

Srinjay Sengupta

Ganapathy: Welcome back from lunch Ladies and Gentlemen. We continue our detailed insight into the various markets that we operate in with session on the European market and its specific nuances. We are joined by videoconference by Srinjay Sengupta, Vice President for sales in charge of Europe from London. Srinjay is an MBA from IIM, Ahmedabad and has been with the company for a number of years now. Thanks for joining us Srinjay and I now hand over the session to you.

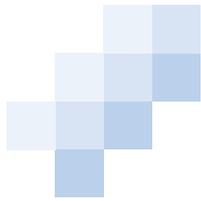
Srinjay: Thank you Guns. Good afternoon everybody. It is morning for me here. I know you all have had lunch now. It is a touch session to handle just post lunch. What I am going to talk about is really our challenges in the European market. So what I have is an agenda. I will first talk about the market in Europe. I will give a brief understanding of our performance here in Europe, talk about some of our key clients and really summarize with talking about Europe being an area where we are investing for growth.

The European IT services market, just to give a bit of a background. The total market size is \$158 billion, its being growing at a compounded rate of 7%. The UK is the largest IT market in Europe. You all can see a pie chart at the bottom, which talks about UK being at least a quarter of the European market. Three countries, which are not surprisingly three countries, which are UK, Germany, and France contribute to 60% of the European market and the other countries include countries like Belgium, Netherlands, Luxemburg, Sweden, Switzerland etc.

If I go to the next slide which really talks about the market segments within Europe. If you really look at this slide, the largest pie of the market here is the development and integration piece. 30% of the European market is development and integration. Having said that, business process management and IT management, which contribute to about 39% today, are the fastest growing sectors in the European market.

To quickly walk you through the next few slides, I am going to touch upon each of the countries at least the big countries - UK, Germany, and France and give an idea of what is happening in the market. UK as I said is the largest market in Europe. It is a \$39 billion market. It has been growing at a compounded rate of 7.5%. Again, not surprisingly the IT services market here most closely tracks the US. The UK economy in spite of being closely related to the US economy has actually been one of the better performing European economies. The GDP growth since 2000 has been 2.5% per annum. And really the US and Indian companies view UK as a springboard into Europe. Of course, language for historical reasons, UK is probably the best place for an Indian company or an American company to start off business within Europe. Financial services, public sector, utilities, manufacturing - these are all very very large sectors here. Number of Fortune 1000 companies are based in the UK where the decision-making is also based out of the UK. Markets have been through a lot of turmoil. There were large number of redundancies which were announced in the market during 2001. Many of the local companies, the Big 5, IBM, etc. announced redundancies here. Some of it is even continuing today. So the market is still not really settled. Interestingly enough, application outsourcing and BPO are the large growth areas here. The data that I referred to here again as you have seen in most of the presentations - some of these numbers might vary from one analyst to the other. But, directionally, it all points to similar kind of data - application outsourcing, BPO are the large growth areas.

So I will go the next slide. Talk about Germany - \$27 billion market. Germany is of course the third largest economy in the world after the US and Japan and the IT services market has been growing at a compounded rate of about 6%. The German economy was the one of the first to be hit. It actually started slowing down sometime around 2000. Manufacturing, public sector and financial services are big sectors, but the economy per se has slowed down and it has been struggling a bit. Offshore is increasingly becoming more accepted in Germany. When we started off our German business in late 1998, I think offshore was a very very



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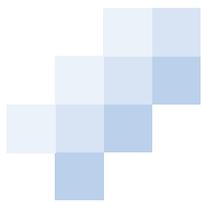
foreign term for them. But today I think people are beginning to look outside quite a lot, including countries such as the eastern European countries. Language is of course one of the biggest challenges in Germany, especially when you are trying to do as you would have heard in some of the earlier presentations when you are trying to do more of the business solution kind of engagements, which require a lot of strong front ending skills, language does become a bit of a challenge. Again, like Europe or like UK, application outsourcing and BPO are large growth areas here.

The last market, which I thought I briefly touch upon is France, a \$22 billion market, CAGR of 5%. GDP growth in France has been relatively strong, expected to grow 2.5% plus in 2002. France was one of the last markets to get "hit" by the downturn, sometime in late 2001. Interestingly enough the outsourcing rates in France among the lowest in the large western European economies. There is a lot of very cheap, should I say programming skills available in the southern parts of France, which makes it quite competitive. Our biggest challenge - which is not a surprise to anybody - is to overcome language and cultural barriers. A large number of the vendors in France are very very French based vendors and there is a lot of sourcing which happens mostly within France to French companies. So, for international companies such as Infosys we obviously need to come across with a much more French face to actually make deep inroads there. Again, not surprisingly, application and BP outsourcing are large growth areas here.

Touched upon the three big markets - UK, Germany, and France, in general, I would say that Europe is unlike the United States of America; this is not the United States of Europe. Each country to an outsider might look similar but each country is very very different. Switzerland, Sweden, France, Germany, UK - each have to be treated as a separate geography and that makes our job in the market a lot more challenging.

If I move on to the next slide, just to give a brief idea of what the state of the market is today. Again, some of this information has been culled out of the some of the Analyst reports including Gartner etc. We really started facing the economic downturn since the second half of 2001. So there was probably a four to six months phase lag between what was happening in the US and what happened in Europe. If you look at the sectors in terms of the horizontal segments which have been affected, the CSI space which is the Consulting and System Integration Space, has been the worst effected as with every other country and which most customer's discretionary spending has gone down and spending has shifted from those hey days of e-Commerce etc to application integration, ERP consolidation, CRM etc. This probably is the area where we have seen a maximum amount of vendor redundancies which are happening. Many vendors which were doing niche work have gone out of business and of course this is one of the areas which has been affected pretty badly. The network IT services market has a mixed results. Good news for us is that the software maintenance and support side in this business is a high growth area as also is the IT security services. Also, a large number of telco operators - although they are going through a huge set of debt problems, financial restructuring etc., - they are investing heavily in some of the customer care, billing and mobile infrastructure solution. So, this is a key area for us here in Europe also. Financial stability clearly is an important criterion for vendor selection. There are many players in the market, which are seen to be unstable. So one of the first things that the client looks for is financial stability and global footprint of the vendor company.

The last horizontal space, which I thought I will talk about, is IT outsourcing and Business Process Outsourcing. Clearly the fastest growing sectors in Europe. The key drivers have been for long in my experience and in most of the reports that I read, the biggest driver here is of course the cost reduction. There are also other drivers such as focusing on core competencies, process improvement, access to new technologies etc. And, to actually win in this market, vendors need to of course demonstrate capabilities on the right competencies. Otherwise, of course there is no deal. They have to be very flexible engagement structures. Each client is very different from what his/her competitors is doing and therefore the engagement structures have to be attuned to what the client needs. Lastly, the relationship



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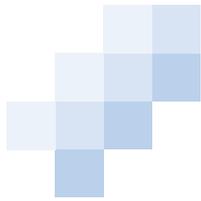
models have to be very powerful. Basab and earlier Nandan talked about multi-layered relationships that we are trying to establish. One of the things that we have seen is in many of these deals people like to have access to senior management of the vendor organization and therefore we need to have relationship models, which are much more evolved. In my mind, offshore vendors have the strongest play in this area because in a lot of cases the outsourcing which is being done, is being done specifically keeping in mind that the client wants to go offshore. I think the only other trend, which I would talk about here when I talk about an overall picture is alliances and partnerships are becoming increasingly important. Basab talked about this earlier and I would like to underline that this is one of the areas that we also as an organization are looking at actively.

I will go to the next slide. If I talk about the pricing which has been talked about earlier, market pricing continues to be under pressure, especially in large outsourcing RFP driven deals. This is of course driven by the need to burn bench and to utilize excess capacity, which is already there. And one of the other trends that we see that due to better access to people, insourcing has started to become an attractive sourcing option. Of course insourcing does not lend to access to the external technologies or moving away from core competencies, but in certain cases clients are taking the decision to insource rather than to go externally. I think a few other pointers - decision cycles continue to be quite long. A couple of years when we were working in this market it would be anywhere between 4 to 6 months. Nowadays in many deals we see decisions cycles taking up to 9 months to a year. Also, offshore sourcing is gradually becoming a strategic choice for clients and many outsourcing decisions run into roadblock because of the tough labor laws in this part of the world. Many of these countries tend to obviously operate in a regime which is very very pro-labour or pro-employee. Therefore in some of these cases vendors need to demonstrate the capability of hiring people from client company and this becomes something which some of the vendors have to develop. Lastly, as I said BPO is fast becoming a focus area especially in UK and Germany.

I would now like to move on to Infosys in Europe and how we have fared here till now. First of all I think there has been in Europe our performance in general been very positive. We hit the hundred million mark in the year 2002. For perspectives, we started the UK office in late 96 early 97 and you can see the revenues the way it is stacked up. In 1998-99 we were 9.5% of global revenues, as of last year we are 19.5%. So, Europe is a fast growing area and we want to ensure that it can grow up faster than the rest of the company.

If I go to the next slide. Some of our key clients that we have. Let us first talk about the banks and financial services etc. We obviously have clients who are European operations of global companies as you see American Express, Franklin, Marsh etc. We are working with a number of European multinationals - Deutsche Bank, Swiss Re, ING, Cardif, which is actually a unit of BNP and we work with a number of these regional and national banks. Most of the inroads that we made here are in Germany, where we work with companies like Deka, VKB, BHF etc. These are very very European Banks, which don't have much of footprint outside. So I move on further to the next slide.

Now for other clients are in retail and manufacturing as you can see we have some names there - Reebok, Adidas, EasyCar, which is of course part of the Easy Group, Argos - these are some of the big names that we have. We work with companies like Porsche, BMW - there are really some marquee names here in the retail and manufacturing side of the business. Lastly, If I move on to the next slide, which is on the hi-tech, telecom etc. We work with a number of hi-tech manufacturing companies some of which are of course global corporations like Dell or say DeLaRue, which is the UK based multinational. Ericsson, which is our Swedish telecom customer. We work with a number of these telecom and IT companies such as Belgacom, Telenet, Vodafone some of these names you have heard before, some of these are global relationships. Lastly, in the energy and utility space with companies like Vivendi, Alstom, Statoil, etc. So that is like a list of some of our customers that we have got.



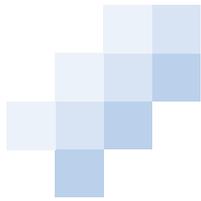
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Just to move on further, this is just a footprint of the offices that we have got and among the slides where we talk about each of the offices. Obviously the UK office is our European head quarters. We have invested a lot on the business development side here. We have a country manager who actually heads up the UK business and there is an industry focus - so we have people focusing on various sectors in the UK. Our German office, we have had of course as I said the language is a key challenge so we have invested heavily in local delivery team - people who either speak German or who are Germans themselves who are actually front ending some of the engagements that we are doing. France office started very recently. It has been about 7-8 months, but we have already started expanding our sales team there and we are looking at France differently. We are doing a lot of marketing activities there to create that aura of not being an Indian company trying to establish its footprint in France. Rather we want to create an aura of being a French company which is trying to do business here with global sourcing capability. Some of the other offices we have - Benelux of course we have got an office in Brussels and in Netherlands. We have an office in the Nordics - which is Sweden - which really covers the entire Nordic area and we have a Swiss office - a large number of our opportunities there are in financial services and in precision manufacturing, which is what Switzerland is well known for. So this is the laundry list of offices that we have. So we move on to the next slide.

We have taken specific go-to-market solutions. Many of you may not be aware - there is a challenge in Germany for example which is ISIN conversion, which is really, it is security identification number change which is going to happen. We have created a service around our ISIN conversion. We have already got our first engagement in customer with **BHF** Bank. We have been actively selling this. This is a very localized German and Swiss sort of service that we have. We also have what we call as Basal II, which the European pronounce as Bal 2, a Bal 2 solution. We have already won our first Bal 2 engagement with one of our clients and we hope to roll this out across Europe. And of course we are doing a lot of work on the public sector side. We have been empanelled under the supplier category in the UK, which gives us access to a number of public sector deals which are happening. As many of you would be aware - public sectors is a large spend in the European economies across Europe, because this is more of a welfare state in this part of the world than in the US. And especially, in times of a downturn, the public sector gets more and more importance because of the services that they need to provide. So this was a very important win for us - getting empanelled under the supplier category and one of the few projects that we have already won is on the NHS side, which some of you would know which is National Health Service in UK.

Moving on to the next slide. We are doing a lot of Europe focus marketing. I have picked on just a couple of them. One is the Wharton Infosys Business Transformation Award, which we have been doing obviously as the name suggest - It is Wharton and Wharton's partner here in Europe which is Insead. There was a big event, which was held a few months back and there were number of industry leaders and because we were one of the co-sponsors of this award - this got a lot of publicity. We are also doing as some of you may be aware - our customer conference is called Milan, and historically we have been doing just one Milan in the US, where all our customers across the globe used to meet. We have now for the first time decided to do a Milan here in Europe. So this is going to be for European clients and we are going to do it this year in Monte Carlo, which is where we are going to get all our customers and some of our key prospects in. Apart from this, we are doing a lot of local branding and marketing activities which I have not put in the slide which includes talking to the technology analysts and having relationships with them, which includes having relationships with the press, doing a number of events across each of the countries that we are in. And much as the way Sriram was saying also, we prefer doing events which are like solo events where we get a group of CFO, CIO, CEO etc into a room and we discuss the topic of interest and create a position for ourselves in that market. So we are investing a lot in ensuring that we come across as a Europe focused player rather than as either an Indian company trying to establish itself or an American company trying to bring some good practice there.



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Many leaders have visited Infosys of course the name most well known is Tony Blair. He was an honoured guest at Infosys and this of course creates a good visibility for us in the market. I think I will just move on to the last slide. We have just to compete and summarize what we have been doing at Europe. We have eight office locations now with of course state of the art network. We have over 2000 people who are focused on doing European projects. Something, which you have heard right from the start we have established alliance program. We have already put in an alliance management structure in place here. We are going to actively seek out alliances which either strategically in nature or transactional for a specific client. We have established a European regional marketing now so we have market initiatives, which are based out of Europe, which our regional marketing people will drive. And of course you know the GDM is available across all regions to deliver and support any requirements in any country. With that, I come to the end of my presentation and I will be happy to take any question that you all have.

Sujit Sahgal: I had a question on the onsite intensity of projects in Europe in general. I mean Infosys for example would have around 30% of its efforts on-site. Does it differ in Europe significantly than the average?

Srinjay: No not significantly so. I think the number for Infosys is probably more in the 30-33% on-site. Europe is actually no different from that, around that number.

Sujit Sahgal: The other question is when you market to your customers in Europe do they ask or look for delivery capabilities closer to Europe and has that ever been an issue for you?

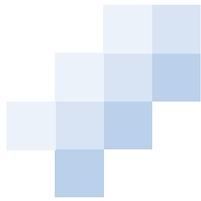
Srinjay: I think in many cases when you are starting up a relationship with the customer and it is not just in Europe; in many other parts of the world, the initial 3-6 months they probably look at delivery capabilities to be there close at hand, because they are just not familiar with the offshore model. But over time as long as they are comfortable with the offshore model they are perfectly happy with the delivery being done somewhere far away. What they do need, which is what I was also trying to talk in the presentation, is clear access to people who can communicate with them in their language and in the way they want to communicate. So they need a much stronger local interface which they need to be comfortable with.

Sujit Sahgal: And my last question was overall in terms of demand - what would you say - Europe is stronger than the US right now or is it weaker than the US?

Srinjay: I think it is different in pockets. If I were to look at some of the large countries like UK and Germany - they are no different from the US, fairly strong, downturn. If you take a region like Scandinavia, it got worst hit by the dotcom and the mobile you know internet in a sense of bust and they have definitely slowed down a lot in their spending. If you look at some of the southern European countries - they are probably a bit stronger than what the US is right now. But we don't have much of a footprint in southern Europe, which is countries like Spain, Portugal, Italy etc.

Male Participant This is regarding BPO. I understand that some activities especially in Germany and France - some part of the HR related outsourcing cannot move outside of the country, restricted by law I believe I am not sure. If you could shed some light on this. As a result a large number of the outsourcing contracts are going to Systems Integrators so to speak within the country that are doing it offsite but not at the customers premises. Do you think that this might impinge on your BPO going forward where it would be more offsite at the country rather than offshore in India.

Srinjay: There are a number of answers to that question. First of all I am not the expert on the HR laws etc. What I would say is that there are a couple of constraints while we try to do BPO here. One constraint is clearly in terms of data protection. There are fairly strong data protection laws in this part of the world. We need to ensure that as long as we do not impinge on some of the data protection laws that should be good, but we have to adhere to some of



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these data protection laws. Secondly, I would not be able to say specifically on HR but for example on the financial side or companies in the financial services space, many of their actions are guided by some of the regulatory bodies here. So for example, the UK has the regulatory body called the Financial Services Authority, which actually clearly puts guidelines on what can be sent outside the country and what can't. Most of the time when clients actually come to us and look at opportunities on the BPO side they would have done their homework on what can be outsourced to India and what cannot. I would also say that if you look at the market - the HR, Finance and Accounting these are big areas for Business Process Outsourcing. By all analyst reports we get to see that finance and accounting is going to be the higher growth area in Europe for business process. So while HR is the segment, which is going to grow, finance and accounting will grow actually larger. Such is the market is there I don't think it's a concern for us that you know that we will get constrained by some of these laws.

Ganapathy: Any other questions?

Lady Participant: What kind of effort do you need to get into the government projects in Europe?

Srinjay: I think they are fairly intensive. One of the key reasons is that the government clearly lays down procurement guidelines and that deals have to be competitive. Typical selling cycles are fairly long, I would say upward of a year, a year and half, if you have gone through the proper procurement processes. Having said that, there are a certain exceptions that can be made where deals are of a certain size. It can be single sourced or if you are getting some specific intellectual property on to the table then it can be single forced. The bulk of the deals tend to go through these large procurement RFP based processes, because that is the government rule, but there are ways out to actually circumvent the system.

Ganapathy: Thanks a lot Srinjay.