

Annual Report 1998-99



Infosys

INFOSYS TECHNOLOGIES LIMITED

Information Technology in the Next Millennium

– the Challenges for the Chief Information Officer

Nothing endures but change.

Heraclitus
(540 – 480 B. C.)



The growth of Information Technology (IT) has been most spectacular in the last fifteen years. This period has demonstrated that the only constant in the IT field is change. This industry has attracted a large number of visionary entrepreneurs, an abundance of venture capital, and a vast pool of high quality professionals. Not since the industrial revolution, has an industry brought about such improvements in value-for-money to users as has the IT industry. However, the best is yet to come. As we move into the next millennium, this industry will shape the lives of billions of people from the boardrooms of New York to the bazaars of Nepal. This year, Infosys brings you an abridged version of a very informative panel discussion on Information Technology in the Next Millennium – the Challenges for the Chief Information Officer.

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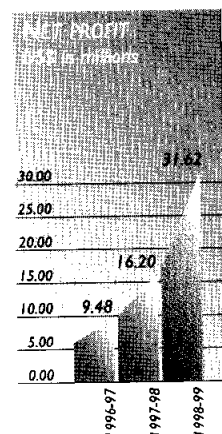
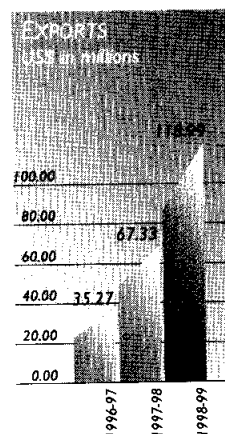
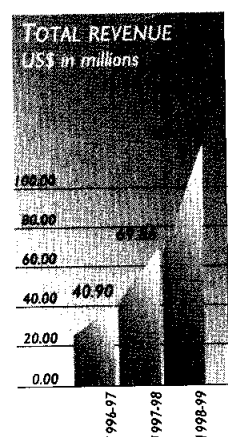
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The year at a glance

	<i>In millions, except per equity share data</i>			
	March 31, 1999		March 31, 1998	
	Rs.	US\$	Rs.	US\$
For the year				
Total revenue	5,127.38	121.96	2,603.66	69.86
Exports	5,002.54	118.99	2,509.38	67.33
Operating profit (PBIDT)	1,917.48	45.61	886.12	23.78
Profit after tax (PAT) from ordinary activities	1,329.15	31.62	603.63	16.20
PBIDT as a percentage of total revenue	37.40%	37.40%	34.03%	34.03%
PAT (from ordinary activities)				
as a percentage of total revenue	25.92%	25.92%	23.18%	23.18%
Earnings per share (from ordinary activities)	40.19	0.96	18.25	0.49
Dividend per share (pro-rata)	7.50	0.18	6.00	0.16
Dividend amount	121.08	2.88	70.29	1.89
Capital investment	716.79	17.05	344.10	9.23
PAT as a percentage of average net worth	54.16%	54.16%	42.24%	42.24%
At the end of the year				
Total assets	5,744.31	136.31	1,729.57	43.81
Fixed assets (net)	1,007.16	23.90	649.54	16.45
Liquid assets	4,166.59	98.87	511.42	12.95
Working capital	4,729.60	112.24	972.26	24.63
Total debt	—	—	—	—
Net worth	5,744.31	136.31	1,729.57	43.81
Equity	330.70	7.85	160.17	4.06
Market capitalization	96,728.00	2,295.40	29,634.22	750.61

Figures in US\$ were calculated by converting Indian GAAP figures at the average conversion rate for the year for all Profit and Loss Account items, and at the closing rate for all Balance Sheet items to facilitate comparison. The above figures are for information purposes only.

Market capitalization is calculated by considering the Indian market price for shares outstanding at year-end.



Awards for excellence – 1998-99

AON team

1



BASAB PRADHAN • PRAVIN RAO • RAJIV RAGHU • MANISH TANDON • PADMANABHAN D.

NYNEXPR CMM Level 4 team

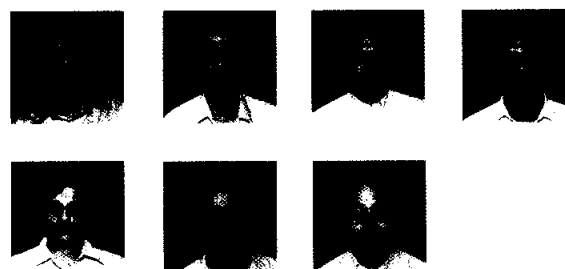


SHINJU DAMODARAN • SANTOSH K. SRIVASTAVA • SAVITA PATKAR

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SAP implementation team

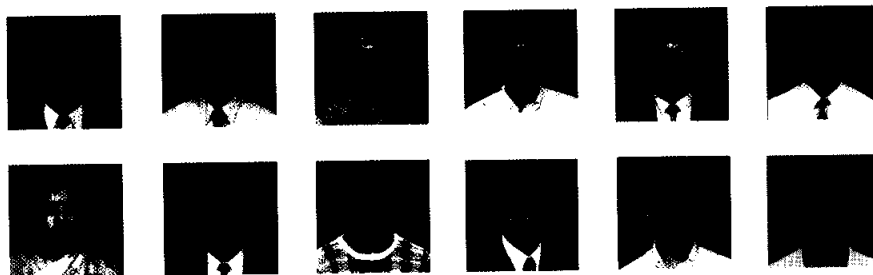
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BALAKRISHNAN V. • SASTRY M. S. • RAMADAS KAMATH U. • VENKATESH GADIYAR H.
RAGHAVAN S. • VINAYAK PAI V. • SIVARAMAKRISHNAN K.

3

"Y2K-as-an-entry-strategy" team



DHEESHJITH V. G. • KRISHNAMURTHY T. S. • SUBRAMANYAM S. V. • RAVI KIRAN • HARSHA H. M. • GANESH G.
RAMAA SIVARAM • MURALIKRISHNA K. • SAMSON DAVID • SRIKANTA KUMAR • SHAJI MATHEW • CHITTIBABU B.

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Corporate Communications team



SUDHA KUMAR
B. M. RAO
JESSIE PAUL

Internal customer champions



COL. KRISHNA C.V. • SRIVATHSA P. S.
MADHU KRISHNA RAO • SURESH KAMATH
REVANNA S. • CHANDRAPPA



Nandan M. Nilekani

Managing Director, President and
Chief Operating Officer

I am very happy that I share the authorship of this year's *Letter to the shareholders* with my colleague, Mr. Nandan M. Nilekani (Nandan, as he is affectionately known), the new managing director of Infosys. As the company takes on new challenges of growth and globalization, I felt the need to share my responsibility with another person. The board of directors, after due deliberations, decided to appoint Nandan as the new managing director, president and chief operating officer, to take over the operational responsibilities from me so that I could concentrate on strategic issues as we move to the next millennium. Mr. N. S. Raghavan, the joint managing director, requested that the board not consider him as he felt that Infosys needed a much younger person for such a role. Once again, as he has always done, Raghavan demonstrated his farsighted views on leadership keeping in mind the long-term challenges that Infosys would face.

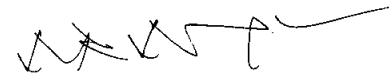
Nandan became the new managing director, president, and chief operating officer on February 11, 1999. He looks after all day-to-day operations and reports to me. I continue as the chairman and chief executive officer.

I have known Nandan closely ever since he walked into my room as a 23-year-old and charmed me into recruiting him as a software engineer when I was the head of software at PCS, Bombay in 1979. In fact, he is the first of more than three thousand software engineers who have worked with me and have emerged with flying colors from the tough battery of tests for learnability. My 25-year-old hypothesis is that, in a rapidly changing industry like software, learnability, rather than knowledge base, is critical for sustained success. Nandan is a flourishing icon of this idea that has been independently accepted and practised by other well-known companies.

Nandan has demonstrated the power of learnability by successfully handling a variety of responsibilities including software development, sales and marketing. He is a rare example of one endowed with the best of left and right brain capabilities. Whether it is analytics or articulation, you will find him always at his best. Tough when needed but always gentle at heart, he is a great asset to this growing company. Nobody knows better than he does that energy, enthusiasm and excellence in execution are the attributes of a great leader. I have no doubt that he will continue to demonstrate these attributes in every task that he takes up in his new role. I am excited at the prospect of shaping the future of Infosys jointly with him.

Best of everything, Nandan!

April 9, 1999
Bangalore



N. R. Narayana Murthy
Chairman and Chief Executive Officer

Board of Directors



Left to right: **top :** Shibulal S. D., Dinesh K., Susim M., Datta, Nandan M., Nilekani, Prof. Marri Subrahmanyam
bottom : Raghavan N. S., N. R. Narayana Murthy, Ramesh Vangal, Gopalakrishnan S., Deepak M. Sawhney

Letter to the shareholders

Dear Shareholder,

At the outset, we welcome our new investors who have purchased the Infosys American Depositary Shares (ADS) consequent to our listing on the NASDAQ. We had announced last year, as part of our globalization strategy, our intention to list on a stock exchange in the United States. On March 11, 1999, Infosys became the first India-registered company to be listed on a stock exchange in the United States. The listing will enhance our visibility in the marketplace, and also provide an acquisition currency. Infosys has also created an ADS-based Employees Stock Option Plan (ESOP), and the first lot of such stock options has been granted.

We are happy to report on another successful year. The total revenue, exports, PBIDT and PAT grew from Rs. 260.37 crore, Rs. 250.94 crore, Rs. 88.61 crore and Rs. 60.36 crore in 1997-98 to Rs. 512.74 crore, Rs. 500.25 crore, Rs. 191.75 crore and Rs. 135.27 crore respectively in 1998-99. Despite the sluggish domestic economy, domestic sales of Bancs2000 grew from Rs. 6.70 crore in 1997-98 to Rs. 8.32 crore in 1998-99. Achieving such overall growth without impacting quality, delivery schedule and cost is a rare phenomenon.

Our business is customized software development, re-engineering and maintenance in many vertical areas including retailing and distribution, banking and finance, insurance, manufacturing and data communication. We bring expertise in several technologies including hardware and software platforms for leveraging the capabilities of the Internet, open systems, the mid-ranges and the mainframes. Our growth strategy is based on our *global software delivery model*. This model provides a framework for scoping development, re-engineering and maintenance projects as fixed-price, fixed-time-frame projects. It leverages the availability of high-quality professionals in large numbers in India, our ability to operate world-class software development centers, fast implementation of new quality and productivity models, and our lower cost of operations. We are happy to state that the fixed-price, fixed-time-frame projects have contributed about 36% of the total revenue during the year.

Growth in sales and improvement in margins come from repeat transactions with the same client. Around 90% of the revenue this year has come from companies who were clients in the prior fiscal year. We have used the Year 2000 opportunity to establish relationships with thirteen new clients with eight of whom we have started our mainstream business of development, re-engineering and maintenance. Most of our growth in future is likely to come from the mainstream services of development, re-engineering and maintenance. Internet, package implementation, engineering services and telecom services are likely to be the services of the future registering significant growth rates, though on a small base.

E-commerce is the vehicle for growth in the next millennium. Your company designs, erects and maintains robust and secure Internet, intranet and extranet infrastructure both for improving internal productivity as well as for leveraging the power of e-commerce. This practice has shown considerable growth during the past year contributing 3.7% to the total revenue. We intend to focus even more on this growing market opportunity in the future.