UNIT 17 INVESTORS RELATIONS

Objectives

The objectives of this unit are to:

- explain the corporate form of business organization and the need for maintaining investor relations
- highlight the importance of investor relationship for the corporate form of business organization.
- pinpoint the different forces that demand for information from the companies and varying purposes for which it is demanded by the stakeholders
- bring out the rationale for corporate governance in building by good investor relations
- explain the advantages achieved from being a good governance company

Structure

17.1 INTRODUCTION

Savings and investment determine the growth, be it the economy or the company. Business units require funds for acquiring assets for manufacturing and investing in good projects and thereby achieving economies of scale. The company form of business organization facilitates the creation of such large firms with large capital base. This is made possible by collecting money from millions of investors. Investors provide capital at the time of starting the venture as well as for the growth of the firm. While the funds provided by the equity holders make them the owners of the company, the funds provided by the debt holders make them the lenders.

Hence, the company form of business mostly has a financial structure with a mix of debt and equity. Generally the equity holders are the promoters, the directors and their relatives, Government, sometimes the institutional investors, the banks and the general public (or small investors) and they all jointly own the company. The debt holders are basically financial institutions, banks and general public who lend money against a mortgage or by getting bonds or debentures issued from the company. In some cases, the debt holders are issued convertible bonds, as per which they can submit their bonds and get them converted to equity at later stage. So in this case they become owners from lenders.

Table 17.1 furnishes the details of the equity share capital and the number of equity shares held by the investors of large Indian companies forming part of NSE 50 index. The table shows that the paid up share capital of these firms range from Rs. 30 crores to 4000 crores. The number of equity shares issued run into millions and in some cases in billions. To get better understanding of who actually controls the company, we need to look into the shareholding pattern data of these companies. Table 17.2 presents the percentage of equity holding by different categories of equity shareholders of these nifty companies. The promoters holding represent the equity holding of those who had promoted the company and they basically control the management. The foreign promoters' holding arises if there is joint venture between an Indian company and a foreign company. Such investment can also arise if the foreign firm sets up its own company in India, which are often called as multinationals. Hence promoters could comprise of either Indian or foreign based on how they originated. The institutional investors' holding represents the equity holding of the financial institutions, the banks and mutual funds. The other private corporate body equity holding implies the holdings of other companies. For instance if Britannia industries invests in the shares of the ABB Ltd, it would be classified into other company holdings. Companies at times do this form of investing, when excess cash is available and it lies idle in the company. The others equity shareholding represent the holdings of small investors, who are also owners of the company. But these small investors mostly invest for the sake of investment or speculation. They sell their shares if they feel that the company's share is performing badly in the capital market.

These two tables thus highlight the fact that number of investors are large typically in large companies and also the categories of the investors are of different kinds. While the average promoters' holding of these companies is around 43%, non-promoters contribution is 57%. In such a scenario a formal investor relationship arrangement assumes importance. Many companies today have a full fledged investor relations department headed by an investor relationship officer. The present unit is dedicated to discuss why the companies need to have a good relationship with investors and what exactly should the companies do to maintain such good relationships.

17.2 CORPORATE FORM OF BUSINESS ORGANIZATION

The company form of organization is governed by the Companies Act. In India, the Companies Act was passed during 1956. The Companies Act of most countries allow a group of people to start a company and approach public to raise large capital in the form of debt or equity. Generally, the small investors buy the shares and become the owners of the company. Institutional investors, as explained earlier, not only buy the shares, they also lend money to these companies against bonds or mortgage. Hence it can be found that the owners of a company could be any number of small investors. The investor range increases with the size of the company. So the ownership is spread across the world or countries. Figure 17.1 provides an overview of the links between the company, the shareholders, the institutions and the market.

While ownership is widely spread, the control is retained by a few. In the sense that the management of the company is handed over to few Board of Directors elected by the shareholders. This is because not all owners can manage the company with a very small stake. This separation of ownership and control leads to agency problem. Since agents behave with self-interest, it might harm other investors who are not directly involved in management of the company. For instance, managers may invest the capital in not so good projects, and the result being the shareholders bear the loss of such bad investment. The managers may also use the shareholders money in different possible ways to serve their own interest.

Table 17.1: Equity shares and capital of NSE 50 companies

Company Name	Eq. Capital (Rs. Crores)	No. of Shares
A B B Ltd.	42.38	42381675
Associated Cement Cos. Ltd.	171.13	170929944
B S E S Ltd.	137.83	137725666
Bajaj Auto Ltd.	101.19	101183510
Bharat Heavy Electricals Ltd.	244.76	244760000
Bharat Petroleum Corpn. Ltd.	300	300000000
Britannia Industries Ltd.	25.9	25904276
Cipla Ltd.	59.97	59972349
Colgate-Palmolive (India) Ltd.	135.99	135992817
Dabur India Ltd.	28.58	285749934
Digital Globalsoft Ltd.	32.98	32980532
Dr. Reddy'S Laboratories Ltd.	38.26	76515948
G A I L (India) Ltd.	845.65	845651600
Glaxosmithkline Con.Healthcare Ltd.	45.38	45380621
Glaxosmithkline Pharmaceuticals Ltd.	74.48	74475000
Grasim Industries Ltd.	91.69	91669685
Gujarat Ambuja Cements Ltd.	155.27	155189921
H C L Technologies Ltd.	57.58	287884290
H D F C Bank Ltd.	282.05	282045713
Hero Honda Motors Ltd.	39.94	199687500
Hindalco Industries Ltd.	92.46	92481325
Hindustan Lever Ltd.	220.12	2201243793
Hindustan Petroleum Corpn. Ltd.	338.83	339330000
HDFC	244.41	244414492
I C I C I Bank Ltd.	612.66	613034404
I T C Ltd.	247.51	247511886
Indian Hotels Co. Ltd.	45.12	45114695
Indian Petrochemicals Corpn. Ltd.	249.05	248225622
Infosys Technologies Ltd.	33.12	66243078
Larsen & Toubro Ltd.	248.67	248668756
Mahanagar Telephone Nigam Ltd.	630	630000000
Mahindra & Mahindra Ltd.	116.01	116008599
N I I T Ltd.	38.65	38649279
National Aluminium Co. Ltd.	644.31	644309628
Oriental Bank Of Commerce	192.54	192539700
Ranbaxy Laboratories Ltd.	196.72	185452098
Reliance Industries Ltd.	1395.92	1396377536
Satyam Computer Services Ltd.	62.91	314542800
Shipping Corpn. Of India Ltd.	282.3	282302420
State Bank Of India	526.3	526298878
Steel Authority Of India Ltd.	4130.4	4130400545
Sun Pharmaceutical Inds. Ltd.	46.52	93048478
Tata Chemicals Ltd.	180.7	180638651
Tata Iron & Steel Co. Ltd.	369.18	367771901
Tata Motors Ltd.	319.83	319784387
Tata Power Co. Ltd.	197.91	197897864
Tata Tea Ltd.	56.22	56219857
Videsh Sanchar Nigam Ltd.	285	285000000
Wipro Ltd.	46.51	232563992
Zee Telefilms Ltd.	41.25	412505012

Table 17.2: Shareholding pattern of Nifty companies (in %), March 2003

Company Name	Promoters	Institutions	Cor. Bodies	Others
A B B	52.11	30.47	1.10	17.42
ACC	0.00	45.48	18.26	54.52
B S E S	58.22	28.13	0.48	13.65
Bajaj Auto	29.17	21.07	13.52	49.76
BHEL	67.72	29.83	0.52	2.44
BPCL	66.20	27.72	1.39	6.08
Britannia Industries	47.00	28.37	1.98	24.63
Cipla	39.94	24.85	2.22	35.21
Colgate-Palmolive (India)	51.00	11.93	1.01	37.07
Dabur India	78.34	11.61	1.09	10.04
Digital Globalsoft	50.61	33.85	1.37	15.54
Dr. Reddy'S Laboratories	26.02	35.20	1.90	38.77
G A I L (India)	67.34	9.42	0.36	23.23
Glaxosmithkline Con. Health	40.00	34.19	3.54	25.81
Glaxosmithkline Pharma	48.83	26.56	1.50	24.61
Grasim Industries	20.42	38.23	5.80	41.36
Gujarat Ambuja Cements	27.51	38.45	3.55	34.04
H C L Technologies	77.04	10.55	4.12	12.41
H D F C Bank	24.41	30.49	1.16	45.09
Hero Honda Motors	52.00	31.05	2.01	16.95
Hindalco Industries	24.37	38.15	3.19	37.48
Hindustan Lever	51.56	26.03	0.84	22.42
HPCL	51.01	37.01	3.14	11.98
HDFC	0.00	59.70	2.37	40.30
I C I C I Bank	0.00	59.74	4.93	40.26
I T C	0.00	48.00	0.85	52.00
Indian Hotels Co.	37.38	27.24	2.33	35.37
Indian Petrochemicals Corpn.	79.98	8.38	2.11	11.64
Infosys Technologies	28.42	48.44	1.01	23.14
Larsen & Toubro	0.00	44.09	20.04	55.91
Mahanagar Telephone Nigam	56.25	31.29	0.74	12.46
Mahindra & Mahindra	26.26	43.79	5.61	29.94
N I I T	31.25	41.97	7.42	26.78
National Aluminium Co.	87.15	7.47	3.59	5.38
Oriental Bank Of Commerce	66.48	16.67	1.71	16.85
Ranbaxy Laboratories	32.05	35.85	1.00	32.10
Reliance Industries	46.52	27.76	1.67	25.72
Satyam Computer Services	20.74	56.27	2.34	22.99
Shipping Corpn. Of India	80.12	11.17	2.90	8.71
State Bank Of India	0.00	82.40	1.79	17.60
Steel Authority Of India	85.82	9.73	0.69	4.45
Sun Pharmaceutical Inds.	71.75	17.37	2.69	10.88
Tata Chemicals	30.56	26.39	5.03	43.05
Tata Iron & Steel Co.	26.41	34.34	6.78	39.25
Tata Motors	32.21	35.03	9.87	32.76
Tata Power Co.	32.54	33.95	2.35	33.51
Tata Tea	29.48	34.03	3.21	36.49
Videsh Sanchar Nigam	71.12	9.36	2.80	19.52
Wipro	83.90	4.40	1.78	11.70
Zee Telefilms	51.77	33.53	3.28	14.70

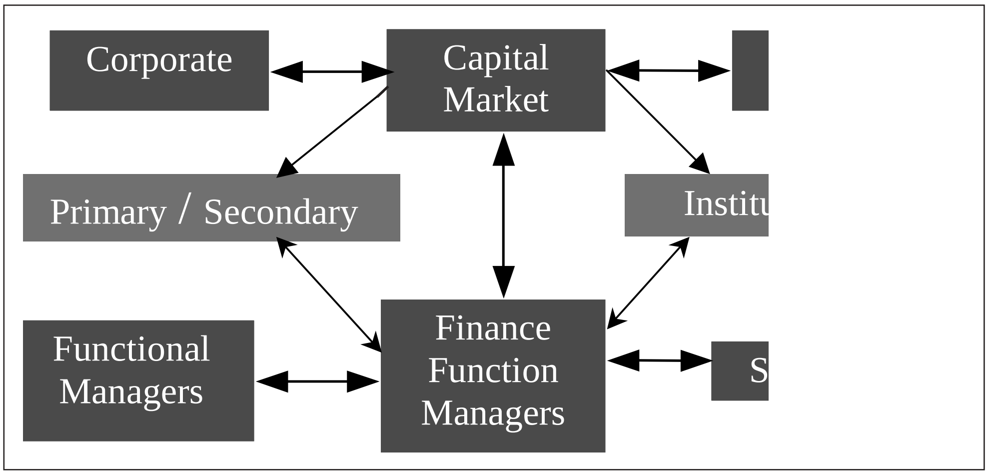

Figure 17.1: The Functioning of Corporate Form of Business

These managers may also get involved with creative accounting, with the help of the auditors. We have seen many instances of scams of this nature. In all these cases, every stakeholder is affected. The equity holders, on learning such frauds, start selling the shares and this pulls down the prices of the stock in the market. Not only will the small investors do such act, this could happen with the institutional investors as well. The matter is even worse with the institutional investors. This is because the institutional investors are both lenders as well owners in many companies. They not only cause damage by selling the shares, they will avoid lending to these companies in future. So the growth of the firm gets affected and finally the company might get liquidated.

There are several ways in which the management or promoters can assure the managers manage the firm efficiently. Investor relationship in a broader sense includes all such efforts taken by the agents to ensure that investors are not affected by the agency problem. Investors expect management to run the firm efficiently in a most transparent manner and take all decisions that maximize the investors return. The next section would explain in detail the expectations of the investors from the management of the company. If these expectations are not met, then the company would be heading towards serious trouble.

17.3 DEMAND FOR INFORMATION

Basically, the demand for corporate information comes from the shareholders and investors, managers, employees, customers, lenders and other suppliers, security analysts, policy makers, regulators and government. Purpose of soliciting information by different stakeholders of the organization varies to a great extent. For instance, the Government seeks financial information of the company mainly to check if it pays the right amount of taxes as also to check if it does not violate licenses granted, export-import policies etc.

The suppliers would be demanding the financial information basically to ensure that the company would be in business for sufficiently long period of time and it would be worth while to have business with them. They would like to know if the company would be able to pay their dues. Likewise, the lenders would use information to verify the creatibility of the company.

The managers call upon information of various types for planning and control purposes. Of course, the information supplied to the managers within the firm may be much more in detail and confidential compared to the information provided to the outsiders. The customers, particularly the consumers of durable goods or vehicles or IT products, would be interested in knowing whether the company would exist in near future to provide them the service for the product they purchased. So they would be constantly watching the company's performance for the same. The employees would be interested in the company information because they would want to know if they would get better wages or salaries for the coming years. Because if the firm is not doing well, the chances are that they might lose their jobs and also lose wages. So they keep a watch on the performance of the company.

The analyst demand information to publish reports on the performance of the company and to rate its debt payment capacity. He continuously tracks the company for information and analyzes the company accordingly and informs the public on buy and hold strategies. On the other hand, the demand for information by small and retail investors differs from that of the experienced analysts. The small investors simply do not have the time to keep track of the companies latest information. This is because small investors invest in a number of companies and it is difficult for them to keep track of the information of all these companies. Moreover they would not be able to analyze the information as usefully as the experienced analysts do. Hence, they require much more detailed information and mainly in a processed format so that they can evaluate the risk and return characteristic of the company. This is for the fact that the risk and return of a firm are dependent on the following:

(i) the social, political and macroeconomic factors which are common to belonging to differents all companies industries, such as social harmony, relations with other countries, political stability, growth rate of gross domestic product (GDP), inflation rate, money supply, and policies of the government;

(ii) the industry factors which are common to all companies in a particular industry, such as labour conditions in the industry, policies of government which have influence on the industry, and demand and supply factors and;

(iii) company-specific factors which are important to any company, such as financial performance, changes in the top management, decisions relating to financing, investment and dividend. With the knowledge of these factors, investors would be able to calculate the expected returns of securities of different firms, the risk associated with their returns and accordingly take their investment or portfolio decision.

Once the investment decision is made, shareholders and investors demand information for the purpose of safeguarding their interest in the corporate firm. This involves control of managerial behaviour so as to guide managerial activities towards the maximisation of shareholders' wealth. Thus, shareholders and potential investors require information so as to help them to make the investment decision, as also to design contracts and mechanisms for controlling the behaviour of managers, and orient the managerial behaviour towards realising the objectives of a firm. Accordingly, they demand all information that is non-proprietary, i.e. information whose disclosure does not affect the firm's future cash flows.

We know that the objective of existing shareholders is to maximise their expected utility or wealth, even if it is at the expense of other parties involved in the activities of a concern. First, they wish to safeguard their interest and want to limit the possibilities for expropriation by all other parties. Second, they will try to achieve the goal of maximisation of the wealth of the firm or alternatively the expected utility or wealth of shareholders by expropriating the other parties involved. Towards this end, they would like the management to take decisions which would increase their wealth either through achieving higher sales, higher incomes and higher profits or through transfer of wealth from other parties involved in the corporate activity such as creditors, managers, employees, customers and government. They also demand the management of the company to disclose information that maximises the value of the firm.

However, we should also note that the demand for disclosure of corporate information of prospective shareholders differs from that of existing investors. Whereas the former wants the firm to reveal both value enhancing as well as value diminishing information, the latter, expects the firm to reveal only the value enhancing information and not to reveal the value diminishing information. Such conflicts can be seen as amount existing groups of promoters, institutional shareholders and public shareholders.

There are several agencies engaged in protecting the interest of small investors and other stakeholders. The requirement that the company form of organization has to be registered under the companies Act, 1956 is the first protection to investors and others. The Registrar of companies makes sure that the company that is formed is genuine and has been formed for the purpose of being in the business. The investors' interests are protected by the Securities Exchange and Board of India (SEBI). SEBI had laid down some listing requirements for the companies seeking to raise money from the small investors or public. Once the company accepts the listing agreements, the company's shares get listed in the stock exchange. SEBI has also brought several regulations and guidelines for market participants and intermediaries to protect the interest of investors. The Institute of Chartered Accountants of India lays down the necessary accounting standards based on which the companies need to prepare the financial statements and get it audited by the chartered accountants. This is done to ensure that the financial statements represent true and fair view of the financial position of the company.

Basically the investor demands can be classified into three basic categories.

1) Transparency and Disclosure
2) Good corporate governance
3) Investors Service

Each of these are discussed in detail in the following sections.

Activity 1

Check with some of your friends who invest in stocks on the information that they require/use while selecting the stocks for investments. Identify whether companies disclose such information in the annual report.

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Activity 2

Check with your friend whether he/she is happy with the information supplied by the company in disclosing such information. Also, find out whether they are satisfied with the role of SEBI and Stock Exchanges in improving disclosure standards.

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17.4 TRANSPARENCY AND DISCLOSURE

Companies typically do not make available information on a day to day basis because of strategic reasons, and huge costs involved in collection and dissemination of such information to all the users. At the same time, the companies disclose summary of information periodically for various purposes. Corporate disclosure of information is determined by the market forces, costs associated with corporate disclosures and the regulatory forces (Refer Figure 17.2)

Market forces which influence the decision of corporate firms may relate to the capital, labour and corporate control market. Corporate firms compete with each other in the capital market for resources. They may issue different instruments which meet the requirements of investors. The various forms of raising finance have been discussed in the earlier sections. Under these circumstances, capital market forces exert pressure on firms to provide information relating to the instruments offered, terms of instruments, the distribution of expected returns and importantly, on the projects for which the capital is being raised. This is necessary because the investors have no foresight about returns and the quality of the product. And firms may be apprehensive, that in the absence of the authentic information, they may be perceived by investors as 'lemon'. In the instance of non-disclosure by corporate firms, the investors may not be able to assess the risk and returns on the projects undertaken by the firms, as they would have no idea as to which firm's projects are good or bad. Investors, under such circumstances, require on average a high return. This higher required return may force the issuers of capital to withdraw from the market as the net present value of the project would be negative, if the projects are implemented with resources mobilised at a higher cost. When 'good' issues are withdrawn from the market, investors revise their required return upwards, which force some firms to withdraw from the market. In this process, the capital market ends up in a situation where there are only high risk offers, and there would be no investors ready to supply the resources. Given the uncertainty about the product quality, success of the projects and the cost of being perceived as a 'lemon', corporate firms have an incentive to supply the information that they believe will enable them to raise capital on the best available terms.

Some firms may make overly optimistic forecasts about the future cash flows associated with a project. However, checks such as (i) reputation of the firm, (ii) reputation of the management, (iii) third-party assessment and clarification, and (iv) legal penalties, act as deterrents for firms to make these overly optimistic forecasts.

The labour market forces also exert pressure on the management to disclose information to the public. This can be due to either external or internal forces. For example, reputation of a management plays a vital role in determining the managers' prospects of promotion and other incentives structure within the firm as well as outside the firm. Hence, managers would not be willing to take steps that damage their reputation of competence. Further, professional managers are governed by a set of standards of behaviour or a code of conduct which are determined by professional bodies, and non-adherence to standards may lead to disciplinary action against them by the professional bodies. Thus, forces in the labour market prompt the managers to disclose information which improves their prospects, as well as their reputation.

The corporate control market forces also influence the firms' decision of disclosure, and the timing of information release to the public. The efficient working of a concern depends on the soundness of the policies determined by the board of directors, and their effective implementation by the managing director and his team of managers. If investors perceive that a company is not

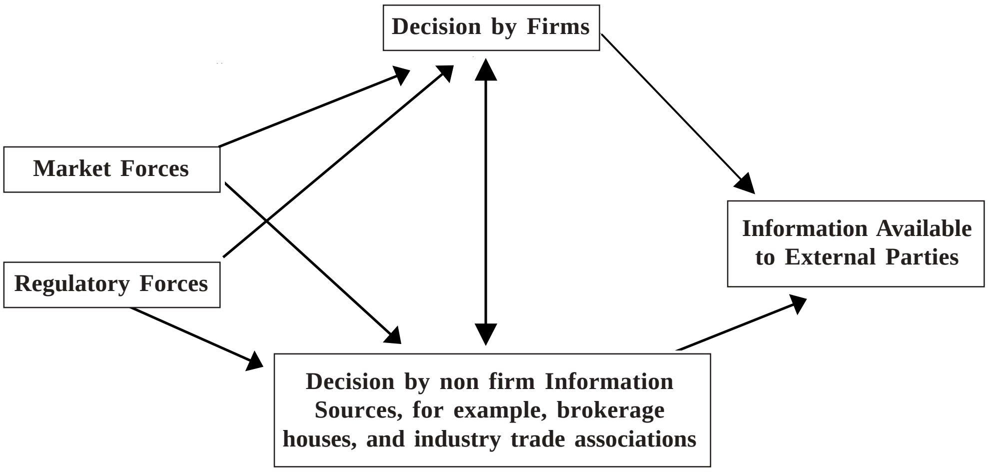

Fig. 17.2: Factors Influencing the Information Set Available to External Parties

Source: *Foster, George, Financial Statement Information, p.24, Prentice-Hall International, Englewoodcliffs, New Jersey, 1986.*

run efficiently and identify ways in which its functioning can be improved, they may attempt to take over the controlling stake of the company. This perception of non-controlling stakeholders is influenced by their private information. Such private information gives them an advantage, as they can acquire the stocks of the company at the existing prices. Under such circumstances, managers are forced to improve not only their working but also the level of information disclosure. At times, even when the investors do not have information about its good future prospects, the prices of a company's securities may be under priced. However, the corporate predators and raiders, under such circumstances, make attempts to take over the company by actively buying the securities of the company in the secondary market. This forces the managers to reveal the information about the prospects of the company to the outsiders. Thus, the market forces influence the supply of information in two ways: first by prompting the existing management of firms to disclose information to the public and secondly, through the threat of actions of corporate predators and raiders, who continuously explore the opportunities for takeovers.

The costs associated with corporate disclosures also influence the time and extent of disclosure of information. These costs include: (i) collection and processing costs, (ii) litigation costs, (iii) political costs, (iv) competitive disadvantage costs, and (v) additional constraints on management decisions.

Collection and processing costs include the costs borne by both the suppliers and users of financial information. Corporate firms as well as users of information incur the costs of collection of information. The corporate management has to make decisions on what information is to be collected and at what frequency. It is not possible for firms to collect all the information on a continuous basis, as it involves unlimited resources, both human and financial. The decision on information collection is often based on the assessment of costs and benefits associated with such information. Firms, while computing the costs of collecting and processing information, have to bear in mind the costs incurred by the firm as well as the costs borne by investors in performing such task. Similarly, while computing the benefits of information production and processing, firms have to take into view the benefits that accrue to all the users of corporate information who have a stake in the corporate firm.

Litigation costs arise when the corporate has to face a dispute in a legal forum. The prompt public release of information as well as corrective information, if any, can reduce the potential losses to shareholders and the potential exposure of the firm and its management in subsequent litigations.

Political costs arise in situations where the perception of government and policies of government are influenced by the disclosure of corporate information which influences the government to take actions which transfer resources from the corporate to the other constituents of society through fiscal and other measures. In these circumstances, firms may choose accounting methods that they perceive will reduce the likelihood of large profit increase being reported in any one year.

Competitive disadvantage costs arise when firms choose to reveal a portion of proprietary information. Typically, firms choose to keep strategic information such as information on research and development, new products, advertising expenditure, break down of major customers and forecasts of gross margin, income or sales by individual lines of business, when they perceive that they have an advantage over competitors in these areas. However, they face a difficult situation when they want to raise new capital. In such a situation, irrespective of whether the firms disclose the information or not, the firm stands to experience a reduction in its value. For instance, unless firms provide some information pertaining to their research and development activities or new products, the capital market is not likely to support a new share offering, and yet, if they do provide detailed information, they may reduce the lead time with which competitors learn about developments within the company.

Disclosure of certain types of information by managers imposes constraints on their behaviour and may lead to a conflict between their efficiency and reputation. For example, earnings forecasts and their disclosure to the public put pressure on managers to implement policies that result in the actual earnings converging towards the forecast values.

Regulatory forces also influence the disclosure and timing of release of information by firms. A number of regulatory agencies govern the functioning of corporate and regulate their information disclosure. Such agencies can be broadly discussed under four levels: (i) level one consists of the executive, legislative, and judicial branches of the government. The legislative makes laws which are enforced by the executive. The legislative and executive define the manner in which the corporate has to disclose information. The judiciary exerts influence on the disclosure practices by its rulings; (ii) level two includes government regulatory bodies. As discussed briefly in the earlier sections, in India, this level includes the Securities and Exchange Board of India (SEBI), the Company Law Board, and the Department of Company Affairs under the Ministry of Finance. These agencies are often delegated with the authority of overseeing the adherence of rules and procedures by corporate firms; (iii) level three includes private sector regulatory bodies such as Accounting Standard Board, the Institute of Chartered Accountants of India, and Stock Exchanges. Professional bodies, through conducting seminars and publication of discussion papers and in-depth analysis, from time to time, recommend standard practices to be followed in the preparation of balance sheets, cash flow statements and profit and loss accounts; (iv) level four includes lobbying groups that attempt to influence the decisions made by the parties in the above three levels. These professional bodies include industrial and trade associations, investor associations and other interest groups.

The market forces and regulatory forces, described above, influence the decisions of both the corporate firms and non-firm information sources such as brokerage houses, and industry and trade associations as to what to disclose and when to disclose. The decisions of corporate firms and decisions of sources other than corporate firms influence each other.

However, not all information disclosed by the companies are mandated by regulation. Companies also choose to disclose voluntarily information like the social services performed by them, the company philosophy, objective, business they are operating, the market share of the business, etc. However, as sated earlier, companies would be hesitating to provide information, which would reveal their competitive advantage to the competitors. For instance, the ICAI introduced a new accounting standard on Segment Reporting (AS-17) with effect from 2001. However, most companies still do not provide this information despite being made mandatory by claiming that they are single segment company. This is because as per this standard, companies are supposed to disclose their financial information based on the different segments. Prior to 2001, investors did not know whether companies were performing good in all the segments in which they were operating. For instance, prior to 2001 investors did not know whether L&T was performing well in their cement or construction segment. Only the performance of L&T was made known to the companies.

There has been tremendous improvement in the last few years in the disclosure level of the Indian companies. This is mainly due to the new accounting standards introduced by the ICAI like consolidation of accounts, segment reporting, revealing the related party transactions, revealing the intangible asset valuation etc. Apart from this the listing requirement had also been tightened. And listing requirements demanded more information from the companies. One such latest requirement is the introduction of the Clause 49 on corporate governance code. Accordingly, every company wanting to get listed in the stock exchange will have to disclose the corporate governance systems and procedures existing within the company. Detailed aspect discussion on this made had been made in the next section.

Activity 3

Compare for any one company, the annual reports of the year ending March 2000 and March 2003. Identify major changes that you have seen on the items disclosed by the company.

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17.5 CORPORATE GOVERNANCE

Corporate governance plays an important role in building a good relationship with the investors. This is because when companies are able to keep their investor well informed about the way the business is done in a transparent manner, this would definitely present a positive image. No investor would want to do away his investment from such a company. McKinney in one of their surveys (2000) reported that investors are willing to pay more for companies with good governance. And the premium the investors would be willing to pay for well-governed companies, they reported, differed by country. As reported, the investors were willing to pay 18 percent more for the shares of a well-governed UK or US company, for example, than for the shares of a company with similar financial performance but poorer governance practices. But they would be willing to pay a 22 percent premium for a well-governed Italian company and a 27 percent premium for a well-governed company in Indonesia. A well governed company is defined as having a majority of outside directors on board with no management ties; holding formal evaluation of directors; and being responsive to investor's requests for information on governance issues. In addition, directors hold significant stockholdings in the company, and a large proportion of director's pay in the form of stock options. (Monks, 2001).

However, the existence of corporate governance by itself does not become a sufficient condition for the better performance of a firm. It can, however, become a necessary condition in the highly competitive world, particularly when the market has become global. But why does it become a necessary condition? Corporate governance can do a lot of things for the better performance of the company:

1. Good corporate governance helps the company to evaluate the better investment decisions.
2. It would help resolve the agency cost of debt and equity.
3. It can help retain the existing investors.
4. It can attract more and more investors, implying raising capital would be easier.
5. Suppliers would be willing to deal with such companies.
6. Lenders would not be hesitating to lend to such companies, as the systems are transparent and the performance of the company is well revealed.

Companies like Infosys could be shown as a good example for maintaining good corporate governance. The corporate governance report of the Infosys Technologies Ltd., for the year 2003 as required under clause 49 is given in Appendix to this Unit.

Activity 4

Find and write a brief report on events that lead to appointment of Cadbury Committee on Corporate Governance in the UK.

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Activity 5

Find from your stock market investor friend whether he or she is happy with the corporate governance set up of Indian companies.

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17.6 INVESTOR SERVICE

In the earlier sections we had discussed about the importance of companies maintaining a good relation with the investors. We had seen that companies gain a substantial advantage by transparent policies and disclosure practices. However, in order to sustain the good relationship earned, the companies need to provide the right information at the right time at the right place. Further they must also attend to the queries of the investors promptly and provide them a better service.

Though most of the information discussed above is filed with the stock exchanges, information in the annual report are sent to the shareholders by post. Some information are sent to the interested parties on demand. The better practice has been that companies these days provide almost all information in their websites. In fact, this is also mandatory by regulation. The quarterly returns filed with the stock exchange have to be made available in their website as well.

Some good governance companies provide a lot of these information in a systematic manner in their websites; for instance the website of Infosys technologies covers almost all information filed with the regulatory agencies.

As part of the annual reports, companies furnish the following details which are useful to investors.

1. Financial calendar specifying the dates of holding the annual general meeting
2. Dates on which the quarterly returns are to be released
3. Dates of book closure for different purposes like share transfer and dividend payment
4. The addresses of the companies and the head office
5. Listing in stock exchanges
6. Information on dividend payment
7. Details about the investor grievances committee
8. Method of voting by proxy
9. Shareholding pattern of the company
10. The number of shareholders present in the company supplying the different range of shares held.
11. Market price data of the shares traded in the listed stock exchanges and a comparison of the share performance with the indices are also given.
12. Share transfer procedures. Though all the share trading is performed these days in the demat mode, the details of the same are also given.
13. Plant locations

Investors are comfortable dealing with companies that furnish the maximum information for the shareholders and also provide them good service.

Activity 6

List down the procedure to be followed when a shareholder has grievance against the company. What are the alternative avenues available to investors and what is the role of SEBI in handling investors grievances?

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Activity 7

Visit SEBI's web site (www.sebi.gov.in) and visit EDIFAR link and write a brief note on EDIFAR and its usefulness to investors.

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17.7 SUMMARY

Mr. Narayanamurthy of Infosys stated that "The primary purpose of corporate leadership is to create wealth legally and ethically. This translates to bringing a high level of satisfaction to five constituencies -- customers, employees, investors, vendors and the society-at-large. The raison d'être of every corporate body is to ensure predictability, sustainability and profitability of revenues year after year." Some companies not only state their philosophies in just letter but they act on it as well. Having a mission statement, underlying principles for achieving the mission and delivering value to the owners and the other stakeholders enables the companies to have a long-term good relationship with its investors. If the companies do not sustain such long-term good relationship, we have seen that most companies get liquidated in the process of cheating the investors. Hence, maintaining a good relationship with the investors and performing the operations in the most transparent manner helps the companies in the long term.

17.8 SELF-ASSESSMENT QUESTIONS

1. Who are the stakeholders of a company?
2. Why is that the investor relationship gains more importance in corporate form of business organization rather than the other forms of business structures. Does it really matter or apply for other forms of business organizations? If so, how?
3. What are the forces that drive for information from the company?
4. What type of information is demanded by the different type of stakeholders including the shareholders?
5. Do you think corporate governance matter in investor relationship?
6. Find out about 5 companies who have been rated as 'Good Corporate Governance' company and examine their investor relationship. Are the information provided by these companies to the investors differ to a great extent? If so, list down in what aspects they differ.
7. What are the regulatory agencies that govern the disclosure of information by companies. List them and their roles.
8. How does the information demanded by the inside shareholders differ from the retail or external investors?

17.9 FURTHER READINGS

Bhabatosh Banerjee and Arun Kumar Basu (2001), *Corporate Financial Reporting* (Eds.), University of Calcutta, Calcutta.

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John E. Core (2001), "*A review of the empirical disclosure literature: discussion*" Journal of Accounting and Economics 31, 441-456.

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Paul M. Healy, Krishna G. Palepu (2001), "Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature" Journal of Accounting and Economics 31, 405-440.

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Ubha D.S. (2002), Corporate Disclosure Practices, Deep & Deep Publications.

Appendix: Corporate Governance Report of Infosys Technologies Ltd.

Infosys Technologies Limited

Corporate Governance report for the year ending March 2003

'1 hope to challenge corporate America to Look beyond rules, regulations and laws, and Look to the principles upon which sound business is based."

William H. Donaldson, Chairman, Securities and Exchange Commission, USA
(Remarks at the practicing law institute - SEC speaks)

Corporate governance is about commitment to values and about ethical business conduct. It is about how an organization is managed. This includes its corporate and other structures, its culture, its policies and the manner in which it deals with various stakeholders. Accordingly, timely and accurate disclosure of information regarding the financial situation, performance, ownership and governance of the company is an important part of corporate governance. This improves pubic understanding of the structure, activities and policies of the organization. Consequently, the organization is able to attract investors, and to enhance the trust and confidence of the stakeholders.

Corporate governance guidelines and best practices have evolved over a period of time. The Cadbury Report on the financial aspects of corporate governance, published in the UK in 1992, was a landmark. This led to the publication of the Vi Report in France in 1995. This report boldly advocated the removal of cross-shareholdings that had formed the bedrock of French capitalism for decades. Further, The General Motors Board of Directors Guidelines in the US and the Dey Report in Canada proved to be influential in the evolution of other guidelines and codes, across the world. Dyer the past decade, various countries have issued recommendations for corporate governance. Compliance with these is generally not mandated by law, although codes that are linked to stock exchanges sometimes have a mandatory content.

The Sarbanes-Oxley Act, which was signed by the US President George W Bush into law last July has brought about sweeping changes in financial reporting. This is perceived to be the most significant change to the federal securities law since the 1930s. Besides directors and auditors, it has also laid down new accountability standards for security analysts and legal counsels.

The Higgs report on non-executive directors and the Smith report on audit committees, both published in January 2003, form part of the systematic review of corporate governance being undertaken in UK and Europe. This is in light of recent corporate failures. The recommendations of these two reports are aimed at strengthening the existing framework for corporate governance in the UK. Enhancing the effectiveness of the non-executive directors and switching the key audit relationship from executive directors to an independent audit committee are part of this. These recommendations are intended to take effect as revisions to the Combined Code on Corporate Governance.

In India, the Confederation of Indian Industry (CII) took the lead in framing a desirable code of corporate governance in April 1998. This was followed by the recommendations of the Kumar Mangalam Birla Committee on Corporate Governance. This committee was appointed by the Securities and Exchange Board of India (SEBI). The recommendations were accepted by SEBI in December 1999, and are now enshrined in Clause 49 of the Listing Agreement of every Indian stock exchange. Infosys' compliance with these requirements is presented in this chapter. Your company fully complies with, and indeed goes beyond all these recommendations on corporate governance.

In addition, the Department of Company Affairs, Government of India, constituted a nine-member committee under the chairmanship of Naresh Chandra, former Indian ambassador to the US, to examine various corporate governance issues. The committee has submitted its report to the government. The government has not made it mandatory yet for Indian companies. Your company's compliance with these recommendations is listed in the course of this chapter

We believe that sound corporate governance is critical to enhance and retain investor trust. Accordingly we always seek to attain our performance rules with integrity The Board extends its fiduciary responsibilities in the widest sense of the term. Our disclosures always seek to attain the best practices in international corporate governance. We also endeavour to enhance long term shareholder value and respect minority rights in all our business decisions.

Our corporate governance philosophy is based on the following principles:

1. Satisfy the spirit of the law and not just the letter of the law. Corporate governance standards should go beyond the law.
2. Be transparent and maintain high degree of disclosure levels. When in doubt, disclose.
3. Make a clear distinction between personal conveniences and corporate resources.
4. Communicate externally in a truthful manner, about how we run our company internally
5. Comply with the laws in all the countries in which we operate.
6. Have a simple and transparent corporate structure driven solely by the business needs.
7. Management is the trustee of the shareholders' capital and not the owner.

At the core of our corporate governance practice is the board, which overseas how the management serves and protects the long-term interests of all the stakeholders of the company We believe that an active, well-informed and independent board is necessary to ensure the highest standards of corporate governance. Majority of our board - 8 out of 15 - are independent members. Further, we have a compensation, a nomination and an audit committee, which are fully comprised of independent directors.

As a part of Infosys' commitment to follow global best practices, we comply with the Euro shareholders Corporate Governance Guidelines 2000, and the recommendations of the Conference Board Commission on Public Trusts and Private Enterprises in the US. Your company also adheres to the UN Global Compact Programme. Further, a note on Infosys' compliance with the corporate governance guidelines of six countries - in their national languages - is presented in the chapter entitled Financial statements prepared in substantial compliance with GAAP requirements of Australia, Canada, Prance, Germany, Japan and the United Kingdom, and reports of compliance with the respective corporate governance standards.

Corporate Governance Guidelines

Over the course of many years, the board has developed corporate governance guidelines to help fulfill its corporate responsibility to various stakeholders. This ensures that the board will have the necessary authority and practices in place to review and evaluate the company operations as and when needed. Further, it allows the hoard to make decisions that are independent of the company management. These guidelines are intended to align the interests of the directors and the management with those of the company shareholders.
These guidelines may be changed from time to time by the board in order to effectively achieve its stated objectives.

A) BOARD COMPOSITION

1. Size and Composition of the Board

The current policy is to have an appropriate mix of executive and independent directors to maintain the independence of the board, and to separate the board functions of governance and management. The board consists of fifteen members, seven of whom are executive or whole-time directors, and eight are independent directors. Five of the executive directors are founders of the company The board believes that the current size is appropriate based on the company present circumstances. The board periodically evaluates the need for increasing or decreasing its size.

Table 1 gives the composition of Infosys' board, and the number of outside directorships held by each of the directors.

Table 1: Composition of the board, and external directorships held during FY 2003

Name of directors	Position	Relationship with other directors
N. R. Narayana Murthy	Chairman and Chief Mentor; Executive and founder director	None
Nandan M. Nilekani	CEO, President and Managing Director; Executive and founder director	None
S. Gopalakrishnan	COO and Deputy Managing Director; Executive and founder director	None
Deepak M. Satwalekar	Independent director	None
Prof. Marti G. Subrahmanyam	Independent director	None
Philip Yeo	Independent director	None
Prof. Jitendra Vir Singh **	Independent director	None
Dr. Omkar Goswami	Independent director	None
Sen. Larry Pressler	Independent director	None
Rama Bijapurkar	Independent director	None
Claude Smadja	Independent director	None
K. Dinesh	Head – Human Resources Development, Information Systems, Quality & Productivity and Communication Design Group; Executive and founder director	None
S. D. Shibulal	Head – Customer Delivery; Executive and founder director	None
T. V. Mohandas Pai	CFO and Head – Finance & Administration; Executive director	None
Phaneesh Murthy *	Head-Sales & Marketing, And Communication & Product services; Executive director	NA
Srinath Batni	Head – Delivery (West North America); Executive director	None

* Resigned on July 23, 2002
** Resigned effective April 12, 2003
# Excluding Infosys

2. Responsibilities of the Chairman, CEO and the COO

The current policy of the company is to have a chairman and chief Mentor - Mr. N. R. Narayana Murthy; a chief Executive Officer (CEO), President and Managing Director - Mr. Nandan M. Nilekani; and a Chief Operating Officer (COO) and Deputy Managing Director - Mr. S. Gopalakrishnan. There are clear demarcations of responsibility and authority between the three.

- The Chairman and Chief Mentor is responsible for mentoring Infosys' core management team in transforming the company into a world-class, next-generation organization that provides state-of-the-art technology-leveraged business solutions to corporations across the world. He also interacts with global thought-leaders to enhance the leadership position of Infosys. In addition, he continues to interact with various institutions to highlight and to help bring about the benefits of IT to every section of society As chairman of the board, he is also responsible for all board matters.
- The CEO, President and Managing Director is responsible for corporate strategy, brand equity, planning, external contacts and other management matters. He is also responsible for achieving the annual business plan.

- The COO and Deputy Managing Director is responsible for all customer service operations. He is also responsible for technology; new initiatives, acquisitions and investments.

The Chairman, CEO, COO, the other executive directors and the senior management make periodic presentations to the board on their responsibilities, performance and targets.

3. Broad Definition of Independent Directors

According to Clause 49 of the Listing Agreement with Indian stock exchanges, an independent director means a person other than an officer or employee of the company or its subsidiaries or any other individual having a material pecuniary relationship or transactions with the company which, in the opinion of the company's board of directors, would interfere with the exercise of independent judgment in carrying Out the responsibilities of a director.

Infosys adopted a much stricter definition of independence as required by the NASDAQ listing rules and the Sarbanes-Oxley Act, US. The same is provided in the Audit charter section of this Annual Report.

4. Board Membership Criteria

The nominations committee works with the entire board to determine the appropriate characteristics, skills and experience for the board as a whole as well as its individual members. Board members are expected to possess the expertise, skills and experience required to manage and guide a high-growth, hi-tech, software company deriving revenue primarily from G-7 countless. Expertise in strategy, technology, finance, quality and human resources is essential. Generally, they will be between 40 and 60 years of age. They will not be relatives of an executive director or of an independent director. They are generally not expected to serve in any executive or independent position in any company that is in direct competition with Infosys. Board members are expected to rigorously prepare for, attend, and participate in all board and applicable committee meetings. Each board member is expected to ensure that their other current and planned future commitments do not materially interfere with the member responsibility as a director of Infosys.

5. Selection of New Directors

The board is responsible for the selection of any new director. The board delegates the screening and selection process involved in selecting the new directors to the nominations committee, which consists exclusively of independent directors. The nominations committee makes recommendations to the board on the induction of any new member.

6. Membership Term

The board constantly evaluates the contribution of its members, and recommends to shareholders their re-appointment periodically as per statute. The current law in India mandates the retirement of one-third of the board members (who are liable to retire by rotation) every year, and qualifies the retiring members for re-appointment. Executive directors are appointed by the shareholders for a maximum period of five years at a time, but are eligible for re-appointment upon completion of their term. Non-executive directors do not have a specified term, but retire by rotation as per law. The nominations committee of the board recommends such appointments and / or re-appointments. However, the membership term is limited by the retirement age for the members.

7. Retirement Policy

Under this policy, the maximum age of retirement of all executive directors is 60 years, which is the age of superannuation for the employees of the company. Their continuation as members of the board upon superannuation / retirement is determined by the nominations committee. The age limit for serving on the board is 65 years.

8. Succession Planning

The nominations committee constantly works with the board to evolve succession planning for the positions of the Chairman, CEO and COO, as well as to develop plans for interim succession for any of them, in case of an unexpected occurrence. The board, as required, may more frequently review succession planning.

9. Board Compensation Review

The compensation committee determines and recommends to the board the compensation payable to the directors. All board-level compensation is approved by shareholders, and separately disclosed in the financial statements.

Remuneration of the executive directors consists of a fixed component and a performance incentive. The compensation committee makes a quarterly appraisal of the performance of the executive directors based on a detailed performance-related matrix. The annual compensation of the executive directors is approved by the compensation committee, within the parameters set by the shareholders at the shareholders meetings.

Compensation payable to each of the independent directors is limited to a fixed amount per year as determined and approved by the board - the sum of which is within the limit of 0.5% of the net profits of the company for the year, calculated as per the provisions of the Companies Act, 1956. The compensation payable to independent directors and the method of calculation are disclosed separately in the financial statements.

Those executive directors who are founders of the company have voluntarily excluded themselves from the 1994 Stock Offer Plan, the 1998 Stock Option Plan and the 1999 Stock Option Plan. Independent directors are also not eligible for stock options under these plans, except for the latest 1999 Stock Option Plan. Table 2a gives the compensation of each director; and Table 2b gives the grant of stock options to directors.

10. Memberships of other Boards

Executive directors are excluded from serving on the board of any other entity, unless these are corporate or government bodies whose interests are germane to the future of the software business, or are key economic institutions of the nation, or whose prime objective is that of benefiting society Independent directors are not expected to serve on the boards of competing companies. Other than this, there are no limitations on them save those imposed by law and good corporate governance practices. The number of outside directorships held by each director of Infosys is given in Table 1 above.

Table 2a: Cash compensation to the directors for FY 2003

in Rs. crore

Name of directors	Salary	Performance incentive/bonus	Commission payable	Sitting fees (in months)	Total	Notice period (in months)
N.R. Narayana Murthy	0.19	–	–	–	0.19	6
Nandan M. Nilekani	0.19	–	–	–	0.19	6
S. Gopalakrishnan	0.19	–	–	–	0.19	6
Deepak M. Satwalekar	–	–	0.12	0.01	0.13	NA
Prof. Marti G. Subrahmanyam	–	–	0.12	0.01	0.13	NA
Philip Yeo	–	–	0.12	NA	0.12	NA
Prof. Jitendra Vir Singh **	–	–	0.28	0.01	0.30	NA
Dr. Omkar Goswami	–	–	0.12	0.01	0.13	NA
Sen. Larry Pressler	–	–	0.12	0.01	0.13	NA
Rama Bijapurkar	–	–	0.12	0.01	0.13	NA
Claude Smadja	–	–	0.12	0.01	0.13	NA
K. Dinesh	0.19	–	–	–	0.19	6
S. D. Shibulal	1.25	–	–	–	1.25	6
T. V. Mohandas Pai	0.18	–	–	–	0.18	6
Phaneesh Murthy •	3.73	–	–	–	3.73	NA
Srinath Batni	0.17	–	–	–	0.17	6

* Resigned on July 23, 2002
** Resigned effective April 12, 2003
None of the above is eligible for any severance pay.

Table 2b: Grant of stock options to directors during FY 2003

Name of director	Number of options (1999 ESOP)	Grant price (in Indian Rs.)	Expiry date
Claude Smadja	2,000	3,333.65	July 09, 2012

The above options were issued at fair market value. The options granted will vest over a period of four years from the date of grant.

B) BOARD MEETINGS

1. Scheduling and Selection of Agenda Items for Board Meetings

Dates for the board meetings in the ensuing year are decided in advance and published as part of the Annual Report. Most board meetings are held at the company registered office at Electronics City, Bangalore, India. The Chairman of the board and the company secretary draft the agenda for each meeting, along with explanatory notes, and distribute these in advance to the directors. Every board member is free to suggest the inclusion of items on the agenda. The board meets at least once a quarter to review the quarterly results and other items on the agenda, and also on the occasion of the annual shareholders' meeting. When necessary, additional meetings are held. Independent directors are expected to attend at least four board meetings in a year. Committees of the board usually meet the day before the formal board meeting, or when required for transacting business.

There were six board meetings held during the year ended March 31, 2002. These were on April 10, 2002, June 8, 2002 (coinciding with last year Annual General Meeting of the shareholders), July 10, 2002, October 10, 2002, December 8, 2002 and January 10, 2003.

2. Availability of Information to the Members of the Board

The board has unfettered and complete access to any information within the company, and to any employee of the company. At meetings of the board, it welcomes the presence of managers who can provide additional insights into the items being discussed.

The information regularly supplied to the board includes:

- annual operating plans and budgets, capital budgets, updates;
- quarterly results of the company and its operating divisions or business segments;
- minutes of meetings of audit, compensation, nomination, investors grievance and investment committees, as well as abstracts of circular resolutions passed;
- general notices of interest;
- declaration of dividend;

Table 3: Number of board meetings and the attendance of directors during FY 2003

Name of directors	Number of board meetings held	Number of board meetings attended	Whether attended last AGM
N. R. Nasrayana Murthy	6	6	Yes
Nandan M. Nilekani	6	6	Yes
S. Gopalakrishnan	6	6	Yes
Deepak M. Satwalekar	6	6	Yes
Prof. Marti G. Subrahmanyam	6	5	Yes
Philip Yeo	6	3	No
Prof. Jitendra Vir Singh **	6	5	Yes
Dr. Omkar Goswami	6	5	Yes
Sen. Larry Pressler	6	5	Yes
Rama Bijapurkar	6	5	Yes
Claude Smadja	6	4	No
K. Dinesh	6	6	Yes
S. D. Shibulal	6	5	Yes
T. V. Mohandas Pai	6	6	Yes
Phaneesh Murthy *	3	3	Yes
Srinath Batni	6	5	Yes

* Resigned on July 23, 2002
** Resigned effective April 12, 2003

- information on recruitment and remuneration of senior officers just below the board level including appointment or removal of CFO and company secretary;
- materially important litigations, show cause, demand, prosecution and penalty notices;
- fatal or serious accidents or dangerous occurrences, any material effluent or pollution problems;
- any materially relevant default in financial obligations to and by the company or substantial non-payment for goods sold by the company;
- any issue which involves possible public or product liability claims of a substantial nature;
- details of any joint venture or collaboration agreement;
- transactions that involve substantial payment towards goodwill, brand equity or intellectual property;
- significant development on the human resources front;
- sale of material nature, of investments, subsidiaries, assets, which is not in the normal course of business;
- details of foreign exchange exposure and the steps taken by management to limit the risks of adverse exchange rate movement; and
- non-compliance of any regulatory statutory nature or listing requirements as well as shareholder services such as non-payment of dividend and delays in share transfer.

3. Independent Directors' Discussion

The board's policy is to regularly have separate meetings with independent directors to update them on all business-related issues and new initiatives. In such meetings, the executive directors and other senior management personnel make presentations on relevant issues.

In addition, the independent directors of the company will meet periodically in executive session i.e. without the chairman, any of the executive directors or the management being present.

4. Materially Significant Related Party Transactions

There have been no materially significant related party transactions, pecuniary transactions or relationships between Infosys and its directors, management, subsidiary or relatives except for those disclosed in the financial statements for the year ended March 31, 2003.

C) BOARD COMMITTEES

Currently, the board has six committees - the audit committee, the compensation committee, the nominations committee, the investors grievance committee, the investment committee and the share transfer committee. The first three consist entirely of independent directors. The investors grievance committee is composed of an independent, non-executive chairman and some executive and non-executive directors. The investment committee and the share transfer committee consist of all executive directors.

The board is responsible for the constituting, assigning, co-opting and fixing of terms of service for committee members to various committees, and it delegates these powers to the nominations committee.

The chairman of the board, in consultation with the company secretary of the company and the committee chairman, determines the frequency and duration of the committee meetings. Normally all the committees meet four times a year except the investment committee and the share transfer committee, which meet as and when the need arises. Typically the meetings of the audit, compensation and nominations committees last for the better part of a working day Recommendations of the committee are submitted to the full board for approval.

The quorum for meetings is either two members or one-third of the members of the committees, whichever is higher.

1. Audit Committee

In India, Infosys is listed on the stock Exchange, Mumbai (or the BSE), the National Stock Exchange (N5E) and the Bangalore Stock Exchange (BgSE). In the US, it is listed on the NASDAQ. In India, Clause 49 of the Listing Agreement makes it mandatory for listed companies to adopt an appropriate audit committee charter. The Blue Ribbon Committee set up by the US Securities and Exchange Commission (SEC) recommended that every listed company adopt an audit committee charter, which has been adopted by NA5DAQ.

In its meeting on May 27, 2000, Infosys' audit committee adopted a charter which meets the requirements of Clause 49 of the Listing Agreement with Indian stock exchanges and the SEC. It is given below.

The audit committee of Infosys comprises six independent directors. They are:

Mr. Deepak M. Satwalekar, Choirmon

Ms. Rams Bijapurkar

Dr. Omkar Goswami

Sen. Larry Pressler

Mr. Claude Smadja

Prof. Marti G. Subrahmanysm

1.1 Audit Committee Charter

1. Primary Objectives of the Audit Committee

The primary objective of the audit committee (the "committee") of Infosys Technologies Limited (the "Company") is to monitor and provide effective supervision of the management's financial reporting process with a view to ensure accurate, timely and proper disclosures and the transparency integrity and quality of financial reporting.

The committee oversees the work carried out in the financial reporting process - by the management, including the internal auditors and the independent auditor - and notes the processes and safeguards employed by each.

2. Responsibilities of the Audit Committee

2.1 Provide an open avenue of communication between the independent auditor, internal auditor, and the board of directors

2.2 Meet four times every year or more frequently as circumstances require. The audit committee may ask members of the management or others to attend meetings and provide pertinent information as necessary

2.3 Confirm and assure the independence of the external auditor and objectivity of the internal auditor.

2.4 Appoint, compensate and oversee the work of the independent auditor (including resolving disagreements between management and the independent auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or related work.

2.5 Review and pre-approve all related party transactions in the Company for this purpose, the committee may designate one member who shall be responsible for pre-approving related party transactions.

2.6 Review with the independent auditor the co-ordination of audit efforts to assure completeness of coverage, reduction of redundant efforts, and the effective use of all audit resources.

2.7 Consider and review with the independent auditor and the management:

(a) The adequacy of internal controls including computerized information system controls and security; and

(b) Related findings and recommendations of the independent auditor and internal auditor together with the management's responses.

2.8 Consider and if deemed fit, pre-approve all non-auditing services to be provided by the independent auditor to the Company For the purpose of this clause, "non-auditing services" shall mean any professional services provided to the Company by the independent auditor, other than those provided to the company in connection with an audit or a review of the financial statements of the Company and includes (but is not limited to):

- Bookkeeping or other services related to the accounting records of financial statements of the Company;
- Financial information system design and implementation;
- Appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
- Actuarial services;
- Internal audit outsourcing services;
- Management functions or human resources;
- Broker or dealer, investment advisor, or investment banking services;
- Legal services and expert services unrelated to the audit; and
- Any other service that the BoD determines is impermissible.

2.9 Review and discuss with the management and the independent auditors, the annual audited financial statements and quarterly unaudited financial statements, including the Company's disclosures under "Management Discussion and Analysis of Financial Condition and Results of Operations" prior to filing the Company Annual Report on Form 20-F and Quarterly Results on Form 6-K, respectively with the SEC.

2.10 Direct the Company independent auditors to review before filing with the SEC the Company interim financial statements included in Quarterly Reports on Form 6-K, using professional standards and procedures for conducting such reviews.

2.11 Conduct a post-audit review of the financial statements and audit findings, including any significant suggestions for improvements provided to management by the independent auditors.

2.12 Review before release, the unedited quarterly operating results in the Company quarterly earnings release.

2.13 Oversee compliance with the requirements of the SEC and SEBI, as the case maybe, for disclosure of auditor's services and audit committee members, member qualifications and activities.

2.14 Review, approve and monitor the code of ethics that the Company plans for its senior financial officers.

2.15 Review management monitoring of compliance with the Company standards of business conduct and with the Foreign Corrupt Practices Act.

2.16 Review, in conjunction with counsel, any legal matters that could have a significant impact on the Company financial statements.

2.17 Provide oversight and review at least annually of the Company risk management policies, including its investment policies.

2.18 Review the Company compliance with employee benefit plans.

2.19 Oversee and review the Company policies regarding information technology and management information systems.

2.20 If necessary, institute special investigations with full access to all books, records, faculties and personnel of the Company

2.21 As appropriate, obtain advice and assistance from outside legal, accounting or other advisors.

2.22 Review its own charter, structure, processes and membership requirements.

2.23 Provide a report in the Company proxy statement in accordance with the rules and regulations of the SEC.

2.24 Establish procedures for receiving, retaining and treating complaints received by the Company regarding accounting, internal accounting controls or auditing matters and procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

2.25 Consider and review with the management, internal auditor and the independent auditor:

(a) Significant findings during the year, including the status of previous audit recommendations;

(b) Any difficulties encountered in the course of audit work including any restrictions on the scope of activities or access to required information;

(c) Any changes required in the planned scope of the internal audit plan.

2.26 Report periodically to the BoD on significant results of the foregoing activities.

3. Composition of the Audit Committee

3.1 The committee shall consist solely of 'independent' directors (as defined in (i) NASOAQ Rule 4200 and (ii) the rules of the Securities and Exchange Commission) of the Company and shall be comprised of a minimum of three directors. Each member will be able to read and understand fundamental financial statements, in accordance with the NASOAQ National Market Audit Committee requirements. They should be diligent, knowledgeable, dedicated, interested in the job and willing to devote a substantial amount of time and energy to the responsibilities of the committee, in addition to BoD responsibilities. At least one of the members shall be a "Financial Expert" as defined in Section 407 of the Sarbanes-Oxley Act. The members of the committee shall be elected by the BoD and shall continue until their successors are duly elected. The duties and responsibilities of a member are in addition to those applicable to a member of the BoD. In recognition of the time burden associated with the service and, with a view to bringing in fresh insight, the committee may consider limiting the term of the audit committee service, by automatic rotation or by other means. One of the members shall be elected as the chairman, either by the full BoD or by the members themselves, by majority vote.

4. Relationship with Independent and Internal Auditors

4.1 The committee has the ultimate authority and responsibility to select, evaluate, and, where appropriate, replace the independent auditors in accordance with law. All possible measures must be taken by the committee to ensure the objectivity and independence of the independent auditors. These include:

– reviewing the independent auditors' proposed audit scope, approach and independence;

– obtaining from the independent auditors periodic formal written statements delineating all relationships between the auditors and the company consistent with applicable regulatory requirements and presenting this statement to the BoD;

– actively engaging in dialogues with the auditors with respect to any disclosed relationships or services that may impact their objectivity and independence and I or recommend that the full BoD take appropriate action to ensure their independence;

– encouraging the independent auditors to open and frank discussions on their judgments shout the quality, not just the acceptability of the company accounting principles as applied in its financial reporting. This includes such issues as the clarity of the company's financial disclosures, and degree of aggressiveness or conservatism of the company accounting principles and underlying estimates, and other significant decisions made by the management in preparing the financial disclosure and audited by them;

– carrying out the attest function in conformity with US GAAS, to perform an interim financial review as required under Statement of Auditing Standards 71 of the American Institute of Certified Public Accountants and also discuss with the committee or its chairman, and an appropriate representative of Financial Management and Accounting, in person or by telephone conference call, the matters described in SAS 61, Communications with the Committee, as amended by SAS 90 Audit Committee Communication prior to the company filing of its Form 6-K (and preferably prior to any public announcement of financial results), including significant adjustments, management judgment and accounting estimates, significant new accounting policies, and disagreements with management; and

– reviewing reports submitted to the audit committee by the independent auditors in accordance with the applicable SEC requirements.

4.2 The internal auditors of the company are in the best position to evaluate and report on the adequacy and effectiveness of the internal controls. Keeping in view the need for the internal auditors' independence from management in order to remain objective, a formal mechanism should be created to facilitate confidential exchanges between the internal auditors and the committee, regardless of irregularities or problems. The work carried out by each of these auditors needs to be assessed and reviewed with the independent auditors and appropriate recommendations made to the BoD.

5. Disclosure Requirements

5.1 The committee charter should be published in the annual report once every three years and also whenever any significant amendment is made to the charter.

5.2 The committee shall disclose in the company Annual Report whether or not, with respect to the concerned fiscal year:

- the management has reviewed the audited financial statements with the committee, including a discussion of the quality of the accounting principles as applied and significant judgments affecting the company financial statements;
- the independent auditors have discussed with the committee their judgments of the quality of those principles as applied and judgments referred to the above under the circumstances;
- the members of the committee have discussed among themselves, without the management or the independent auditors being present, the information disclosed to the committee as described above;
- with the committee, in reliance on the review and discussions conducted with management and the independent auditors pursuant to the requirements above, believes that the company's financial statements are fairly presented in conformity with Generally Accepted Accounting Principles ("GAAP") in all material respects; and
- the committee has satisfied its responsibilities in compliance with its charter

5.3 The committee shall secure compliance that the BoD has affirmed to the NASD / Amex Stock Exchange on the following matters, as required in terms of the relevant NASD I Amex rules:

- Composition of the committee and independence of committee members;
- Disclosures relating to non-independent members;
- Financial literacy and financial expertise of members; and
- Review of the committee charter.

5.4 The committee shall report to shareholders as required by the relevant rules of the Securities and Exchange Commission ("SEC") of the United States.

6. Meetings and Reports

6.1 The Committee shall meet at least four rimes a year

6.2 The Committee will meet separately with the CEO and separately with the CEO of the Company at such times as are appropriate to review the financial affairs of the Company The audit committee will meet separately with the independent auditors and internal auditors of the Company at such times as it deems appropriate (but not less than quarterly) to fulfill the responsibilities of the Audit Committee under this Charter

6.3 In addition to preparing the report in the Company proxy statement in accordance with the rules and regulations of the SEC, the committee will summarize its examinations and recommendations to the Board of Directors as may be appropriate, consistent with the committee's charter.

7. Delegation of Authority

7.1 The committee may delegate to one or more designated members of the committee the authority to pre-approve audit and permissible non-audit services, provided such pre-approval decision is presented to the full audit committee at its scheduled meetings.

8. Definitions

8.1 Independent Member

In order to be 'independent', members should have no relationship with the company that may interfere with the exercise of their independence from the management and the company The following persons are not considered independent:

– a director who is employed by the company or any of its affiliates for the current year or any of the past five years;

– a director who has been a former partner or employee of the independent auditor who worked on the company audit engagement in the current year or any of the past five years;

– a director who accepts any compensation from the company or any of its affiliates in excess of $60,000 during the previous fiscal year, other than compensation for board service, benefits under a tax-qualified retirement plan, or non-discretionary compensation in the current year or any of the past five years;

– a director who is a member of the immediate family of an individual who is, or has been, in any of the past three years, employed by the corporation or any of its affiliates as an executive officer. "Immediate family" includes a person's spouse, parents, children, siblings, mother-in-law; father-in-law, brother-in-law, sister-in-law, son-in-law, daughter-in-law, and anyone who resides in such person home;

– a director who is a partner in, or a controlling shareholder or an executive officer of, any for-profit business organization to which the company made, or from which the company received, payments (other than those arising solely from investments in the company securities) that exceed 5% of the company or business organization's consolidated gross revenues for that year, or $200,000, whichever is more, in any of the past five years;

– a director who is employed as an executive of another entity where any of the company's executives serve on that entity compensation committee for the current year or any of the past five years; and

– a shareholder owning or controlling 20% or more of the company voting securities.

8.2 Financial Expert

'Financial Expert' means one, who has through education and experience as a public accountant or auditor or a principal financial officer, comptroller or

1.2 Table 4: Audit Committee Attendance during FY 2003

Name of audit committee member	No. of meetings held	No. of meetings attended
Deepak M. Satwalekar	4	4
Prof. Marti G. Subrahmanyam	4	4
Dr. Omkar Goswami	4	4
Sen. Larry Pressler	4	4
Rama Bijapurkar	4	4
Claude Smadja	4	4

Four audit committee meetings were held during the year. These were held on April 9, 2002, July 9, 2002, October 9, 2002 and January 9, 2003.

principal accounting officer of a company (or from a position involving similar functions), an understanding of generally accepted accounting principles and financial statements, experience in preparing or auditing financial statement of comparable companies and in applying generally accepted accounting principles in connection with the accounting for estimates, accruals and reserves, experience with internal accounting controls, and an understanding of audit committee functions.

1.3 Audit Committee Report for the year ended March 31, 2003

Each member of the committee is an independent director, according to the definition laid down in the audit committee charter given above, and Clause 49 of the Listing Agreement with the relevant Indian stock exchanges.

Management is responsible for the company internal controls and the financial reporting process. The independent auditors are responsible for performing an independent audit of the company financial statements in accordance with the generally accepted auditing standards, and for issuing a report thereon. The committee's responsibility is to monitor these processes. The committee is also responsible to oversee the processes related to the financial reporting and information dissemination, in order to ensure that the financial statements are true, correct, sufficient and credible. In addition, the committee recommends to the board the appointment of the company internal and statutory auditors.

In this context, the committee discussed with the company auditors the overall scope and plans for the independent audit. Management represented to the committee that the company financial statements were prepared in accordance with Generally Accepted Accounting Principles. The committee discussed with the auditors, in the absence of the management (whenever necessary), the company's audited financial statements including the auditor's judgments about the quality, not just the applicability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements.

The committee also discussed with the auditors other matters required by the Statement on Auditing Standards No.6 1 (SAS 61)- Communication with audit committees, as amended by SAS 90 - Audit committee communication.

Relying on the review and discussions conducted with the management and the independent auditors, the audit committee believes that the company financial statements are fairly presented in conformity with Generally Accepted Accounting Principles in all material aspects.

The committee also reviewed the internal controls put in place to ensure that the accounts of the company are properly maintained and that the accounting transactions are in accordance with prevailing laws and regulations. In conducting such reviews, the committee found no material discrepancy or weakness in the internal control systems of the company

The committee also reviewed the financial and risk management policies of the company and expressed its satisfaction with the same.

The company auditors provided to the committee the written disclosures required by Independence Standards Board Standard No. 1 - 'Independence discussions with audit committees', based on which the committee discussed the auditors' independence with both the management and the auditors. After review, the committee expressed its satisfaction on the independence of both the internal and the statutory auditors.

Moreover, the committee considered whether any non-audit consulting services provided by the auditor's firm could impair the auditor's independence, and concluded that there was no such materially significant service provided.

The committee secured compliance that the board of directors has affirmed to the NASOAQ stock exchange, under the relevant rules of the exchange on composition of the committee and independence of the committee members, disclosures relating to non-independent members, financial literacy and financial expertise of members, and a review of the audit charter.

Based on the committee discussion with management and the auditors and the committee's review of the representations of management and the report of the auditors to the committee, the committee has recommended to the board of directors that:

1. The audited financial statements prepared as per Indian GAAP for the year ended March 31, 2003 be accepted by the board as a true and fair statement of the financial health of the company; and
2. The audited financial statements prepared as per US GAAP and to be included in the company Annual Report on Form-20F for the fiscal year ended March 31, 2003 be filed with the Securities and Exchange Commission.

The committee has recommended to the board the appointment of Bharat S. Raut & Co., Chartered Accountants, as the statutory and independent auditors of the company for the fiscal year ending March 31, 2004, and that that the necessary resolutions for appointing them as auditors be placed before the shareholders. The committee has also recommended to the board the appointment of KPMG as independent auditors of the company for the US GAAP financial statements, for the financial year ending March 31, 2004.

The committee recommended the appointment of internal auditors to review various operations of the company, and determined and approved the fees payable to them.

The committee has also issued a letter in line with recommendation No. 9 of the Blue Ribbon Committee on audit committee effectiveness, which has been provided in the Financial statements prepared in accordance with US GAAF section of this Annual Report.

In conclusion, the committee is sufficiently satisfied that it has complied with its responsibilities as outlined in the Audit committee charter.

Sd/-

Bangalore — Deepak M. Satwalekar
April 9, 2003 — Chairman, Audit committee

2. Compensation Committee

The compensation committee of Infosys consists entirely of non-executive, independent directors:
Prof. Marti C. Subrahmanyam, Chairman
Dr. Omkar Goswami
Mr. Deepak M. Satwalekar
Prof. Jitendra Vir Singh (resigned effective April 12, 2003)
Mr. Philip Yea

2.1 Compensation Committee Charter

Purpose

The purpose of the compensation committee of the board of directors (the "Board") of Infosys Technologies Limited (the "Company") shall be to discharge the Board responsibilities relating to compensation of the Company executive directors and senior management. The committee has overall responsibility for approving and evaluating the executive directors and senior management compensation plans, policies and programs of the Company

The compensation committee is also responsible for producing an annual report on executive compensation for inclusion in the Company proxy statement.

Committee membership and organization

The compensation committee will be appointed by and will serve at the discretion of the Board. The compensation committee shall consist of no fewer than three members. The members of the compensation committee shall meet the (i) independence requirements of the listing standards of the NASDAQ, (ii) non-employee director definition of Rule 16b-3 promulgated under Section 16 of the Securities Exchange Act of 1934, as amended, and (iii) the outside director definition of Section 162(m) of the Internal Revenue Code of 19B6, as amended.

The members of the compensation committee will be appointed by the Board on the recommendation of the nomination committee. Compensation committee members will serve at the discretion of the Board.

Committee responsibilities and authority

The compensation committee shall annually review and approve for the CEO and the executive directors and senior management of the Company (a) the annual base salary, (b) the annual incentive bonus, including the specific goals and amount, (c) equity compensation, (d) employment agreements, severance arrangements, and change in control agreements I provisions, and (e) any other benefits, compensation or arrangements.

The compensation committee in consultation with the CEO, shall review the performance of all the executive directors each quarter basis on the basis of detailed performance parameters set for each of the executive directors at the beginning of the year. The compensation committee may, from time to time, also evaluate the usefulness of such performance parameters, and make necessary amendments.

The compensation committee is responsible far administering the Company stock option plans, including the review and grant of eligible employees under the plans.

The compensation committee may also make recommendations to the board with respect to incentive compensation plans. The compensation committee may form subcommittees and delegate authority to when appropriate.

The compensation committee shall make regular reports to the Board.

The compensation committee shall review and reassess the adequacy of this charter annually and recommend any proposed changes to the Board for approval.

The compensation committee shall annually review its own performance.

2.2 Table 5: Compensation committee attendance during FY 2003

Name of audit committee member	No. of meetings held	No. of meetings attended
Prof. Marti G. Subrahmanyam	4	4
Deepak M. Satwalekar	4	4
Philip Yeo	4	3
Prof. Jitendra Vir Singh	4	4
Dr. Omkar Goswami	4	4

Four compensation committee meetings were held during the year ended March 31, 2003: on April 9, 2002, July 9, 2002, October 9, 2002 and January 9, 2003.

The compensation committee shall have the sole authority to retain and terminate any compensation consultant to be used by the Company to assist in the evaluation of CEO, executive directors or senior management compensation and shall have the sole authority to approve the consultant's fees and other retention terms. The compensation committee shall also have the authority to obtain advice and assistance from internal or external legal, accounting or other advisors.

2.3 Compensation Committee Report for the year ended March 31, 2003

The committee reviewed the performance of all executive directors and approved the compensation payable to them for fiscal 2004, within the overall limits approved by the shareholders. The committee also reviewed and approved the compensation proposed for all the management council members for fiscal 2004. The committee also reviewed the grant of stock options on a sign-on and regular basis to various employees of the company during the year.

The committee believes that the proposed compensation and benefits, along with stock options, are adequate to motivate and retain the senior officers of the company

The committee took on record the compensation committee charter in its meeting held on October 9, 2002.

Save as disclosed, none of the directors had a material beneficial interest in any contract of significance to which the company or any of its subsidiary undertakings was a party, during the financial year.

Sd/–
Bangalore — Prof. Math G. Subrahmanyam
April 9, 2003 — Chairman, compensation committee

3. Nominations Committee

The nominations committee of the board consists exclusively of the following non-executive, independent directors:
Mr. Claude Smadja, Chairman
Sen. Larry Pressler
Prof. Jitendra Vir Singh (resigned effective April 12, 2003)
Mr. Philip Yeo

3.1 Nominations Committee Charter Purpose

The purpose of the nominations committee is to ensure that the board of directors is properly constituted to meet its fiduciary obligations to shareholders and the Company To carry Out this purpose, the nominations committee shall: (1) assist the board by identifying prospective director nominees and to select / recommend to the board the director nominees for the next annual meeting of shareholders; (2) oversee the evaluation of the board and management; and (3) recommend to the board, director nominees for each committee.

Committee Membership and Organization

- The nominations committee shall be comprised of no fewer than two (2) members.
- The members of the nominations committee shall meet the independence requirements of the NASDAQ.
- The members of the nominations committee shall be appointed and replaced by the board.

Committee Responsibilities and Authority

- Evaluate the current composition, organization and governance of the board and its committees as well as determine future requirements and make recommendations to the board for approval.
- Determine on an annual basis, desired board qualifications, expertise and characteristics. and conduct searches for potential board members with corresponding attributes. Evaluate and propose nominees for election to the board. In performing these tasks, the Committee shall have the sole authority to retain and terminate any search firm to be used to identify director candidates.
- Oversee the board performance evaluation process including conducting surveys of director observations, suggestions and preferences.
- Form and delegate authority to subcommittees when appropriate.
- Evaluate and make recommendations to the board concerning the appointment of directors to board committees, the selection of board committee chairs, and proposal of the board slate for election.
- Evaluate and recommend termination of membership of individual directors in accordance with the board governance principles, for cause or for other appropriate reasons.
- Conduct an annual review on succession planning, report its findings and recommendations to the board, and work with the board in evaluating potential successors to executive management positions.
- Coordinate and approve board and committee meeting schedules.
- Make regular reports to the board.
- Review and re-examine this charter annually and make recommendations to the board for any proposed changes.
- Annually review and evaluate its own performance.
- In performing its responsibilities, the Committee shall have the authority to obtain advice, reports or opinions from internal or external counsel and expert advisors.

3.2 Table 6: Nominations committee attendance during FY 2003

Name of compensation committee members	Number of meetings held	Number of meetings attended
Claude Smadja	4	4
Philip Yeo	4	3
Prof. Jitendra Vir Singh	4	4
Sen. Larry Pressler	4	4

Four nominations committee meetings were held during the year on April 9, 2002, July 9, 2002, October 9, 2002 and January 9, 2003.

3.3 Nominations Committee Report for the year ended March 31, 2003

During the year, Mr. Phaneesh Murthy resigned from the directorship of the company and the same was taken on record. Also the comittee took on record the resignation of Prof. Jitendra Vir Singh effective April 12, 2003.

The committee approved the induction of Mr. Sridar Iyengar as an additional director of the company and also recommended his induction into audit committee.

The committee discussed the issue of the retirement of members of the board as per statutory requirements. As a third of the members have to retire every year based on their date of appointment, Messrs. Srinath Batni, Sen. Larry Pressler, Omkar Goswami and Rama Bijapurkar will retire in the ensuing Annual General Meeting. The committee has recommended the resolution for re-appointment of the retiring directors by the shareholders.

Sd/-
Bangalore — Claude Smadja
April 9, 2003 — Chairman, nominations committee

4. Investors Grievance Committee

The investors grievance committee is headed by an independent director, and consists of the following directors:
Mr. Philip leo, Chairman
Ms. Rama Bijapurkar
Mr. K. Dinesh
Mr. Nandan M. Nilekani
Mr. S. 0. Shibulal

4.1 Table 7: Investors grievance committee attendance during FY 2003

Name of compensation committee members	Number of meetings held	Number of meetings attended
Philip Yeo	4	3
Rama Bijapurkar	4	3
Nandan M. Nilekani	4	4
K. Dinesh	4	4
S. D. Shibulal	4	4

Four nominations committee meetings were held during the year on April 9, 2002, July 9, 2002, October 9, 2002 and January 9, 2003.

4.2 Investors Grievance Committee Report for the year ended March 31, 2003

The committee expresses satisfaction with the company performance in dealing with investors grievance and its share transfer system. It has also noted the shareholding in dematerialised mode as on March 31, 2003 as being 99.18%.

Sd/-
Bangalore — Rama Bijapurkar
April 9, 2003 — Member, investors grievance committee

5. Investment Committee

The investment committee consists exclusively of executive directors:

Mr. N. R. Narayana Murthy, Chairman

Mr. Nandan M. Nilekani

Mr. S. Gopalakrishnan

Mr. K. Dinesh

Mr. S. D. Shibulal

Mr. T. V Mohandas Pai

Mr. Phaneesh Murthy (resigned on July 23, 2002)

Mr. Srinath Batni

Investment Committee Report for the year ended March 31, 2003

The committee has the mandate to approve investments in various corporate bodies within statutory limits and the powers delegated by the hoard. During the year, the committee approved an investment of USS 2.5 million (Rs. 12.25 crore) in Progeon Limited, majority owned subsidiary of Infosys.

Sd/-
Bangalore N. R. Narayana Murthy
April 9, 2003 Chairman, investment committee

6. Share Transfer Committee

The share transfer committee consists exclusively of executive directors:
Mr. Nandan M. Nilekani, Chairman
Mr. K. Dinesh
Mr. S. 0. Shibulal

Share transfer committee report for the year ended March 31, 2003

The committee has the mandate to approve all share transfers. During the year, the committee approved transposition with respect to 200 shares and transmissions with respect to 4,800 shares.

Sd/-
Bangalore Nandan M. Nilekani
April 9, 2003 Chairman, share transfer committee

D) MANAGEMENT REVIEW AND RESPONSIBILITY

1. Formal Evaluation of Officers

The compensation committee of the board approves the compensation and benefits for all executive board members, as well as members of the management council. Another committee headed by the CEO reviews, evaluates and decides the annual compensation for officers of the company from the level of associate vice president, but excluding members of the management council. The compensation committee of the board administers the 1998 and the 1999 Stock Option Plans.

2. Board interaction with Clients, Employees, Institutional Investors, the Government and the Press

The chairman, the CEO and the COO, in consultation with the CPO, handle all interactions with investors, media, and various governments. The CEO and the COO manage all interaction with clients and employees.

3. Risk Management

The company has an integrated approach to managing the risks inherent in various aspects of its business. As part of this approach, the board of directors is responsible for monitoring risk levels according to various parameters, and the management council is responsible for ensuring implementation of mitigation measures, if required. The audit committee provides the overall direction on the risk management policies.

4. Management's Discussion and Analysis

This is given as separate chapters in this Annual Report, according to Indian GAAP and US GAAP financials, respectively

E) SHAREHOLDERS

1. Disclosures Regarding Appointment or Re-appointment of Directors

According to the Articles of Association, one-third of the directors retire by Rotarian and, if eligible, offer themselves for re-election at the Annual General Meeting of shareholders. As per Article 122 of the Articles of Association, Messrs. Srinath Batni, Sen. Larry Pressler, Omkar Goswami and Rama Bijapurkar will retire in the ensuing Annual General Meeting. The board has recommended the re-election of all the retiring directors.

In addition, Mr. Sridar Iyengar, who was appointed as an additional director with effect from April 10, 2003, is eligible and is offering himself for appointment as independent director of the company

The detailed resumes of all these directors are provided in the notice to the Annual General Meeting.

2. Communication to Shareholders

Since June 1997, Infosys has been sending to each shareholder, quarterly reports which contain audited financial statements under Indian GAAP and unaudited financial statements under US GAAP, along with additional information. Moreover, the quarterly and annual results are generally published in The Economic Times, The Times of India, Business Standard, Business Line, Financial Express and the Udayavani (a regional body of Bangalore). Quarterly and annual financial statements, along with segmental information, are pasted on the company website (w Earnings calls with analysts and investors are broadcast live on the website, and their transcripts are pasted an the website soon thereafter. Any specific presentations made to analysts and others are also posted an the company website.

The proceedings of the Annual General Meeting is web-cast live an the Internet to enable shareholders across the world to view the proceedings. The archives of the video are also available an the company home page far future reference to all the shareholders.

3. Investors' Grievances and Share Transfer

As mentioned earlier, the company has a board-level investors grievance committee to examine and redress shareholders' and investors' complaints. The status an complaints and share transfers is reported to the full board. The details of shares transferred and nature of complaints are provided in the following chapter an Additional information to shareholders.

For matters regarding shares transferred in physical form, share certificates, dividends, change of address, etc. shareholders should communicate with Karvy Consultants Limited, the company's registrar and share transfer agent. Their address is given in the section on Shareholder information.

4. Details of Non-compliance

There has been no non-compliance of any legal requirements by the company nor has there been any strictures imposed by any stock exchange, SEBI or SEC, on any matters relating to the capital market over the last three years.

5. General Body Meetings

Details of the last three Annual General Meetings are given in Table 8.

Table 8: Date, time and venue of the last three AGMs

Financial year (ended)	Date	Time	Venue
March 31, 2000	May 27, 2000	1500 hrs	Taj Residency Hotel, 41/3 M.G. Road, Bangalore, India
March 31, 2001	June 2, 2001	1500 hrs	J. N. Tata Auditorium, National Science Seminar Complex, Indian Institute of Science, Bangalore, India
March 31, 2002	June 8, 2002	1500 hrs	J. N. Tata Auditorium, National Science Seminar Complex, Indian Institute of Science, Bangalore, India

Date, time and venue of the last EGM

Date	Time	Venue
February 22, 2003	1500 hrs	Taj Residency Hotel, 41/3 M.G. Goad, Bangalore, India

6. Postal Ballots

For the year ended March 31, 2003, there have been no ordinary or special resolutions passed by the company's shareholders that require a postal ballot. However, the company has voluntarily decided to comply with the provisions of postal ballot for all the resolutions placed before the shareholders in the AGM to be held on June 14, 2003. The detailed instructions are provided in the notice to the Annual General Meeting.

7. Auditor’s Certificate on Corporate Governance

As required by Clause 49 of the Listing Agreement, the auditor's certificate is given as an annexure to the Directors' report.

F) COMPLIANCE WITH THE RECOMMENDATIONS OF THE REPORT OF THE COMMITTEE ON CORPORATE AUDIT AND GOVERNANCE (NARESH CHANDRA COMMITTEE)

The Government of India by an order dated the 21st August 2002 constituted a high level committee under the Chairmanship of Mr. Naresh Chandra to examine the auditor-company relationship. The committee had since submitted its report to the government. The Government of India has not yet made it mandatory for the Indian companies.

The report contains five chapters. Chapters 2, 3 and 4 which deal with auditor-company relationship, auditing the auditors and independent directors - role, remuneration and training is relevant to your company The chapter one is an introductory section and chapter 5 relates to regulatory changes. Your company has substantially complied with most of these recommendations.

The auditor-company relationship

Recommendation 2.1 – Disqualifications for audit assignments – In line with the international best practices, the committee recommends an abbreviated list of disqualifications for auditing assignments which includes:

- *Prohibition of any direct financial interest in the audit client* – Complied with.
- *Prohibition of receiving any loans and I or guarantees* – Complied with.
- *Prohibition of any business relationship* – Complied with.
- *Prohibition of personal relationships* – complied with.
- *Prohibition of service or cooling off period* – Complied with.
- *Prohibition of undue dependence on an audit client* – Not applicable

Recommendation 2.2 – List of prohibited non-audit services – Complied with.

Recommendation 2.3 – Independence standards for consulting and other entities are affiliated to audit firms – Complied with.

Recommendation 2.4 – Compulsory audit partner rotation – Complied with.

Recommendation 2.5 – Auditor's disclosure of contingent liabilities – Complied with.

Recommendation 2.6 – Auditor's disclosure of qualifications and consequent action – Complied with.

Recommendation 2.7 – Management's certification in the event of auditor's replacement – Complied with.

Not applicable, as we do not have any proposal to replace the auditors. The Company's Act is yet to be amended by the government to seek special resolution of the shareholders in case of a replacement of an auditor. The audit committee consisting fully of independent directors recommends the appointment of replacement of auditors.

Recommendation 2.8 – Auditor's annual certification of independence

The audit committee receives the certification of independence from both the internal and statutory auditors every year.

Recommendation 2.9 – Appointment of auditors – Complied with.

Recommendation 2.10 – CEO and CFO certification of annual audited accounts – Complied with.

Auditing the auditors

Recommendation 3.1 – Setting-up of independence quality review board – Not applicable

Recommendation 3.2 – Proposed disciplinary mechanism for auditors – Not applicable

Independent directors: Role, remuneration and training

Recommendation 4.1 – Definition of an independent director – Complied with.

Recommendation 4.2 – Percentage of independent directors – Complied with.

Recommendation 4.3 –	*Minimum board size of listed companies*	– Complied with.
Recommendation 4.4 –	*Disclosure on duration of board meetings / committee meetings*	– Is being complied with from January 2003 meetings.
Recommendation 4.5 –	*Tele-conferencing and video conferencing*	– At present, the law does not permit this.

Recommendation 4.6 – Additional disclosure to directors

At present, we submit a summary of all the press releases issued during a quarter, to all the external board members, during the board meetings. The presentations made at various investors conferences are available on the web. Going forward, the company would send a compy of all press releases as well as the investor presentations to all the directors.

Recommendation 4.7 –	*Independent directors on audit committee of listed companies*	– Complied with.
Recommendation 4.8 –	*Audit committee charter*	– Complied with.
Recommendation 4.9 –	*Remuneration of non-executive director*	– Not applicable
Recommendation 4.10 –	*Exempting non-executive directors from certain liabilities*	– Not applicable
Recommendation 4.11 –	*Training of independent directors*	– Not applicable