INFOSYS TECHNOLOGIES LIMITED

INDIA ANALYST MEET, PUNE

DECEMBER 7, 2009

COMMUNICATIONS, MEDIA AND ENTERTAINMENT

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Subhash Dhar

Welcome back. These are the breakout sessions starting. I think they are going throughout the day and I think, I will be making this presentation three times today. This might be the first one and I will just repeat the same over the next two iterations.

For those who were not in the first session today this morning, my name is Subhash Dhar. I am a Senior Vice President - Communications, Media and Entertainment. I also have a responsibility of running Sales and Marketing for the company as a member of the Executive Council, but this session is focused on the industry, Communications, Media & Entertainment, The Safe Harbour.

I just wanted to give a very high level update on where the industry of CME is. I think many of you who follow this industry will not be surprised but for those who want to get a little deeper into this I will be happy to respond to those questions.

Consumers have unprecedented choices on how they want to communicate, stay informed and get entertained. There is a whole area of how consumer is leading the enterprise. I think sometime in September 2008 according to the McKinsey Report, the information technology spend by consumers exceeded the information technology spend by enterprises. And it is accelerating at a faster pace than what enterprises are spending. If you really fast-forward that to a few years from now, first reaction was that should we get out of enterprise business and get into the consumer business. That I think is very-very simplistic. I think the real lesson from some statistic like that is about who is going to drive the enterprise spend in the future? And I think in some ways Communications, Media & Entertainment is one industry because it is very consumer-oriented and it is part of the enabler of this whole ecosystem, it will be one of the earliest ones and it is one of the earliest ones to see that shift of who is going to drive who in the future. The enterprise has been driving the consumer, more or less in the past and that power is going to shift pretty significantly and surely over the next few years. We have already seen what happed to the music industry thanks to consumers and people who understood consumers. A $20 CD has become a $2 download because there are only two songs in every CD which make sense and two songs cost $2 on iTunes.

Among other things, understanding technology, understanding empowering technology, especially for the consumers, is extremely important. Consumers are ready for a lot more than what enterprises are dishing out for them and this has been seen in the media and entertainment space and we see that everyday when we talk to a CIO in a music industry. Their accommodation of new ideas is way higher now compared to the ones who have not been 'Appled' yet or 'Googled' yet. This is very profound and from an Infosys perspective I consider this industry as a vantage point to be able to see what's going to happen to a lot of other clients of ours who are consumer-oriented and that's about 70% of our business, if not more.

Some more things about consumers-what they wanted, where they wanted, how they wanted. It has created a lot of deluge of access in content companies who want to serve these, not everybody is making money and not everybody is even holding together their futures but they are very promising. Combine that with regulation or deregulation, depending on where you are and the mix is very potent on what can happen and especially, in some cases regulation is the only lynchpin which is keeping the existing revenues in place for many companies. If the regulation becomes deregulated a little bit more, there is a good chance that many of these very large companies that we know, may not even exist, certainly not in the form that they are today. It is a very interesting industry. It's a very good case to keep watching of where the power of consumer is moving and how it is driving the industries.

Today what are the take to be a leader if you are in CME business? Customer-centric view as opposed to a network-centric view and this is the obviously easier said than done. Everybody has said that. Power of a communication company has always been and it continues to be in most peoples' mind - the network. If you talk to companies in India, obviously where their access itself is on a roll and where it is in a growth phase-network it is. The more people you can get to the network, the more through put the network has, the more availability it has, the more power you have. While it can be justified in a country like India at this point in time where the access itself is on the growth, this notion cannot be justified in matured markets anymore but surprisingly that's a view held in the matured markets as well. Not always because that's all they know. Phone companies are probably the most perceptive ones when it comes to their future. The bigger challenge is not whether they know that customer-centricity is important but whether they can do anything about it because this is not just about technology, this is not just about having access to customer data, but it is also about having the capability to do something with both of them. To In the music industry, there are plenty of people that we talk to who knew that Napster, while may be it was considered as illegal because it was illegal sharing of files, they knew that while Napster might be illegal, digital music was here to stay, they knew it. But nobody build an iTunes, nobody built a library to offer digital music to its consumers because it was cannibalistic to their own model of $20 CDs becoming $2 download. Who would want to be disruptive of your own business? You wait for someone else to come and do that to you and that's logical and that's what has happened.

That whole thing of customer-centricity is probably playing the same way in the telecom space and in future in my view, will be playing in other industries as well, if not already.

Rapid idea-to-launch cycles, absolutely the speed at which the products have to be launched have just gone up tremendously. Focus on applications, not connectivity, I think you know that. In a new market like India also, we are seeing the whole race to applications now. Newer guys coming and saying that the only way they can now get value out of this whole ecosystem is in terms of applications and not connectivity because that thing has been played out already, at least any incremental increase in connectivity is only coming at lower revenues per user and lower margins.

The last one, which is what I say, 'don't get appled and don't get googled.' It's very important for people to not just innovate but also make sure that you are innovative enough to not disrupt yourself but create a new line of revenues before and over the top firm comes and does that because they have nothing to lose.

This is really what it takes and this is where the industry is. I didn't want to go too much into detail on this, as much as interesting it is.

A quick recap on how the industry spend-structure works of Communications, Media & Entertainment. Communications is definitely the big daddy there. The addressable spend of communication segment is way bigger than what you see in other sub-segments, like Media and Entertainment. A lot of Media and Entertainment in technology dollars are embedded in business units who do not demonstrate the same level of technology buying maturity as communications do. They are more into 'give me the end-to-end solution and I will buy that', which is good as long as I can get at least four or five addressable customers because media and entertainment also globally is a very concentrated market in LA and New York and with very few companies. Not just in terms of LA and New York but if you take any one product and if two companies buy that, that's good luck because finding the third company itself will be a challenge. So, investing in this industry from a solutions perspective has been a challenge on the technology side. However, on the process side, the story gets a little bit interesting because there are lot more horizontal processes that work across media and entertainment segments and therefore, those are the interesting areas for us to get into solutions and platforms for.

Both communications and entertainment are very high concentration of spends. There are few very large spenders in every country, partly because it has a tradition of a regulated industry in infrastructure nature, there are only few very large spenders and therefore the game here is not how many more accounts you open alone but also what you do of those accounts.

In the communication space, capital investment interestingly drives the IT spend more than revenue expenditure. This has been amply demonstrated over the last 18 months where actually the industry has not done too badly at all in terms of how their revenues have come up. This is not any worse than what they were doing before 2007, but the spends in IT and process have dramatically curtailed and really when we trace those expenses, they are all coming from capital network expenditure. So, there is a very strong correlation of these two capital expenditures in this industry.

Some more color on the spending drivers that we see today and I think some of them have been around ongoing transformation of networks and systems. I think there was a pause in the middle when the capital conservation was going on. I think some of that, they are very early signs, I would say of letting up on that capital conservation. In my opinion, things should change very fast for us. I have probably more hope than facts at this point but I think early next calendar year will tell us, how much of this capital conservation is easing up and therefore leading to better budgets because a lot of the transformation projects are not done yet or are incomplete.

Next generation services - absolutely important for the large phone companies because that's where their high-margin revenues are going to come from. Especially if you are a phone company it's got to be the video business. That has to pickup big way because they have already played out the wireless thing and those are of more in the cash mode right now. There is some investment involved but largely that's been played out and now it's more in the cash recovery mode. New investments will be in the video space if you are a phone company and the application space obviously, which is the whole area of how to engage better with a consumer which is social networking and so on.

The devices are going to drive. I think, iPhone has proven that beyond that and of course not just iPhone but I think a lot of Smart Phones have proven that, they can drive a lot of future revenues in the wireless space for the phone companies.

The emerging economies - you are sitting here in one of those economies where the focus has been pretty intense, the whole destructive competition which is going on, notwithstanding. I think still the market holds a lot more upside in terms of revenue per user provided the service providers are ready.

How does it all play out for off-shoring? We talked about it in early part of the morning more with less. I think that itself, in my opinion, is playing very-very strongly in this industry. The transformation programs are also incomplete. So whenever the capital conservation thing eases up, we will see that picking up again. We talked about wireless. Some of the wireless companies in the West have now reached maturity in their business. They don't grow as much as they used to. Therefore, there is focus on efficiency and focus on doing more with less and that usually works very well for off-shore engagement. But also very interestingly, and this is not across the board but the ones who are a little bit more open in their view of the world and these are usually not the national incumbents but the other ones, who are more global in their view, they actually look at companies like us, as ones who will drive innovation for them. We have some very strategic deals signed recently with one large global wireless company to take our understanding of the enterprise solutions, which is the retail, the banking and so on, and work with them in order to offer that solution worldwide to their clients and this is the only relationship they have ever signed with any system integrator to go to their enterprise clients. We are going to deepen that relationship very soon by creating global labs, global concept centers and so on of how these joint solutions work. I think this is the game of the future. More and more technology companies who enable technology ecosystem, have to come together strategically and not opportunistically, but strategically, sometimes maybe even exclusively in order to give the message to the final enterprise client that we are in it together and we will hold the bag of the solution and not keep pointing fingers at each other and that's very-very important. The partnership area is also emerging very-very strongly with our clients in this segment.

Here are some numbers you. I have already got some public numbers that you have access to. Telecom has been, in the last few quarters, contribution to overall revenues have come down but it's been playing in the range of 15%-17%; it was in the range of 18%-19% earlier. Over the last three years, in FY06 to FY09, it has grown about 33%.

As I said, it's really not about just opening the account with high concentrations of spends. This industry does deliver some of the biggest accounts for the company and we can see that in the list thereof of Top 10. Over half of telecom revenues come from outside of the US. So in a way, this is one industry which has already started delivering on Kris's 40-40-20 vision though we don't always get well rewarded for that because the cross currencies move in different directions and we lose millions of dollars in revenues in a bad year like that. So when you are 40-40-20, you have to be ready for the cross-currency movements a lot more. Yet another way of how this is a basket case for the company. Within the telecom revenues - communications service providers, the operators, are really dominant within the communications, media and entertainment segment. They are the dominant revenue contributors.

Some recent client testimonials I want to share with you. Almost all the clients that I have met in the last 30 to 45 days, I would say top 7 or 8 I have met in the last 30 to 45 days, and they have all said that you are probably number one, sometimes number 2 in quality and in our return on investment and so on. Some of them have complained a little bit about our flexibility on the commercial side and I think you have heard that a lot over the last nine and ten months, but I think we have survived in all our major accounts where the pricing pressure was significant. I think the position that we have taken over the last nine or ten months in these accounts will keep us safe in the future. None of our clients have thrown us because of our inflexibility. They have not thrown us out and they have kept us in there. Some have said that they took the unfortunate move of moving some business away from us and so on. In fact, some of them are saying we didn't want to do that and you didn't want to do that either but now let's have a new beginning because you also know what's going on with some of them as the procurement took all the decisions. I think things are changing but it's important that we are at the right place in terms of pricing when things change. It's not a big deal to go and get more business by being very flexible on price. I don't think we need our sales team for that. We can take those decisions sitting in Bangalore. Our sales teams have done an excellent job of keeping the relationships, keeping our head high in these times, taking some flak for being inflexible but making sure that we are number one or may be in one or two cases number two, in tops, in quality of delivery, comfort, security for the clients who work with us, lowest risk vendor for them. I think that counts for a lot, as you go through the downturn and have clients who want to do more for less.

Really this is two parts of the strategy-I haven't changed this much over the last few quarters. Just two big plays, one is to participate in the transformation programs which in my opinion will get restarted and probably with some changes but restarted and reaccelerated in many of the clients as we see the capital expenditure on network is happening, at least in the ones who have the capital expenditure networks are happening. We have to take our new engagement models. We have to take our entire partner ecosystem in order to deliver these transformation programs in the future. It will be less and less of caller-card buying and more and more of integrated services buying because of what has happened over the last 12-18 months in terms of the flight-to-value. The second one which we talked about today is really the wide space in the blue ocean games that we have to play which our clients are clearly challenged with. All I am telling them is that when there was no rocket science in building something like an iTune, it's just a question of timing and how you present it and our clients have the consumers with them. They know more about their consumers than any web company knows about them. They have to just make the right decision and we will be the partners with them along with the whole ecosystem of partners that we can bring to it. I think we have to demonstrate innovation. That our ability to create real world solution and not power points and some concept centers, but real working breathing solutions which we are doing now and gain client's confidence by not just trusting in us but also the entire partner consortium and be able to say, 'okay, the big devil is not here but somewhere out there', the ones who are going to go over the top of our networks and extract all the value of the new networks that we built. These are really the two games we have to execute on.

Challenges among many, especially for the large incumbents, the legacy investments are holding them back to make some of these transactions. As I said, it's not very easy to be disruptive on your own business and this plays out at every level in the company. Interestingly, not just at the top but at every level in the company. There are issues related to jobs, how do you let people go because you have just accepted a new model. For us, new account openings will have to come from our better geographical penetration going forward. I have a big stake in what we are doing in Germany, what we are doing in France, what we are doing in Japan because for me it's important to go into new countries if I want to get the national incumbents.

The whole new engagement model, hopefully whatever extra returns we can get out of the new engagement model, will helps soften with some of the other pressures that we face in our regular business in terms of returns. I think it is important that these things happen. It doesn't always happen in that sequence that way you wanted. For example, I would really like when I give a discount to a client that the client switches over to a new engagement model, so that I can recover my discount or the impacts of the margin in that discount through the new engagement model. It doesn't always work like that. It just happens with another client moving into that new engagement model and at a portfolio level, even if it works, it's interesting. It starts hurting when you pay in the first quarter and recover in the second quarter and your first quarter is gone. So, I think, some of those challenges will remain.

Last slide, I think demand is still there, except that it is latent. It's not coming as purchase order at this point in time. I think it's latent. Jan, Feb, March is when I think a lot of those latency will start becoming more apparent. Client base remains smalls. So the lumpiness of the revenues will continue. We are really looking forward to the network spend. So we are really tracking all the companies who have given us new network orders over the last three to six months and so far it's not the majority of our clients, it's a minority of the clients and we are just hoping that every month this number will keep improving because there is a phase lag in my opinion when the network orders go out and then the other transformation stuff which we work on starts coming in.

That's it. Thanks a lot for your time and I don't know Shekar how much time do we have? 5 minutes for questions.

Kawaljeet Saluja

Quick couple of questions. First is that you have 4 telecom accounts in Top 10, have you been losing shares in all of those accounts or having you been gaining shares? That's the first question. Second, given the concentrated nature of business and given that how large telecos are globally, are you disappointed or happy that you just have four accounts in the Top 10 from teleco business? If disappointed, then from where the next blockbuster accounts would come from? And the third is that would Infosys have a say in the APAC market given the facts that there are lot of big opportunities in the APAC market which require upfront investment and may not be able to meet the margin criteria and return criteria of Infosys in general?

Subhash Dhar

You had very implicit assumptions in many of those questions, but I will try and address them: First one, are we growing in the accounts that we have in the Top 10? The answer is mixed. In some we grew and in some we didn't, but we believe we will grow in all of them in the future and therefore we continue to invest in these accounts because we can see where the growth will come from. We can see why the growth hasn't come in the last 12 months. We understand that some of it was something we could not help or we did not want to help and some of it, we think we have learnt a few lessons as well. I think we know where the growth is going to come from and we believe that it will happen. The macroeconomic picture has to become conducive for these people to start their capital spend. I think that is the only part which I believe we don't control at all and the rest of the stuff we have some control on.

Do we have enough, is 4 out of 10 a good number or should be it a little bit more? See 4 out of 10 is really a relative number. It is almost like if I have many more, then other units are not doing well. We can get to the number in many ways, by other units not performing enough and I don't think I am focused too much on that number. But yes, can we build bigger blockbuster accounts out of telecom? I think that is a very valid question. The answer is, 'yes.' In fact the focus we have is that we can only build blockbuster accounts and the only thing will be how many? That will change because either you build big or you don't build, in this business. I think geographical penetration, as I said in my presentation, is going to be very key of how many new countries can we go into because they are only so many big blockbuster spenders in any one country. India is an exception of course. So we will talk about India last. That's your last question, your APCA question. So that would be very important and also the new engagement models success will be very important because as I get into new geographies, I have to be ready with alternate engagement models and our confidence in executing on those models. It's not just about risk. Risk is also a mindset because if you don't know, then you feel more risky. If you have been there and done that, then the same risk looks more modest. I think, the new engagement model is very important to execute across the company for us to become more and more confident, as those models become the only model in certain geographies for us to operate.

To address the last point on APAC as well, yes, this market is almost completely alternate engagement models and almost not Time and Material at all. Therefore, the risks are different. I don't always think they are higher, they are probably less understood. We are new to this market. We are learning. At this point of time, as we learn and there is a presentation on India as well, I am sure and we can discuss it with that presentation. As we learn, we are taking a few risks. We may not have taken them in telecom but we have taken them in other industries. For example, the Income Tax deal we announced is completely new engagement model. It is probably the largest deal we have found on the new engagement model probably because we felt a lot more confident because of the profile of the customer, the profile of the people who are going to execute this and the control that we have on the scope. Next time around, we may be able to take the same risk with a more risky opportunity. I think we will learn as we go. But you are absolutely right. Unless we become more and more comfortable with these alternate engagement models, it will hamper our prospects in the APAC, especially the emerging markets part of the APAC business. Australia, by the way, happens to be our number three country, otherwise. I was talking APAC excluding Australia

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Kawaljeet Singh

For future growth, let's take the top 4 telecom accounts that you have, is it particularly dependent upon capex recovery or spend by these telcos on capital expenditure or is it something in which you can gain market share?

Subhash Dhar

Well, my point on Cap-Ex was that I didn't realize the extent to which the IT budgets flow down from the capital expenditure. That was the point I was trying to make there. Is our business more related to Capex in these accounts - frankly, no! Most of it is operation expenditure but the operation expenditure has a very huge connection to the capital expenditure in these companies.

That's how they budget. You don't get an operation expenditure unless there is a capital expenditure matching. Some of the actually do 50:50.

Priya Rohira

Is it possible for you to quantify the opportunity for the transformation programs which we are foreseeing over the next 3 to 5 years and the second question is what percentage of your vertical is now driven by new engagement models and how do you see this in 2012?

Subhash Dhar

Well, let me answer the second one first-very little. It is amazing that I am driving the new engagement models in this company and my own unit is not among the top in that. The reason for that is really that we have been so successful with the other models and there is such a high uptake of the regular model that our clients have not used this. The other thing was that spend itself went down in the last 12 to 18 months, so even if they were accepting they were not spending, no matter what model. I see a huge upside coming for us in this industry on the new engagement models. Back to the first question, it is very difficult to put a finger on that. Look at it this way, every major large incumbent phone company in the world, has changed its core network or is in the process of completing that initiative. If there is one which has not yet done it or not in the process of completing that initiative, they better get there fast because they are probably looking at an acquisition model to do that because they can't now start building something like this. What happens after the network transformation, is really building the capabilities of what you did the network transformation for, which is now that you have the network, now let's go and do voice, video, data all of it in the same network, let's go and give them new products and services to the consumers and get new revenue lines going. This is where most of the software-spend will happen and has happened. Some of it is stymied because of lack of imagination and lack of readiness of technology and so on but really that's the only thing which remains, because there are only two purposes of creating a new internet protocol network - one, is to be able to offer brand new services and products of the future which will drive the future revenues and second is to bring down the cost of maintenance of network. Instead of having multiple networks, the dream is to have one and nobody lets you that one but will achieve fewer networks to maintain and bring down the annual op-ex of maintaining your network. I think these are the only two reasons why customers do what they would have done. Within these two, the revenue arguments are lot more powerful than the operational expenditure argument and if they have to execute on that, theory says they will have to just invest more and more in software. Now, will they be able to do it? That will really be determined by the financial model that they have adopted for themselves in a given fiscal year and that is where you see a difference between the companies in their expenditure. Some spend in one year and some spend the next year and so on and this is not all bad as long as we are there in all the places. We don't really want everyone to fire at the same time and stop the fire at the same time. So that's okay, but I don't know if I can put a number to that transformational component. It probably runs into hundreds of millions if not billions.

Shradha Agarwal

Yeah, coming back to the first question, just wanted to know what different is Infy doing from most of its peers in certain accounts in which Infosys is gaining market share if not coming down in commercial terms?

Subhash Dhar

Well, it's a combination of what we are doing and what the customer really appreciates. I think that confluence is becoming the critical thing. We have invested heavily into new products and services over the last three years, if not longer. I think if the downturn was not visible, our strategy was bang on at where the spend would have happened in the last 12 months. It didn't play out that way because all spend got frozen, especially the discretionary spend got frozen and therefore the new products and services rollouts got delayed. So yes, we are making a lot of investment in that area but that was not what the client was looking for in the last 12 months. But we have not slowed that down, we have only accelerated it because we know that as they come out of this, they would have lost 12 months' time because while the phone companies may have all collectively had a challenge in investing more in capital and networks and all that there are others since one phone company is not a competitor of another phone company more or less. The real competitors are non-phone companies and they know it. In the US, it's the cable and then there is over the top company. Those guys have not had the same challenge. They have had their own challenges but not the same challenges and they have not frozen their spends as much as these companies may have. So, they have to accelerate. In my opinion, yes, we had a blink this year and it was a year one could expect the blink to happen but I think it will play out very well for all the investment. They appreciate that investment except that they can't invest in the month that went by but I think going forward we will see that investment happen.

Sorry, I have to stop here because the time is up and of course I will be available for other answers through the day.
