

*"Make no little plans; they have no magic to stir men's blood."*

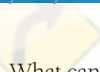
– Daniel Hudson Burnham  
*Visionary Architect*

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## On entering adulthood

**N. R. Narayana Murthy**  
*Chairman and Chief Mentor*

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What can one say about the coming of age of a child you loved, nurtured and protected? A child whose successes you rejoiced, and whose failures you suffered quietly. Commitment, admiration and affection for Infosys are unparalleled among my colleagues, who have always put the interest of this child first in every thing they do.

Completing 25 years is a watershed event in a person's life. It signals the arrival of a strong, confident young person, who is ready to take on bigger challenges. Energy, enthusiasm, confidence, idealism, daring, openness and curiosity find utterance and fruition. Nothing seems impossible. This is the time you move on to higher aspirations, and learn to accept failures with equanimity. We need all of this and more for Infosys to achieve bigger and more ambitious targets.

This journey of 25 years has been a symphonic marathon. It has been symphonic because every Infoscion, a maestro in his or her own right, subordinated individual interests to work as part of a fine team, and produced spectacular results year after year. It is a marathon since we have a long way to go before we hit the tape.

There have been many happy events during these 25 years. Prominent among them are: enrolling the first customer;

“Aspiration is the main fuel for progress. Aspirations transform a set of ordinary people into extraordinary achievers.”

arrival of the first employee; signing of the first million dollar contract; opening of the first sales office abroad; installation of our first computer – a DG MV/8000; inauguration of the Electronics City campus, the Global Education Center and the Infosys Leadership Institute; CMM Level 5 certification; listing in India and on NASDAQ; our first acquisition (in Australia); founding of Infosys Foundation, Progeon, Infosys Consulting and Infosys China; and reaching the magical figure of one billion dollars in sales. There have been a few sad moments as well – the departure of valued colleagues; death of a few young Infosians; and the loss of a few major contracts despite our best efforts.

A great corporation must live for hundreds of years. Hence, we are still very young, but these initial years have taught us several lessons. These lessons are valuable not just for our future journey but for other corporations in the country and perhaps, the world. Let me recount a few major ones.

Aspiration is the main fuel for progress. Aspirations transform a set of ordinary people into extraordinary achievers. They provide the mental and physical energy for people to convert plausible impossibilities into convincing possibilities.

An enduring value system based on openness, honesty, integrity, meritocracy, fairness, transparency and excellence, helps raise our confidence and the confidence of customers in the company. It gives the courage to handle tough situations with confidence, and sacrifices become easy and natural.

Our experience has demonstrated that respect and dignity, challenging work and a promising career growth path are more important motivators than just money. People want to be part of a defining moment that transforms the society and the world. Emotional energy is an invaluable

asset for a corporation.

Performance leads to recognition. Recognition brings respect. Respect enhances power. Humility and grace in one's moments of power enhances the dignity of an organization.

Leadership by example is, perhaps, the most essential instrument to encourage youngsters to demonstrate commitment and dedication towards any cause. Role models are powerful catalysts in raising the confidence, enthusiasm and energy of an entire generation.

An environment of openness, meritocracy, speed, imagination and excellence in execution are the five context-invariant and time-invariant attributes for the success of a corporation. Progress is possible only if we measure improvements in every dimension of our operations and take timely corrective action.

Openness to new ideas; encouraging the youth; shunning biases and using data in every decision; and learning and adopting good practices from other cultures help a company become more confident and effective.

Global benchmarking has helped us emulate the best companies in the world in specific attributes and, in some cases, improve upon them to serve our customers better.

Staying relevant in a changing market and creating greater impact on customers are the only means of strengthening our relationship with clients. Innovation is an important instrument for this. Proactively obsoleting our own innovations by widely disseminating them creates good incentives for employees to continue innovation.

Following the best practices of corporate governance attracts the best investors. Investors understand that every corporation will go through lean days. Bringing bad news to investors early and proactively enhances their trust in us.

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We have realized that it is better to focus on growing the wealth pie for every one of us rather than focusing on how to preserve it for a few. In fact, this has been the main motivation in our experiment in democratizing wealth through stock options.

Profit is just an opinion. Real wealth is cash in the bank. Cutting the coat according to the cloth is the surest way to be financially strong.

Ships are safest in the harbor, but they are not meant to be there. They have to sail long and hard and face stormy seas to reach the comfort of a desirable destination. Hence, progress requires us to take calculated risks and make bold moves.

We have realized that corporations must reach out to the society if they want longevity. In a poor country like India, it is very important to build a fund of goodwill among the people.

What is the contribution of Infosys to India, the main hub of our operations? In my opinion, Infosys is a shining example of the success of economic reforms introduced in 1991. We have demonstrated that it is possible to do business legally and ethically in India. Thanks to Infosys, a large number of youngsters have stayed back in India, and millions of youngsters in the country aspire to become entrepreneurs. The first large scale experiment in democratization of wealth using stock options took place

at Infosys. Infosys has taken the lead in raising the bar for corporate governance in the country, and we have demonstrated that Indian brands can receive attention and respect in G-7 countries.

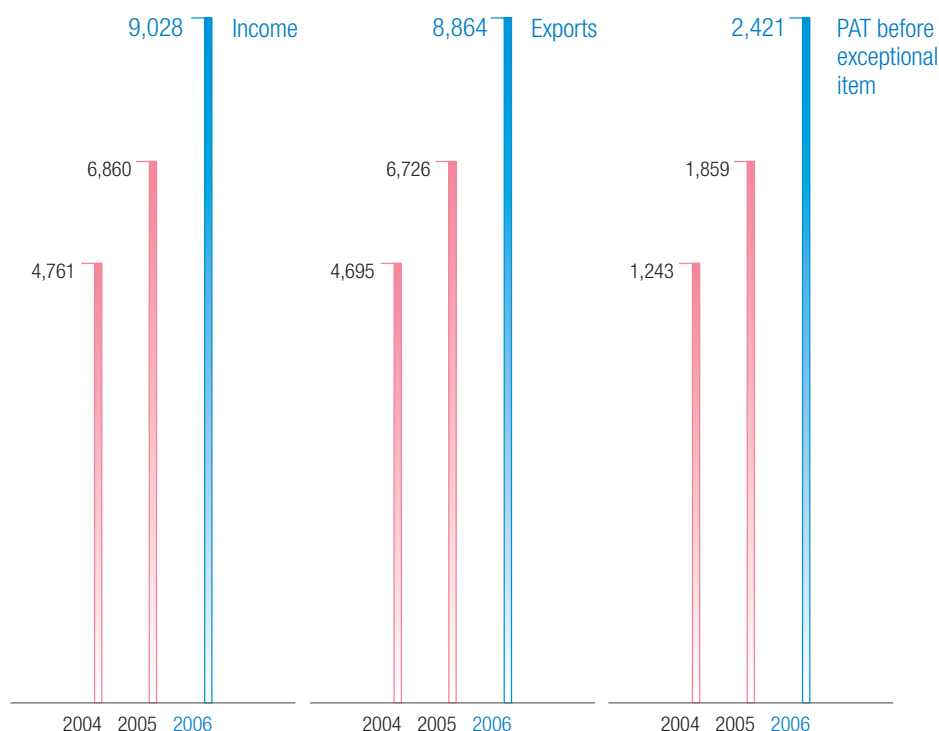
What would I want Infosys to achieve in the next 25 years? I want Infosys to be a place where people of different genders, nationalities, races and religious beliefs work together in an environment of intense competition but utmost harmony, courtesy and dignity, to add more and more value to our customers day after day. I want it to be a place that practices Voltaire's much-celebrated statement: *I disapprove of what you say, but I will defend till death your right to say it.* I would like more women leaders to shape the future of Infosys. Finally, I would urge Infosys to choose a worthy dream, to go after it confidently, and to play a role that will make all of us proud in the years to come. But always, without fail, she should follow her bliss.

Thousands of people, from all over the world, inside and outside Infosys, have enabled the company to reach this stage. There is no better way for Infosys to acknowledge their contribution than to express her appreciation by borrowing the words of my favorite soprano, Russell Watson:

*"You raise me up, so I can stand on mountains;  
You raise me up, to walk on stormy seas;  
I am so strong, when I am on your shoulders;  
You raise me up: to more than I can be."*

## The year at a glance

in Rs. crore, except per share data



	2006	2005	Growth (%)
<b>For the year</b>			
Income	9,028	6,860	31.60
Export income	8,864	6,726	31.79
Operating profit (PBIDTA)	2,989	2,325	28.56
Operating profit / Total income (%)	33.11%	33.89%	
PAT before exceptional items	2,421	1,859	30.23
PAT before exceptional items / Total income (%)	26.82%	27.10%	
PAT after exceptional items	2,421	1,904	27.15
PAT after exceptional items / Total income (%)	26.82%	27.76%	
EPS before exceptional item (par value of Rs. 5 each)			
Basic	88.67	69.26	28.02
Diluted	86.20	67.46	27.78
Dividend (excluding special dividend)			
Per share	15.0	11.5	30.43
Amount	411	310	32.58
Silver Jubilee special dividend			
Per share	30.0	—	—
Amount	827	—	—
Return on average net worth	39.89%	43.77%	
Capital expenditure	1,048	794	31.99
<b>At the end of the year</b>			
Fixed assets – net	2,133	1,495	42.68
Cash and cash equivalents (including liquid mutual funds)	4,463	2,851	56.54
Net current assets	3,832	2,384	60.74
Total assets	6,897	5,242	31.57
Debt	—	—	—
Equity	138	135	2.22
Net worth	6,897	5,242	31.57
Market capitalization	82,154	61,073	34.52

Note: The figures above are based on unconsolidated Indian GAAP financial statements.  
1 crore = 10 million



## Democratizing entrepreneurship: The Infosys legacy

C. K. Prahalad

*Paul and Ruth McCracken Distinguished University Professor,  
Stephen M. Ross School of Business, University of Michigan*

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C. K. Prahalad is a renowned management guru, professor, researcher, speaker and author. He was listed third on Suntop Media's 2005 "Thinkers 50" list, just after Michael Porter and Bill Gates. Of late, he has been working on an innovative approach to address the concept of profit beneath poverty. *BusinessWeek* called him "the most influential thinker on business strategy today". His published works include *The Fortune at the Bottom of the Pyramid*, *Competing for the Future*, and *The Future of Competition: Co-Creating Unique Value with Customers*.

“The corporate model at Infosys has served as a powerful inspiration and motivator for entrepreneurial young professionals across the country.”

As Infosys celebrates its first 25 years, its founders can be proud of the company's many accomplishments. From humble beginnings, Infosys, today, has grown into a US \$2 billion global IT solutions company, with a market capitalization of over US \$21 billion. However, to realize the true impact Infosys has had both in India and globally, it is important to look beyond the company's financial figures, its clientele and the various honors it has received over the last two decades. I believe that Infosys' significant, unique accomplishment is the role the company has played in democratizing entrepreneurship in India.

India's business environment in the 1980s was very different from what we see today. The economy was closed, red tape was pervasive. High levels of protection to domestic, state-dominated industries prevented competition. A system of financial repression and complex licensing discouraged entrepreneurship. The vision of the Infosys founders to start a “professionally managed” corporation in such an environment was unprecedented. The founders came from outside the ranks of well-established business communities and families, lacked industry and government contacts, and in the absence of venture capital had to borrow the \$250 seed capital to start the business.

Yet, over the years, Infosys has managed a series of “firsts” for Indian business. It became the first truly global software solutions company headquartered in India, with a list of clients that have now expanded to the

Global 2000. It was the first Indian company to list on the NASDAQ, and the first to benchmark its organizational practices to global standards. Infosys, thus, was the first company to successfully take Indian entrepreneurship to a global level.

The success of firms led by Indians outside India can never match the impact of the growth of a truly global firm in India, given the barriers to business that existed in the country during the pre-reform years. Today, an Infosys experience on a resume has the same global cachet as leading US consulting firms or investment banks.

The corporate model at Infosys has served as a powerful inspiration and motivator for entrepreneurial young professionals across the country. The Infosys ecosystem of meritocracy, wealth creation and good governance has made an impact across Indian industry in terms of raising confidence and aspiration levels. In fact, with the discussion of the Indian IT industry often focusing on the big five, we forget that there are over 3,000 Indian IT firms with less than US \$25 million in sales – and all of them are global in their aspirations and building on a model that Infosys inspired.

Infosys had the courage to pioneer what has emerged as a truly effective model for wealth creation for the country. The company has demonstrated how the vision, willpower and entrepreneurial energy of ordinary people can be harnessed to attain remarkable success at a global level.



## Redefining India's image

**Rajat Kumar Gupta**

*Senior Partner Worldwide, McKinsey and Company*

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Rajat Kumar Gupta joined McKinsey and Company Worldwide in 1973. Mr. Gupta has been instrumental in the firm's vast expansion over emerging markets such as China and India. His consulting experience spans telecommunications, energy, and consumer goods. He is associated with many educational, professional and business affiliations, including Chairman of the Board of the Indian School of Business; Co-chairman of the United Nations Association of the USA; Chairman of the Board of Associates of the Harvard Business School; and Dean's Advisory Council, Massachusetts Institute of Technology Sloan School of Management. Mr. Gupta holds a bachelor of Technology degree in Mechanical Engineering from the Indian Institute of Technology and an MBA from Harvard Business School.



“Today, no-one can deny that India is home to a world-class IT industry. Infosys, recognized globally as a leading technology solutions company, has been a driving force behind this trend.”

When global business leaders speak with excitement and passion about India – and we are hearing them do so more now than ever before – they often begin with praise for India's achievements as a hub for technology and outsourcing. Today, no-one can deny that India is home to a world-class IT industry. Infosys, recognized globally as a leading technology solutions company, has been a driving force behind this trend.

At the time when Infosys and other firms first entered the software services market, some people found it hard to believe that companies from India could successfully compete with international corporations. But through the course of the next two decades, India's blend of entrepreneurship, economic reform, investment in quality infrastructure and strength in intellectual capital created an industry offering IT solutions that were both cost-competitive and world-class.

The industry has proven that small Indian companies can compete with 'first-world' competitors and make a real, significant impact at the global level. Success in the sector has helped establish a new perception of the Indian company – that of the professionally-managed organization which is truly global in its ambitions, business outlook and vision. And the growth of knowledge-intensive organizations that adhere to global standards has created tremendous brand equity for the whole IT industry, helping enable the market's dramatic expansion.

This progress has given Indian companies across industries new confidence in building international brands, helping redefine India's image as a powerful,

emerging knowledge economy. Firms are building reputations that span national boundaries, bringing India to the world.

A key part of all this success is India's prodigious intellectual capital. In some technology spheres, India possesses the world's best talent – something for which Infosys and firms like it are in good part responsible. And as competition increases in the global marketplace for the best people, India should prioritize efforts to build the “soft infrastructure” that will grow its talent pool further.

Creating new intellectual capital is not the only challenge to which India must respond in order to cement its position as a global leader. Its strength in the IT industry must now be replicated in many other sectors. Substantial new investment is needed in public services and infrastructure, both to incentivize foreign investment and support the efforts of India's legendary entrepreneurs. A dramatic effort must come to tackle inequality and associated problems of poor public health, educational under-achievement and below-poverty incomes – the lot of the majority of India's people.

Corporations can make a vital contribution to the task of India's development – as the engines of economic growth, and in bringing their assets, skills and expertise to bear against social ills. The private sector must act as full partners in the development debate: helping confirming India's reputation as a growing economic power, and bolstering its status as a place where the world does business.



## A leader in corporate governance

**Mark Mobius**

*Manager, Franklin Templeton Emerging Markets Fund*

**Report Junction.com**

Mark Mobius was described as “the ultimate road warrior” by *USA Today* and *The Wall Street Journal* proclaimed him “the king of the emerging market funds.” As the head of Templeton Investments, Mr. Mobius is one of the most successful managers in the emerging-markets, and his belief in the potential of world economy rewrote the fortunes of Franklin / Templeton funds. He holds a Ph.D in Economics and Political Science from the Massachusetts Institute of Technology. His published works include *The Investor's Guide to Emerging Markets*, *Mobius on Emerging Markets*, and *Passport to Profits*.