

INFOSYS ANALYST MEET

BUILDING TOMORROW'S ENTERPRISE

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CORPORATE PARTICIPANTS

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Kris Gopalakrishnan

Thank you, Sandeep and good morning, everyone. Welcome to this Analyst Meet 2010. I want to thank you all for participating in this interactive session. Today is Election Day. I hope you got a chance to cast your vote already or maybe later in the day, but thank you for participating in today's meeting.

What I want to do is talk to you about the quarter that went past very briefly because my colleagues are going to cover in detail. Then I will talk to you about Infosys 3.0 where we are going and talk to about 5 aspects of the change that is happening at Infosys; 5 transformations that are happening.

If you look at Q2 numbers revenue growth of 10.2%. It was the fourth quarter where we have had more than 5% volume growth, it was 7.2% volume growth in Q2. We continue to add significant number of clients. We had several large deals signed in this quarter. The large deals are deals of \$ 50 million plus transformation deals, outsourcing deals, so several significant wins.

For the first time in 3 years we had double-digit sequential growth. For the first time in the history of the company, we had more than \$100 million of sequential incremental revenue in a quarter. So it was a very significant quarter for us because it reiterated our confidence in our model, the strategies we are adopting and executing at this point. It also reiterated the confidence that clients have in Infosys. Repeat business continues to be very high. Client confidence in Infosys continued to be very high and we are able to meet their increased expectations on Infosys. These expectations are what drive our strategy. I will come back to that.

We revised our recruitment numbers for the entire year from 36,000 to 40,000 employees (gross numbers). We believe we are growing because businesses have got adjusted to the new realities. Their P&Ls are better, margins are better, balance sheets are stronger, they have higher cash positions. Businesses are starting to think about growth, especially growth, and profitable growth, free cash flow, asset efficiency and most importantly I believe, how you rebuild trust with all the stakeholders? Because today businesses are at a very low end of the trust factor. How do they rebuild the trust with all the stakeholders?

Internally, we have changed the way we do forecasting. In the short-term, the visibility is very high. Short-term means the next two quarters. In the medium-term, 2 quarters out to maybe 6-8 quarters, there is uncertainty. Long-term again there is confidence in the model and confidence in what we are doing. So it is a very strange environment where you have a period of uncertainty in the 6 months to maybe 18 months period or maybe 2-3 years out because nobody is able to predict how this recovery is going to play out. There are still concerns about the slow nature of this recovery. We were discussing about QE2 which is going to happen tomorrow and I am learning new things always on Quantitative Easing second round. These have impact on the economies, on the environment, on currency flows, impact on exchange rates etc and some of it temporary in nature and artificial and that is the reason why in the mid-term 6-18 months or 2 years there is some uncertainty on what are the consequences of some of these things. That is the reason why we have changed the way we do forecasting. We want to be cautious in terms of revenue forecast but recruit ahead of forecast. We will be aggressive in recruitment so that we can have a bench, we can have the ability to take advantage of growth we see in the market and that is what we have been doing in the last four quarters and it seems to be working because we have taken advantage of growth we saw and we have grown much higher than we forecasted. This is not what we used to do before, our forecast and growth used to be very close but now we are actually forecasting slightly lower cautiously because of uncertainties and we are aggressively hiring at this point.

Some things do not change as we look at the future. We will continue to focus on profitable growth. We strongly believe that profit is very important to generate the cash required to invest in the business, we strongly believe that we need to de-risk the long-term by having the capability within

the business to restructure if need be and that is why the high cash position. We are looking at acquisitions if need be. So we will continue to focus on profitable growth. We will continue to focus on continuous change and evolution. Not a revolutionary change, not dramatic right turn or left turn, but continuous evolution and change and the company has been evolving. If we look at where Infosys was 10 years back and where it is today, dramatically different. 10 years back, we were a technology solutions company, today we are business solutions company and continuing to evolve. 10 years back primarily application development and maintenance, today we have full services capability. So we have changed quite a bit. That change has happened gradually, continuously. Today, if you look at service lines like infrastructure management, business process outsourcing, each of these is more than 5% of our revenues. All have happened in the last few years.

I talked about Infosys 3.0. So what are Infosys 2.0 and Infosys 1.0? Infosys 1.0 was about perfecting the Global Delivery Model. That was something unique we introduced to our clients the ability to move technology work to a different geography, different location, where talent is available, quality is very high, economical and that is what we did. Infosys 1.0 established us and GDM as a viable model.

In Infosys 2.0, we made sure that we had the breadth of services. We applied GDM to more services, created an end-to-end capability within the company so that we could work with the global 2000 community which is the target base for us, we could be an integral partner to them, we could address as much of their requirements as possible, the business model is a model based on repeat business, so we have the capability to provide multiple services to our clients and we could become an integral partner to our clients.

Infosys 3.0 is about becoming a strategic partner to our client. Now we can address their transformational requirement, we can address their operational requirement and we can address their innovation requirement. This is what Infosys 3.0 is about. We can help them, build a better tomorrow, build 'Tomorrow's Enterprise'. We can of course help them, address their operational requirement, operational requirement require higher efficiency, lower cost, so we can still help them do that, as well as look at innovation requirements of our clients. In many cases those innovation requirements will be co-created along with our clients. This will also require us to establish new business models of engagement with our clients. If you look at our Flypp offering in India, this is being offered by Aircel, one of the telecom operators in India. Flypp is an application store which is device independent which can be used by operators. This is being sold by Aircel. In the future we can look at other operators also carrying this. But the business model is about revenue share. Flypp is targeted towards consumers whereas our target market is the Global 2000 Corporations. We created something through our research and development, through our innovation and offered this with a New Engagement Model with our client Aircel. There are other examples also. So in the Infosys 3.0 we will be looking at helping our clients transform their business, becoming more competitive, becoming more profitable, higher growth, etc., becoming more efficient through the operations and helping them innovate through the research and development we do.

I will talk about 5 changes that are happening within the company as we build Infosys 3.0. The first one is the concept of 'Building Tomorrow's Enterprise'. Infosys 3.0 is all about helping our clients achieve certain outcomes. It is about helping them with their challenges and business requirements. We conducted several workshops with our clients. In fact, we have these workshops going on with multiple clients, some of these workshops have resulted in downstream work, consulting work, etc. We have been consolidating all the different initiatives which are happening. This is one of the reasons why we believe that the businesses are spending money because they see opportunities. The prioritized list we have come up with is based on the feedback from our clients. The first one being Digital Consumer. About 64% of our client base, the samples we have looked at, has initiatives around digital consumer. Consumers are becoming more digital, they are purchasing stuff online. They are purchasing digital content and they are also doing things on behalf of the corporation self-service etc. Self-service, personalization, co-creation, digital content, these are all

things around which businesses are investing. Marketing is moving online. Sales are becoming online. Retail is becoming more and more online. In fact, one of the reasons why there is less employment in the physical stores today is because retailers going online. Second is about commerce itself. How commerce is changing? Through the use of mobile phones, there is an ability to do micro payment. If you look at software, how you buy software today vs over the years? Today you buy software for which you pay \$ 0.99 on the Apple iPhone. When the PC was introduced, the price of software dropped to maybe few hundred dollars. Before that software was probably hundreds or thousands of dollars. It is a good example of in the IT industry itself how the price of software has dropped from a few hundred or thousand dollars to few hundred dollars to now a few cents. Micro payments are a reality today. Inclusivity - when you look at emerging markets, it is a reality today. That is the way commerce is changing. Looking at how we collaborate in terms of building a smarter organization. Organizations have become very complex and the need to simplify this organization, how do we need to collaborate with our ecosystem, with our partners, with our customers, with our employees, how we can adapt to the changes that are happening around us rapidly. Emerging markets - 43% of customer base have initiatives around emerging markets and are seeing higher growth in emerging markets. If you look at a bank like HSBC, it is showing higher growth today because of their higher exposure to emerging markets. Emerging markets are also innovation hubs. Many of the innovations today are happening in emerging markets and then repurposed into developed markets. The traditional wisdom is that you take something which is innovated in developed markets and take it to developing markets. But innovation is actually happening just the opposite way today. It is happening in emerging markets and then getting repurposed into developed markets. Smart sourcing - how do you leverage emerging markets for smarter sourcing? Computing has become pervasive and I will come back to this because that is the next change that we are doing through the use of cloud, sensor network, intelligence everywhere. Sustainability - about 24% of our customer base has initiatives around sustainability. Lastly healthcare. Healthcare is not just about the need for affordable healthcare but it is also about how a consumer product company can create consumer-based devices, how it can look at healthier food because the consumer is demanding that. You can tap into the demography, the changing lifestyle etc., around healthcare. 14% of our clients have initiatives around healthcare. We have done these workshops, we have created points of view around this, we are aligning our solutions around these so that we can help our clients, build tomorrows enterprise. There are certain themes around which investments are happening and we are aligning ourselves to these. Our dialogue with our clients, our solutions, our consulting assignments, everything is aligned to these 7 themes. It is gaining traction with our clients. These workshops as I said are resulting in consulting assignments, downstream work, transformational program etc. It is repositioning the company at this point.

The second change is cloud itself and how we are embracing Cloud. The reason why I believe Cloud will see increased traction amongst businesses is that Cloud provides a flexible, scalable, lower cost computing infrastructure, application infrastructure, business process infrastructure for our clients. It also de-risks technology because you can de-risk the obsolescence of technology. You can switch very fast. The switching costs are lower on cloud. One of our clients had a huge increase in access to their web site. They used to get 50,000 hits in a month to their web site. Suddenly due to an incident, the number of hits exponentially increased to multi-million. It became one of the most visited sites. Within 48 hours they were able to switch to Amazon.com. Their web site was hosted into the Amazon cloud and they got a scalable infrastructure within 48 hours. Internally we are experimenting with an internal cloud infrastructure so that our projects can be provisioned within 48 hours. Previously when you want to provision a project and create a new infrastructure for a project, you have to buy servers, you have to buy additional hardware etc. You need to plan and you need to provision. It used to take some time a month or two. Today we can do that within 48 hours, through virtualization and through cloud like infrastructure. Cloud provides flexibility, scalability, lower operational cost, lower capital cost, it de-risks technology, you can have multiple technologies, you can switch faster, etc. If you think about GDM, that was GDM for outsourcing; what did we bring to the market? We said you can have contracts which are around 3 months. You can have a higher quality, lower cost resource pool, lower capital investment in terms

of space and investment in people. It allowed you to switch faster. The traditional outsourcing contracts were 7-10 year contract. It also allows access to multiple technology resources in some sense. I am looking at the impact of GDM and impact of Cloud in analogous fashion. We are embracing Cloud because we believe that the combination of Cloud + GDM + services is important because ultimately you have to deliver services on the Cloud. That is where the business value is derived from. The full flexibility comes. If you can have HR services delivered on the cloud which we do today, there is tremendous benefit. We have procurement services, we have social commerce services etc.

Another reason why Cloud is going to take off is because of ubiquitous connectivity. The mobile is becoming the way in which businesses use or access technology today. Business processes are getting automated using mobile technology. The transition from PC to mobile is happening as we speak. Till now, businesses were primarily using PC technology to access the back-end information. Now more and more mobile devices, iPads, mobile phones etc., are going to access the information at the back end. In the future, lot more data would be collected using sensor technology. In fact we believe that the future state with Cloud will be one of connected organizations, connected individuals and connected things. You have already seen connected organizations happen. Connected individuals is happening using mobile technology and connected things using sensor technology which will happen over the next 20 years. Today, there are about 2 billion people or organizations that are connected to the internet. Within the next 20 years we will have 50-60 billion devices that will be connected over the internet. We are preparing ourselves to provide cloud-based business process services and Vishnu will talk about more of this.

Third, we are changing the markets in which we are operating. Today 63% of our business comes from North America. We have been talking about 40-40-20. We are investing in emerging markets and developing economies. This also requires us to change the business model slightly. In emerging markets it is integrated services that what customers buy. Cloud is getting adopted faster in emerging markets. We are also investing in local client-facing groups in each of these markets. Consulting, relationship management, system integration are types of services for which we are recruiting lot more locally. In many of the markets, we now have country heads.

The next one (fourth) is about where our talent is going to be. We have spread the Global Delivery Model to include now other geographies like Eastern Europe, China, Philippines, South and Latin America and we will continue to invest in these geographies. Over the long period of time, I believe the largest centers would be in India and China. We will have about 3,000 employees in China pretty soon. We are planning to set up our own Delivery Center, our own campus in China, just like we have in India. You will see us investing more in China. We will have to follow the 'Follow the Sun' model of being able to provide 24x7 support to our clients around the world through these strategically located Delivery Centers across the world.

Lastly, the fifth change is the ability to engage with our clients using different business model. I talked about the example of Flypp. As we develop IP, as we develop solutions, as we deliver services over the Cloud, as we look at maintenance or BPO services, we are engaging differently with our clients based on business outcomes. So the business model itself is evolving and changing. In fact, if you look at our revenue from the last quarter, about 10% of our revenue comes from intellectual property based pricing in which I am including Finacle or outcome-based pricing. Already 10% of our revenue is coming from these new business models - license revenue, non-effort based license revenue etc.

Infosys is evolving, is changing. I talked about how we are becoming more strategic to our clients, how we are creating the thought leadership, the solutions which can help our client 'Build Tomorrow's Enterprise'. I talked about how Cloud is integral to how we deliver some of the services in future and how Cloud will have an impact on the services we deliver, it is an important transition for businesses. I talked about the markets. I talked about talent and where talents are going to be

located and I finally talked about how our business model itself is evolving, our engagement model is evolving. These are significant changes for the company and that is the reason why we believe that in the medium to long-term, we have confidence in the business model and we have confidence in how we can continue to grow.

Thank you very much.