

S. Gopalakrishnan (Kris)

Ganapathy: We now move on to presentation by Kris Gopalakrishnan, Chief Operating Officer who will talk about how we lived up to the promise by adding services, moving up the value chain, and managing the company in a way that short-term results were met without compromising long-term investments. Kris Gopalakrishnan, COO of Infosys.

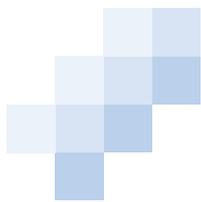
Kris: Good morning everyone. As Guns said, I will talk about how we have grown this business over the years, how we have introduced new services, how we have changed the organization to meet the demands of the market, meet the needs of our customers, how we have met the promises we have kept in terms of actually evolving this business profitably year after year as we grew year after year. And throughout this day, you will see examples of what we are doing in the market place, what we are doing in building the delivery organization, be it investing in building domain skills, consulting skills, creating thought leadership, how we are creating alliances as a way to bridge the gap which exists today, always keeping in mind the business model, where the profits are coming from, etc. And briefly I will touch upon the market opportunities, which will further be elaborated by Basab and his team and some of the organizational responses, which then will be elaborated by Pravin, Bala, Subu etc.

Now if you look at the past few years in the history of the company, this chart shows from 1996 at \$27 million of revenue to a projected revenue of about \$636 (million) at the lower end of the spectrum for this year. There has been continuous growth. There has been profitable growth. Between 1998 and 2001, actually profits increased. Now, this profit increase you know even in 1998, we were one of the most profitable companies actually, at 20% net margins, and this profitable growth - increase in profits happened while we were introducing new services. This is the time frame in which the Year 2000 phenomenon happened. This is the time frame when the Internet phenomenon happened. This is the time frame everybody was actually adding a lot of employees and things like that and we still grew and grew in profits also. The key point there is the philosophy of the company, where we said we should maximize the profit as much as we can. That is the philosophy of the company. It is an internal drive you know more internal drive than external competitive pressure, which forces us to always keep a focus on profits and things like that.

Actually Mohan will talk about what happened in the last 18 months when the economic slowdown happened. How we had to cut costs and still maintain the profits. During this timeframe, we did not sacrifice future growth. What I mean by this is we continued to invest in the market. We added about 35 sales and marketing people in the last one year. That means we are continuously investing in sales and marketing while cutting costs elsewhere, so that we can maintain the margins and things like that.

Now lets look at where the profits are coming from. What the business is all about? To us this is very important because it clearly shows where we need to focus, what are the things we need to do, and this is also drives philosophy of service introduction in the company. For example, if you look at the gross margin, which is - you know taking the direct cost into account, you have a 46% gross margin. You know there are some definition differences and things like that. For example, we include depreciation in this, but still the point I want to get across is - the best run companies outside India would still get a gross margin comparable to us. In that sense, lets say Big 5 consulting company tomorrow delivers service from India, the rates at which those services are delivered are going to be lower, because there is an established norm there, an established price point already set. When people talk about delivering service from India, they have a perception of what the rates should be. So, what happens is the benefit goes to the customer because the rates are lower.

Now, this is a defensive strategy for most of the companies outside India because the customers have seen the benefit of offshore services. They are demanding those services and that is why you see the responses from those companies trying to now create an offshore



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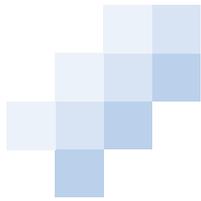
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capability. But that doesn't go into the net income of this company. Clearly, the advantage a company like Infosys has is the lower SG&A cost and lower operating cost because the base of the company is in India. We are a good example of a company leveraging global delivery model. Our systems are based in India. Our corporate overheads are based in India. You know a lot of the stuff, corporate functions are based in India. So, when you compare a company like Infosys and when you compare somebody else, an ability to increase the net income etc., and when you look at, our model is much stronger. This is a win-win situation. We are able to give value to our customers by giving lower rates and things like that. Still make a reasonable profit margin and that is the strength of the model. And that is why our customers are demanding this as a service and offshore services are becoming mainstream today.

Offshore outsourcing is becoming mainstream today. That is why you see the trend towards off shoring a much larger portion of the services business not just software development, but IT enabled services and things like that. This model is stronger. This is what happened in manufacturing and this is what we see happening in services today. Now, when we introduce new services, we look at how much of these services can be delivered from India. Nandan talked about the capability we have built in this organization, the intellectual property we have built in this organization of disaggregating a project and looking at where it is best to be delivered. That Infosys understands very well. How do you manage such a project where the people are distributed across the globe? How do you aggregate this and still deliver quality services to your customers? How do you leverage the technology? What kind of technology infrastructure do you require? For example, in the software side, what kind of source code maintenance and source code management capability do you need etc. This is something which Infosys clearly understands, and we have been fine tuning this. We are not staying where we are today. We have recently gone for CMMI certification in our Chennai facility. We have gone for PCMM certification in our Pune facility. We are continuously investing in improving what we do already very well.

And whenever we introduce new services, we clearly understand how to disaggregate that and still continue to deliver these new services uniquely to continue to create the dislocation in any of the new services we create. This also talks about the philosophy of these new services. For example, if we take something like IT outsourcing, which involves taking over assets and thing like that. We actually plan what part of those services Infosys will deliver and what part of the services we will use an alliance for, such that we can try and maintain this margin going forward. It is the philosophy of the company. That is the message that I want to get across.

Now, let us look at the promise on moving up the value chain. Now, starting from where we were in 1991 when the company was primarily offering application development, maintenance, and re-engineering. Over the years we have added several new solutions to our package of solutions to our customers. We have added package implementation or enterprise solutions. We have added consulting - both on the technology side as well as on the business side. We have added verticals like engineering services, transportation, utilities and things like that. We have added over the last few months, Business Process Outsourcing, IT Outsourcing at site. We see the need in the market of consolidation of vendors. We see in the market that as the profile of the company changes. Now today Infosys is considered a major player in the IT arena. If you look at 1996 when our revenue was \$27 million dollars, we would not have been a major player and to go and tell our customers that we will do end-to-end would not have been appropriate. But today with the size of the company, with the profile of the company, with the number of people we have etc., when we go and tell them that we can indeed offer end-to-end solutions, they readily accept that. So, understanding in the life cycle of the company when to introduce these services is also very important. Back in actually 1995, we started offering package implementation. We withdrew that service for a couple of years and then re-introduced back in 1997 because we were not ready at that point, so we withdrew that service and we introduced it back in 1997. So, knowing when to do these things is very very important.

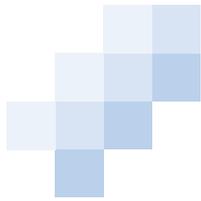


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Today, the enterprise solutions, the consulting constitutes about 15% of the revenue. Overall, the services we have introduced over the last few years the last four-five years constitute actually 28% of our revenues today. So, these services have added significantly to the value we are delivering to our customers. These services are considered at higher price points, higher value points by the industry and we have done this by maintaining our increase in the margin. So, when we introduced the service you know it is not putting all our eggs in one basket, going after a trend in the market, going after a wave in the market and things like that. You know we set for ourselves a cap for the internet services because we said that we should not be too much dependent on one particular service because what happens when a downturn happens, what happens when that wave is going, how can you replace that business. So, we have actually de-risking matrices about how much revenue we should derive from a customer, how much revenue we should derive from a service line etc., and then we manage this properly such that growth is there as well as profits are maintained. And we have actually continuously evolved in the framework of end-to-end solutions over these years. If you look at what our objectives continuously is. If a company spends \$100 on IT, what is the addressable part of that Infosys can deliver. And the remaining is the potential for new services. And then when we look at that potential we decide, okay what makes sense to introduce today. Will the customers accept that service from Infosys today? Second, will that service be delivered differently by Infosys? Because that is very very important. We don't want to just introduce the service such that we compete with established players, who can deliver that service much better today, because they have the history. So, can we deliver that service slightly different? So that we can go with a new story to our customers. We can say that the trend in the services industry is moving subglobal and we believe that let us say the consulting or we believe that IT outsourcing will be delivered differently in the future and would you want to be a leader in getting that service from Infosys? And that is how we look at these new services. We believe that we have moved the addressable market by almost three times by introducing all these services over the last few years.

That means let us say if the total addressable market was \$20 out of this \$100, today we are some where around \$60 now in a rough cut. So we have moved the addressable market of our services by three times over the last few years. And that gives us actually tremendous room for growth in the future. We have as I said a proven, defined methodology for introduction of new services from conceptualizing the service, piloting those services with existing or new customers, understanding then whether the service will indeed be accepted by the customers? What are the profits like? And are we able to do this service differently. Then we consolidate and then go back and introduce this on a wide arena, building the marketing and sales set up to deliver these services. So, Basab will talk about how we have changed the sales force itself to provide to for team selling, look at how we offer these new services and things like that. As I said, the new services are delivered uniquely. Alliances are way for us to now to look at how we can fill in the gaps. There are companies which do these things very well today, and we can combine our strengths with those companies and provide these services such that the customer sees one team delivery from one vendor and in many of those instances Infosys is today trying to become the prime vendor. That means we actually knit it all together and deliver these services to our customers. Aggressively use the global delivery for win-win benefits. And our focus is always on win-win benefits. Because we do want to focus on how we can deliver more value to our customers. That is what makes it attractive for them to come to us, still make our margins and thing like that. And very high quality team in front of the customer, and a combination of our sales and delivery etc. Both in the selling side as well as when we deliver the software in an integrated fashion. Over the last 18 months, we have been concentrating on building our client relationship side, enhancing that. Because we see that as a gap for Infosys today. That is one of the major gaps we have today and so we have been working very hard in building our client interface teams. So today we believe that we have a very unique position in the market place. We believe that in terms of the foot print of the services, Infosys has in terms of the credibility we have, in terms of the ability to deliver the services, we are as close to the big 5 as possible, but uniquely delivering those services. That is the difference between the global majors and Infosys. The global



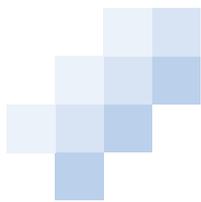
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majors are trying to create the global delivery model. We have that as our strength and we are building the client facing capability. We are building those service clients etc. We believe that most of the other offshore players, mostly still in the project management and staffing services area. And that is how we believe that we have repositioned the company over the years. The results in terms of the revenue, in terms of the perception of our clients, prove that we have been successful in making this transition. We will continue to make this transition, award this company into a more full service company keeping the profits in mind when we do this.

Quickly, turning our attention to the market conditions, and things like that. There is vendor consolidation happening. Many customers who have had 200 vendors with whom we were working, is reducing to may be 4-10 vendors today. Each of those vendors are expected to provide a range of services. They say okay you know these are your core capability and I expect you to provide these services. The second strength we see is larger deal coming for offshore outsourcing. We believe that this is also part of the trend that the larger Indian companies have reached a size where there is acceptance of them in the market place. That they can indeed participate, compete and deliver in the large deals today. Outsourcing is becoming ubiquitous more and more, especially in the slowing down conditions. CIOs are looking at how they can convert their cost into a variable cost, how they can then have more control when the downturn happens by reducing that variable costs. So if it is a fixed cost, then you need to take a charge when you lay off employees and things like that. And it is also very very troublesome for the company to go through that period of time. Global delivery is a necessary condition in terms of how services are delivered today and in the future and managing risk is also very very important, perceived as well as actual. Perceived risk to some extent when it comes to a geopolitical situation and things like that. Actual risk in terms of financial stability of the company, how well this company can deliver these services. And in large deals, when the contracts are five years, seven years, etc., you want to make sure that the company survives for five years / seven years. We have today examples of our clients coming back to us and telling us that they used to work with this small company, they are no longer there, can you do now some thing? Can you quickly take over their people? Can you take over the delivery of the services and things like that? They are realizing that it is very very important to go with a company which is financially strong, which has a vision of the future and which is going to survive in the future. What are some of our responses and throughout the day you will see specific instances of where we have been able to do these things, specific examples of where we are been able to do these things. When it comes to combining consulting with delivery. How well we have been able to integrate this? That is always a concern. How can you integrate consulting with delivery? And we will show you some examples of how we have been able to deliver consulting with delivery, how we have been able to drive downstream work and things like that. We will give you several examples of that today.

We will give you several examples about how we have been able to leverage our domain skills and change the perception of our clients about an Indian company. Can you advise a company in the US about the business environment in the US? Can you do that in the perishables area, can you do that in the insurance area etc? And we will give you specific examples of these during the day. Looking at putting together large deals, cross functional teams, bringing in the expertise required to negotiate such a contract, and we will talk about what are some of the changes we are making in our sales and marketing teams, in terms of team selling, bringing in the right resources to do these things. Working very closely with outsourcing consultants, because one trend we are seeing is the companies doing large outsourcing deals are using specialists in managing outsourcing contract negotiations and thing like that. Because if global delivery becomes mainstream, how do you create centers of excellence in remote locations and still deliver value to your customer? So we have the expertise in terms of how to de-risk such projects, how to manage such projects, how to deliver value to our customers? And we are getting this message across to this specialist, so much so that they consider us probably as one of the leading players in doing these things.



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Some of the contracts now are actually sole sourced with Infosys when it comes to global delivery model etc. Continuously leveraging our GDM model, and this is where understanding the business model is very very important, understand what are the differences between just saying that okay I have an offshore facility versus how do you leverage your own global delivery model? I do not know whether Mohan is addressing this or not. Today all the travel bookings for all our employees worldwide are done from in the facility here in Bangalore. So we do business process outsourcing for our own use actually. Payroll for the entire company is processed from Bangalore. So, you have to leverage the global delivery model for everything we do, in every possible activity this company does, and that is how we are able to keep the costs down. And that is the major difference when somebody says I have an offshore development center.

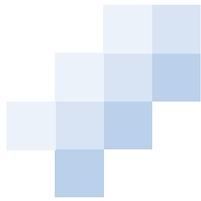
Lastly, we will continue to build on the brand of Infosys. We will talk about some of the things we are doing in terms of the Wharton Infosys Business Transformation Award, or customer meetings and things like that. You know the business transformations play leveraging global delivery model, leveraging technology, and the space in which we want to uniquely play, and lastly the stability of the financial model, how we have reduced risks, etc.

In summary, we believe that there is a convergence happening in the industry. The major players in this industry, the established players in this industry, are looking at creating offshore centers and thing like that, trying to provide the services which the customers are now demanding, which the market place is demanding. And we believe that shift is happening, some of those companies are definitely going to be successful. They are very very smart companies, they are going to be successful. We have no doubts about that. Whereas Infosys is looking at building a client facing capability, increasing our brand awareness among prospects and potential employees, continue to invest in quality, education, training etc., creating a consulting mindset, full line of services, creating a global work force and things like that. Now this entire set of initiatives which have been happening over the last few years, and you know I showed examples how we have changed from 1991. Actually has been consolidated and internally these set of initiatives are being called Infy+ within the company today. This is the umbrella under which we are driving these series of initiatives. We have already demonstrated that we have been able to deliver on some of these promises already, and you will see further examples throughout the day of instances of this through case study and things like that. So thank you.

Guns: We have about three minutes, and may be a couple of questions?

Sujit Sahgal: My question was regarding the global delivery model. We have been continuously talking about the global delivery model. I mean if you actually look at the model that Indian leading companies have, I mean it is more Indian than global, in the sense, today what percentage of your delivery resources will really be outside India, apart from the ones who are you know on-site, at the site of the client? But really on the proximity center kind of model, really what is the extent that we have that today? If you contrast that with the capabilities that the US big 5 already have in terms of, probably I will quote that also a global delivery model, they will have centers across the world, whether it is East Europe or Malaysia or Philippines. So I think we have a long way to go to really reach that. Can you just resolve this question in my mind, why do you still keep calling this global and not what they do global?

Kris: From our perspective I will answer, because ultimately you have a much better view of the footprint others have etc. See, typically, companies have been using this in a very small way. When somebody says I have a company of 70,000/100,000 employees say that they have 3000 people in Spain or Philippines or something like that, or 500 people in India, you know it is not fully leveraging the global delivery capability. Because we have proved that 70% of the work can be done from a remote location. That is what Nandan was talking about. You have to move a whole lot of people away if you want to truly deliver value to your customers as well as your investors. So we are saying that this is the optimized global



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delivery model. We have always tried to do everything possible remotely, everything possible from a center of excellence located elsewhere.

Now the second question is, it is only India based. But see from 1995 onwards, Infosys has set up centers in different locations. Today, we have centers located 1000 miles away, actually more than 1000 miles away, and we have Pune, we have Bhubaneswar, we have Mohali, and several centers. We have Toronto in Canada. We have several centers now in the US. Now that is the IPR we have in terms of distributing the projects. We are looking at today, locating centers elsewhere in the world. And we will move in that direction. To us it is a natural extension because the capability of how to do this already exists. Yes we need to understand the local government rules and regulations in setting up something, we need to recruit local employees. We are doing more and more. Today we have people from 29 nationalities working with Infosys. So we are building those skills. We are not there yet, but we are building those scales. So two things. The difference is the scale at which you can do global delivery to really say it is optimized, second I think with this ability to distribute projects can be moved outside India equally well. As you see in India, because we have proved that within India itself.

Nikunj Doshi: I have question on IT outsourcing. Worldwide, the trend is moving towards the IT outsourcing and we as a company do not have much strength on the hardware part of the segment. So what kind of alliance are we looking and how far we have reached?

Kris: Srinath Batni later in the day will talk about this in more detail. But we are looking at alliances where you need onshore support and things like that. Maybe let us say a network operation center which is distributed in the US and India, and we will look at partnering with somebody in the US. Because, we believe that we want to offer that from India today, but the 24x7 support will be provided by an alliance partner in the US. So we are looking at alliances in that manner. So thank you very much.

Ganapathy: Thank you Kris.