First of all, our records show that Infosys went public with this information in July 2002, whereas the restraining order was apparently taken sometime in November or December 2001, is it correct?

Narayana Murthy: Yes.

Male participant: So, is it correct to say that all these six months or so you were not in the know of things regarding the restraining order or any kind of harassment proceedings against Mr. (Phaneesh) Murthy.

Narayana Murthy: No, I think the first time we came to know about it, about a possible case being filed against Mr. Phaneesh Murthy and the company was in January 2002. I think I will let my colleague Nandan say a little bit more about that.

Nandan: Madhavan, let me tell you exactly the sequence of events as it happened. Phaneesh met me in January 2002 and told me there is a likelihood of a sexual harassment charge against him. He told me he was innocent and that the charge was without merit, and the company was not at risk. Based upon that I told him to get back to me when the charge was actually served, because I was under the impression that unless it is actually served at the company the metre not picking on the charge. Subsequently, that is all he told me, he did not tell me anything else about the relationship or the other matters of things being filed against the company. So it was really a very small piece of information that was essentially misleading to me. Subsequently, around July 7th or 8th he told me that the thing had actually been served on him, this was about six-seven months after the original conversation, and then he sought a meeting with me on the night of July 10th, which was after the board meeting. On the night of the July 10th, he shared with me a lot more details, which immediately brought to my attention the seriousness and the gravity of the situation. I then immediately contacted the lawyers and my conversations with the lawyers happened on the morning of Tuesday, July 16th because the lady was not available over the weekend. Based on my conversation with the lawyers on July 16th, it was very clear to me that it was a serious matter, and I took it up with the Chairman of the board and other board members over the 16th and 17th and then there were a series of confabulations which ultimately led to his resignation on July 22nd. So, that is exact sequence of the events that happened.

Male participant: Are you comfortable with the regulatory requirements on what transpired between January and July period of 2002 on disclosures because it is not very clear as to how much you were in the know.

Narayana Murthy: I would let Mr. Nithya answer that. Nithya is the legal counsel.

Nitya: To respond to your answer straight, we are comfortable.

Male participant: Another point I wanted to know was, may be you are not the best party to ask, but is the litigation still proceeding parallelly with regard to the individual case of Mr. (Phaneesh) Murthy vis-a-vis Miss Maximovich or is litigation over only for Infosys or is it over for entire all three parties concerned?

Narayana Murthy: It is a composite settlement, which means that Reka would not have any claims either against the company or against Mr. Phaneesh Murthy.

Male participant: One more point I wanted to ask was in this \$570,000 settlement that you had with Mr. Phaneesh Murthy. Is this in anyway related to the lawsuit, or is there any adjustment or is this a simple parallel settlement?

Mohandas Pai: When Phaneesh resigned, we signed a settlement with him on his resignation and settled all his dues. The dues included salary, leave encashment, it included any bonuses due to him because he was the head of sales and he is entitled to of bonus under the claim, and that is it.

Male participant: Does it mean to say there was no severance package of on a compound to this \$570,000?

Mohandas Pai: I am sorry, say it again, louder.

Male participant: Was this figure \$570,000. Is it the right figure?

Mohandas Pai: That was the severance, that was the settlement amount. That included everything.

Male participant: When you say you will retain the options to proceed against Mr. (Phaneesh) Murthy does it mean that you will be going after him to get a part of the money back, because it is a significant sum what you paid?

Narayana Murthy: No, let me say this. We retained the option to proceed against Mr. Phaneesh Murthy, both for his conduct as well as for the lack of contribution. But then that is a decision which the company board will have to make based on various parameters. How much of our time are we willing to spend, what is the cost, etc. So, that is not something that can be decided very easily, and the premium thing you must realize is the time of the management.

Male participant: Either way I think Infosys loses, Right. It looks like a very unfair settlement now, at least as things stand today, because either you pay the money and forget it or you continue to waste your management's time on the issue. It does not actually free your mind from the whole issue, because you pay money and then you get out of the case, you get out of the risk, but still you don't actually you know bring the whoever, I mean the whoever is culpable to book. I mean he has actually seems to have earned out of the whole issue.

Narayana Murthy: No, I don't think I want to sit on judgment on those issues. All that I would simply say is this settlement has, I gave you multiple reasons right, been something about which as we see a certain reasonableness. I mean we have paid a fraction of what was demanded. We realized that at a time when Nandan, Kris, Mohan, and other officers of the company have their hands full in making sure that this company becomes even stronger than it has been, there is no need for us to waste those precious resources on an activity which does not bring much value to the company, which does not bring much value to the customers of the company, which does not bring much value to the investors of the company, nobody is a winner. So, I think looking at all parameters, we came to this conclusion and as I said we will make, we will make a judgment, at an appropriate time, whether we need to proceed against Mr. Phaneesh Murthy or not. That will be purely based on the judgment of the management in terms of cost and benefits, but the important thing is we reserve the right.

Male participant: You mentioned that the claims were several multiples in excess of what you paid as settlement. Can you give us an indication what the figure that was claimed?

Narayana Murthy: You have to speak louder, I am an old man.

Male participant: Can you give us an indication of the actual amount that was claimed by Miss Maximovich?

Narayana Murthy: Actual amount asked? Nithya, you want to answer that?

Nithya: The answer like we told you is you know in several multiples of what we settled, so it is for your imagination.

Male participant: Given your own record of as a company which is willing to disclose every fact you must, a small number is not going to shake you up, Will it?

Narayana Murthy: No, just listen. I think the reason why we feel that there is not much value added in talking about that number is, every negotiation always starts with a certain number, and then thanks to extraordinary negotiating skills of Nithyananda, our legal counsel, and our other lawyers from Wilson Sonsini, I think they have brought it to what is a reasonable settlement. Something that does not affect the earnings per share guidance of Infosys. I personally congratulate Nandan, Kris, Mohan, Nithya and others for getting the corporation out of such a mess, such an issue, in a manner that it does not matter materially to the guidance of the corporation. I mean it does not, there is no change in guidance at all, I am saying it does not matter materially at all. I think that is something that is what I would like to say about, and obviously which means they have done a good job, it is several multiples.

Male Participant: Mr. Murthy, Will Phaneesh continue to be a shareholder?

Narayana Murthy: Of course Phaneesh will continue to be a shareholder. He has got his shares, he has as much right as any other shareholder, of course, and we respect that, yes.

Male participant: What would be his status as a shareholder in this case.

Narayana Murthy: What would be his?

Male participant: Status, I mean, because you said you will be proceeding against him in case you have the options.

Narayana Murthy: No, the fact that he is a shareholder has nothing to do with our reserving the right to proceed against him. Those two are not related at all. We are not going to proceed against him as a shareholder. If the management makes the judgment, comes to that conclusion, it is because of certain reasons, certain failure on his part when he was an officer and director of the board of this company. So, those two are not related at all.

Male participant: If the demand was for several multiples, how did you, what was the basis of coming to such a low US\$ 3 million kind of compensation?

Narayana Murthy: Sorry, say it again.

Male participant: You said that actually it was to the tune of some several multiples,

Narayana Murthy: Several multiples, yes.

Male participant: What is the basis that you came down to such a low level of US\$ 3 million compensation?

Narayana Murthy: That is what I said, you know, one thing is I think at the end of the day, in every negotiation, both the parties have, I believe, some sense of fairness. Number two, it also depends upon how well you marshal the facts. I think that is why I congratulated Nithya and the lawyers of Wilson Sonsini. They marshaled their facts together and they brought out how you know the whole thing very well. How the company was not something to be blamed for, all of that they did a good job.

Male Participant: So, one of the facts, was it that she did not take recourse of the company procedures and complain with company about this issue that went against her?

Narayana Murthy: You know, I would say this. This litigation with the plaintiff is behind us. Let us not go into those details. The fact of the matter is, it has been done very smartly by the CEO, the COO, the CFO, and the chief legal counsel of this company in a manner that it does not impact the earnings per share or the guidance to the earnings per share of the company. I think that to me is the most important thing. I don't want to look back on the issues that transpired, that may have transpired. To me those things don't matter, what I want to look up to is, I want to look forward into the future in making this company even a stronger player, and the fact that these officers of the company have done a great job to me is a clear indication that it is in good hands. I would say that is the way I would look at it.

Male Participant: Hello, on the technical point of the insurance policy that has helped you in this case. Is this part of an omnibus policy that covers all sorts of liabilities or is it specific to sexual harassment and as an Indian employer under Indian laws, what kind of safeguards do you have. Does an Indian policy allow an insurance against sexual harassment cases?

Narayana Murthy: I think Nithya will answer that.

Nithya: Two things you know, typically an employer's practice liability insurance covers this sort of issues both in India and abroad. At the time of this litigation, we did not have an employer practice liability cover, but we had a directors and a officers cover which included certain inclusions for you know the kind of conduct that was alleged.

Male participant: Sir, small clarification about legal fees. I just wanted to double check this figure, US\$900,000 of which 80% will be paid by the same insurers.

Narayana Murthy: I said the total lawyers fees estimated to be around US\$900,000, and I said that 80% of that will be reimbursed by the insurers.

Male participant: So, 20% will be in addition to what you have paid Miss Maximovich.

Narayana Murthy: No, this is 20% which is about \$180,000, we said including this 20%, including the \$1.5 million, all of that we have made all the analysis and the Chief Executive Officer and the CFO and the COO have come to the conclusion that it will not have any material impact on the earnings per share of the company.

Male participant: So, the outgo bottom line is that \$3.2 million in all, right, 3.18 to be precise.

Narayana Murthy: No, we are paying \$1.5 million, the insurance is paying \$1.5 million, so \$ 1.68, probably yes, it is about that, but I don't know whether I need to go into those, it is about 1.68, you are right, yes, around that I mean.

Nandan: See the figure of 1.68 is the total cost both of the settlement payable by Infosys and the litigation fees, but remember that this is something which began last year and therefore some of these expenses and provisions have happened last year, and therefore the net impact going forward is absolutely zero on our earnings per share.

Narayana Murthy: The net impact this quarter was very small, it is a fraction of that, and it has not impact at all on the earnings per share.

Any other questions?

Male Participant: yeah. I just want to know how is Mohandas Pai accounting this for?

Narayana Murthy: Let me assure you it will be accounted in the most legal and ethical manner with full transparency that we expect of him.

Male Participant: Under what provision?

Narayana Murthy: Under what head? I think that is a good question. It is a very good question actually. Mohan?

Narayana Murthy: No, no, we will tell you. Let me assure you, you know, remember I had said that once the case is settled, we will come back ourselves on a proactive manner and let you know, and at the earliest opportunity we have done this. Yes Mohan.

Mohandas Pai: There are two items here. One is legal fees, legal fees obviously goes under the head of Sales and Marketing and also since it is related to somebody who is in sales and marketing.

Narayana Murthy: He is just joking.

Mohandas Pai: No, it goes under the head legal fees and secondly this settlement amount paid to the plaintiff goes against a separate head of account, which we have in our SG&A. So depending upon the total amount of expenditure in SG&A, we will decide whether to have a line item or to be merged together with any other item because you know the total SG&A in this company is something like about 30.5% to about 40.5%. So it will be merged together or shown as a line item depending upon the impact.

Male Participant: Would this payment be made immediately in this quarter because you went through into an agreement with this lady

Nithya: yes.

Male Participant: You spoke of strengthening processes and procedures to avoid such instances taking place in the future. Could you tell us what are those exact measures?

Narayana Murthy: Actually I will ask our Chief Operating Officer to come in at this stage because he is the right man to answer that.

Kris: First we went through a course on contact what sexual harassment is etc for all our officers, for all the board members, again, you know, to reiterate actually, to make sure that that is top of everybody's mind. We also rolled this out across the world, that means in India, outside India. We have made additional changes in our code of conduct, you know, employee manual. So it is basically training and documentation regarding what sexual harassment is and how do you handle such a situation. We have used external consultant to strengthen this training also.

Male Participant: What were the processes that were strengthened?

Narayana Murthy: Nandan wants to add something.

Nandan: What we have done is I think many things. One is of course the training through an international lawyer who has done it all over the country. We have also looked at the processes and made sure that there are proper checks and balances, for example, if somebody raises a complaint and how do we make sure that the complaint gets escalated through the system in the proper channels. And we have also internally we have a project which we call as "Project Housekeeping" where we are looking at all these various processes which involve global employees, all issues that have possible ethical and legal violations and we are strengthening it and this is something which we are doing every quarter and reporting to our audit committee.

Male Participant: Mr. Murthy, I want two information. As on date, now that though you are announcing today, could you have two things, which date this settlement was reached? Number two, is the case in the County Court withdrawn as a result of this?

Narayana Murthy: I am sorry, say it again, the second one?

Male Participant: Whether the case, which was there in the court, has it been withdrawn? Is it closed now?

Narayana Murthy: Well, you know let me put it this way. This settlement was reached on 25th of April but then we obviously had to tie up with all the agencies, we had to draw out all the agreements, you know, insurance, everything, and that has just happened yesterday. And we have 35 days to make the payment to Reka Maximovich, and within three days of that she would withdraw her lawsuit.

Male Participant: Actually I just wanted to ask you a big big question. This been a year of a lot of difficult news for the markets from Infosys for one year, in perceptions or reality that is for you to interpret. Is this the last of the bad news. Is this the bottom?

Narayana Murthy: First of all I can't say that because I have no crystal ball. It is only left for the almighty. But let me say this, this company has always believed in bringing bad news proactively to the public. Number two, this company has always believed in leveling with the investors. On 10th April 2001, when we made the announcement that we are likely to grow at 30%, the whole industry was upset, in fact NASSCOM went to the extent of saying that the industry will grow at 45%, and some of the major players in the field, they went ahead and said they will grow even better than that. But now let us go to 10th April 2002, Infosys grew by 32% in dollar terms, industry grew by 29% including the IT enabled services. So the point I am making simply is this. Here is a company which has extraordinary systems and processes, there is a reasonable level of forecasting that we come out with, we get data from the trenches and at the earliest time when we have got the data ready we go and tell people. And we have a principle that it is – 'Always under promise over deliver'. We would like to always do at least slightly better than what we have said. I think this is good thing. This is very very good. Tell me in this market, which company will stand up and say that this quarter my top line will be so much, my bottom line will be so much. Which other company in India has said that? Which company in the world will stand up and say this year our top line will be this much, our bottom line will be this much. I think it is, you know, I don't get daunted by problems in the market place, I don't get daunted by issues. What is important to me is how you handle these issues, and I believe, once again I would like to give full credit to the CEO, COO, the CFO and every Infoscian, every member of the board, every MC member all of that for the way they have managed all of these.

Female Participant: Now that you have come with a clean chit, does it mean that Infosys is a safer company for women now?

Narayana Murthy: You know, let me put it this way. We have spent a lot of time, we have spent a lot of energy, and we have spent a lot of money in making sure that this company will be a safer place for women. Everybody here wishes that it will be so, but I don't think anyone of us can guarantee that there will never be another incident, but by and large, if you look at the climate of opinion among women in the company, if you look at the confidence with which people interact, men and women, I do believe that, we all feel that we are now a lot better compared to what we were earlier. However, there is my colleague here, Tina, do you want to comment on that.

Tina: Well, I would only say that we have always felt this is a safe place and whatever has happened probably is an exception, and we continue to believe in this company.

Narayana Murthy: Any other questions?

Participant: You could have completed an acquisition with 3 million.

Narayana Murthy: You are right, I think you know we could have done a lot of good things with that, but then that is life. You know, we have to take the good with the bad and the ugly. These things happen because we are all human, right? So, that is the way I look at it. Whatever has happened has happened, our people have done a great job in closing this issue, and let us look forward to new challenges, hopefully not of this type.

Participant: What is the ratio of men to women in the company?

Narayana Murthy: Yeah Mohan will answer that.

Mohandas Pai: The ratio of women to men, I mean the percentage of women in the total workforce of more than 18.5% and is gone up from about 16.6% or so over the last one year.

Mohandas Pai: Yes, in fiscal 2003 over fiscal 2002.

Narayana Murthy: About one point something, 8 or 9.

Male participant: Okay, I will try to give this a shot again. Could this kind of clear the way for your conversion of your local shares into ADRs.

Narayana Murthy: Could this....?

Male Participant: Could this clear the way for the conversion of your local shares with the ADRs, plan that has been hanging for quite some time, or is it not a reason at all for the delay.

Narayana Murthy: No, I don't know if this had stood in the way of that. I think it is just a question of there is a lot of procedural issue that need to be sorted out with the Government of India, with the SEC, etc. The US things are all cleared now, it is just that we are waiting for some approvals from Government of India and I am sure that once that comes at the appropriate time our people will take a decision.

Male Participant: Mr. Murthy, in all these discussions and settlement you had, was there anything Phaneesh Murthy said on his behalf, like repentance of the settlement is correct the figure?

Narayana Murthy: No, you know again...

Male Participant: You must have already told him that might proceed against him.

Narayana Murthy: No, I mean again, I don't know whether we need to go into the details of who said what, when, I don't think those are important. What is important is we have got a settlement with which the company is very comfortable and our people have done a superb job in making sure that we had this settlement, and what is even more important to me is this that in spite of the time of the management being taken because of this episode last year, we probably you know we had a growth rate of 39% in top line. In other words, we enabled enough customers, we did lot of projects, we grew to \$753 million, I think that is what to me is important, does not matter who said what, when, how, that is all behind us.

Well, if there are no further questions, then we can close this. Once again, my sincere apologies for taking precious time away from you this afternoon. This is something that we would not have wanted to do it to you people, but then the circumstances was such that this was the most appropriate time. Thank you.