

Infosys Technologies Limited
2007 ANALYST MEET
July 30, 2007, Monday, Bangalore

B.G. Srinivas - Session II

B.G. Srinivas

Good afternoon, ladies and gentlemen. For the next couple of minutes, I will be covering European markets. While the title is EMEA, Europe, Middle East, and Africa, the real focus will be on Europe today. While we do have traction and in business it is happening in the Middle East, I would still stay focused on Europe because that is where most of the business is coming from as you can see as we go forward.

So, what I will do is I will quickly cover what have been the growth drivers for Europe, what has been our strategy in addressing this specific requirements of Europe, and how are we helping our clients win in the flat world in the context of Europe again, and a couple of case studies.

While most of you have been tracking Infosys, you would have observed that Europe has shown significant growth in the last 3 to 4 years, and this has not happened by chance. In the last several years, we have made proactive investments in Europe to fuel growth. Until year 2000, we were contributing about 10% of Infosys revenue from the region and as of last quarter it was 26.8%, so significant upsurge in growth as you can see close to 57% CAGR and all of this has been organic growth. Our focus has been in making investments; one, establishing presence in Europe. Europe continues to be a very heterogeneous market, fragmented. We need to address the specific nuances of each of the countries. So, we made investments in setting up offices, setting up local capability, building near shore centers, adding specific solution sets on technology platforms. All of that has really helped us leverage the best of Infosys in terms of overall capability, leveraging the global delivery model to deliver services in Europe as we can see the success has been significant. Today, we have over 100 active clients. We have close to 15,000 employees supporting business in Europe. A couple of large deals have happened in Europe and Infosys's first \$100 million client also is from Europe.

Beyond just IT services, both Finacle which is a core banking product for our retail banks and wholesale banks, has made inroads into Europe. 40% of our BPO revenues comes from Europe, and so has business consulting which has scaled up more than 100 times year-on-year in the last couple of years. As you can see the progress while we have traditionally been strong in financial services, telecom, retail, and manufacturing, in the last two years, we have opened accounts in pharma, some in public sector in UK, high-tech, energy utilities and airline industry.

Across geography again while most of our business is focused on Western Europe even today and in spite of the Eastern Europe opening up, in spite of business happening in the Middle East, 94% of the IT spend is predominantly coming from the Western Europe. So, our clear strategy is to leverage maximum, stay focused on these countries, and not dilute our focus in bringing our service offerings bringing our capability.

Again if you look at other growth drivers, traditionally ADM has dominated our overall growth. In Europe, we see new service offerings actually helping open new client accounts and win new business. When I say non-ADM services, the whole bunch of services ranging from consulting, package implementation, testing and validation services, infrastructure management services; all of these services including BPO and Finacle has led to growth in Europe, and you see that in terms of percentage share, 54% of business coming from new services, which have again scaled significantly year-on-year, and all of the services continue to leverage the global delivery model. We are seeing the adoption of packaged software in Europe significantly high, whether it is SAP or Oracle, and both these companies are doing extremely well in Europe; so, we have build significant capability in packaged software, which again not just goes to prove the point that we are getting business from that sector, but most importantly we are engaged strategically with our clients in helping them implement, helping them reshape their business processes, as we leverage the platforms like SAP or higher end Oracle in order to improve their internal business processes.

If you look at infrastructure services, 32 clients for this service line from Europe. Again, in terms of testing and validation, utility, a significant growth over 150% onwards year on year. So, all of this has again contributed significantly to both growth and profitability.

As I mentioned earlier, Europe even today continues to be extremely challenging. It is diverse, it is heterogeneous, the market behavior is not common across continent and UK, varied degrees of maturity in terms of ability to also outsource and offshore, the expectation of each of these clients in these markets are different and distinct. The competition again in this region comes from two distinct players. One is the Global SI who has been present in Europe, the traditional European local players, as well as the tier one offshore players. We have also seen Europe explore to catch-up on the offshoring front, it continues to do so, but things are opening up. Again, our own view on this is the fact that the impact of globalization is actually also impacting Europe and the businesses are today no longer actually insulated from the global trends. This trends of cost efficiency, the trends of having global growth, and some of these large enterprises are making investment in US and in emerging markets to manage their own growth. In that journey companies like Infosys are partnering with them to help them grow, help them reduce their internal costs and leverage technology to make them more competitive.

What we have adapted in Europe as a distinct strategy is to clearly see that when we go to market it has to have a country focus, it has to have a country flavor in terms of capability, local domain, all of that, but bring to bear on specific opportunities our industry verticals expertise. Industry vertical expertise when I mean, I am talking about the distinct solutions sets we have built, the distinct capabilities of understanding our businesses, be it banking, be it retail, be it manufacturing, all of that. And a dual approach of go-to-market which is locally country focused by bringing in our global expertise has helped us actually break into multiple news lines. We have some of the marky names in several sectors in Europe and some of them are I will discuss with u when we go forward. At the same time we are clearly seeing where the market trends are, where markets are opening up, and our go-to-market has been extremely focused, and that has really helped us manage the kind of aggressive growth we have seen in the last four years.

Again, the countries, the slide mentions, are the clear focus countries for us. In Eastern Europe, we have seen our core Finacle product, it is penetrating; and in other markets, we have been a little reactive as of today. What we have also seen which has worked to our benefits has been our solution sets which are actually launched on some of the technology platforms like SAP, Oracle, and Microsoft, and that has again helped us to go to market. We may join business plans with these partners and then penetrate more accounts and in new geographies.

What are we doing in helping our customers, our clients win in the flat world? We have seen growth continues to be a challenge for most of these large enterprises as long as they are focused in the domestic markets. So, most of these enterprises are looking beyond their domestic markets, looking at pan-European base. Now, that there are new countries being added into the European Union, which is giving them the advantage of access to these markets. At the same time, some of these players have global aspirations; so they are setting up operations or acquiring companies in the US. They are establishing presence in emerging markets like India and China. In some of these again, we are actually supporting our clients in their go-to-market strategy especially when they are coming to India. We are also helping them improve their internal cost efficiencies by leveraging the global delivery model. So, we advise them on their offshore outsourcing strategy. We are also helping them innovate and in most cases we are bringing technology to help our clients innovate whether it is in the product development, whether it is leveraging technology to improve their internal operations, and we are helping them use their internal information and helping them make decisions which again helps them to take faster decisions and focus on making growth happen in their own sectors.

A couple of case studies, some of them are in the public domain. As you can see one common thing across all these case studies is the fact that we are really very strategically engaged with our client. Which means that the customers today accept Infosys as a strategic partner. They are not only accepting us as a partner, we are helping them in improving their own internal efficiencies and there are enough recognition to that effect. In all of this, the kind of work we are doing is extremely cutting edge. The first few case studies are clearly focused on how are we helping our client shape their enterprise architecture. Our technology consulting team has been part of the client strategic group helping them achieve their enterprise architecture. Some of these clients have balanced by mergers and acquisitions, some of these clients are balanced by having old legacy applications. So, we are actually helping them do a portfolio analysis and rationalize their applications. The third example there is again for one of the large pharma company, we have rolled out their customer patient care program, not only in Europe but across their global operations, which includes the US. The fourth example is one of the large retail bank, very well known bank in Europe, which acquired another bank which had both operations in Europe as well as in the US. We helped them drive their integration strategy and again leveraging their technologies to synergize processes between the two enterprises. The last example has been for a large telecom major where the company was really

challenged on giving unified customer service and customer experience and we brought together multiple technologies and synergize their internal process and giving them the common exposure which is relatively seamless across their order management, billing applications, ticketing, and reporting. I did mention about the fact that in Europe the client expectations are significantly higher as compared to some of the other mature markets be it US or the UK. Here if you have to really make an impact, when you compete with the Global SI, when you compete with the local European players, the testimony that we have won significant awards from some of the global brands there, Royal Bank of Scotland, Daimler Chrysler, Sainsbury, for them to recognize Infosys as the best IT supplier has been a really proud moment and all of this has happened in the past one year. It proves our capability in terms of our ability to deliver to promise, ability to go beyond just delivery because they do not recognize just delivery on time on budget as something incredibly great, but how do we add continuously, how do we add value to them. So, these are some of the recognitions and accolades we have received from our clients which are again in the public domain. The last one has been one of the leading European footwear and a travel client based out of Germany. There we developed their website and that website has got a world-wide recognition in terms of being the top 20 corporate website in Europe. So, with that I would like to pause and open for questions. Thank you.

Participant

_____ EMEA revenues; \$200 million and then \$800 million. So, last year same time when we met in Mysore, you had given an indication that the same client contributes around \$100 million. So, we have almost doubled the revenue from this client in a year's time. How do we see revenues going forward from this?

B.G. Srinivas

Specifically, I cannot comment on how revenues would accrue from a single client, but what we have seen while before last year about 70 active clients we had, today we have 100 active clients. So, some of them are significant brand names. So, we are saying growth cutting across different sectors, cutting across new geographies. The new Philips deal which you would have in the BPO presentation is one of the largest deals in Europe ; \$250 million over 7 years. So, the growth is going to come from multiple sources, not just one client. It so happened that yes one client, there is significant business happening and you see the fact that in that sector specifically things have been changing significantly and we have been able to support them on multiple points, that is how the growth has happened. We will continue to invest, we will continue to grow in that client account, but beyond that we see multiple growth within Europe, which will continue to sustain our relatively aggressive growth as compared to rest of Europe.

Participant

Are we targeting the other businesses also from this client? What is the kind of work that we are doing?

B.G. Srinivas

We are doing multiple things. On one hand, we are helping them on the products, we are helping them on their IT implementation. The third thing which is even more strategic is, jointly we are going to market. They are leveraging and bringing together their strengths and our strengths, and we are going with them. So, there is a pretty three pronged strategy in terms of managing growth from this particular client.

Participant

One of the _____ client reported that this started showing some increment recently. Have you seen any effect of the same end, or do we see growth showing for next couple of quarters?

B.G. Srinivas

Okay, first part, restructuring has not impacted at all. Whether growth will slowdown or accelerate I cannot comment, but we are very strategically engaged with this client. So, the stickiness, the ability to partner, and the scale, which we bring to table in terms of size, quality, and capability, they will continue to help us grow, that is what I can comment. I cannot comment how fast or slow it will growth.

Participant

In terms of the pricing and cost that happens in Europe vis-à-vis say US, how is it different?

B.G. Srinivas

The cost structures in Europe are definitely higher as compared to the US, so is the pricing structure. In terms of margin impact, we have been able to sustain if not in some sectors do better than rest of Infosys. This is one of the reasons why we have been able to sustain, both growth as well as profitability. If you see the non-ADM services, consulting, package implementation, testing validation services, are coming at a higher price point. And, as long as we continue to grow in these sectors, we will see in spite of the slightly higher cost structure in Europe price points are also higher as compared to the US, we are able to maintain margins.

Participant

So, on an average, how much higher would be on percentage terms, the cost vis-à-vis and pricing.

B.G. Srinivas

Cost structure again varies between the geographies. Like, you can never make a comparison with US and Europe one on one, because Europe as I said is fragmented. UK has a different cost structure, Switzerland has got a different cost structure, Benelux countries, Nordic as well as Germany and France. But on an average you could say about 10%, some cases it could be 12% high cost structure. Similarly, the rate structures could also be in the same range, higher. That is how we have been able to offset and balance, apart from the fact that all the new services come at a high price point and better margin.

Participant

Yeah, thank you.

Participant**B.G. Srinivas**

In some cases, yes, there is an expectation, especially in large deal, but I would not say is a trend, I mean in all the other cases where we are helping them implement, for example, in packaged software where we are helping them implement SAP, Oracle globally, and on these are sizeable deals we are talking of 20 to 30 million Euros. These programs obviously there is an expectation of skin in the **game**, need not be money apparent, it could be fixed pricing, it could be pudding a part of it based on the benefits derived, I would not say it is a trend, but it is happening.

Participant**B.G. Srinivas**

Yeah, the challenges:

- 1) Like I said in the beginning, Europe, you will have to treat it as a diverse market. So, each country we will adopt local strategy in terms of building capability, adding local capability, strategies with respect to which sectors you would go after, which solution sets you will tailor it to specifics. So, the kind of focus you need to bring in each of these markets are unique and it requires effort.
- 2) Yes, the expectation from each of these clients in each of these markets are to have a local presence. They need to have fundamentally reach that Infosys is a company which has made long term investments in Europe, it is not opportunistic, because they see partnership much stronger in the long term as

compared to may be some of the other matured markets. While their folks are slow to adapt, the stickiness continue with partners is much longer and it is quite high. So, as long as they see those kinds of investments happening and those kinds of expertise coming to there, because most of the European still expect that they have been ahead in some of the technologies, they have a lot to catch up. So, they want companies like Infosys to bring our global expertise to them, best practices from other parts of the world, whether it is from energy market or from the US. So, these are some of the expectations. So we have to manage expectations locally at each of these different countries and different vertical. So, that is the challenge. It is not just about building scale, but also being very focused in terms of building capabilities locally. So we need to do both. And, then that is what we have been doing in the past organically so far. This year again while we have always added local talent in each of these countries in terms of consulting capability, business development, these are all again senior laterals who have joined us. This year for the first time we are also recruiting people from college in UK. About 25 graduates will be recruited. They will be trained here in India for about 6 months, and they will be redeployed.

- 3) What we are also doing to address the specific local requirements, we are leveraging our near shore centers, in Czech Republic, in UK, and Mauritius, and now with the Philips team another center in Poland. So that is again something which is working to our favor in terms of leveraging the near shore centers, which will support them in terms of bringing them to operate in the European time zone, to bring local capability in terms of understanding the local business as well as language requirement.