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Session 1 by Naren Koduvattat

Naren

_____ right now the global scalability. They want to spread the globally. They want support globally but they are looking for partners who will help them to do that and the high oil prices obviously is a lot of cash, there is a lot of cash for them and looking at spending them particularly in two areas. One replenishing the existing assets which is a big challenge, you know the Shell background and finding new assets which is a big challenge. Two business process transformation because over a period of time when these companies have grown to such scale and such spread, they built an inefficiency in their systems which they are trying to breakdown now and integrate information integration as well as business process integration. Lot of money being spent in to that. Across the board, energy and resources again, emerging markets particularly the South Asian markets and the South American markets are a big focus area for them and they are figuring out how exactly to grapple with that. They are creating new business lines for example if you take the oil and gas sector, they are looking at gas and renewables being a new way the future business lines and there is a lot of investments going into that. Aging workforce is a common column across all these companies particularly because the agony in existence for many many decades and they are now really faced with the threat of their knowledge being walking out of the doors and they are looking at technology as well as new partners who will help them to manage that.

Utilities particularly the biggest change has been energy bill of 2005 which has allowed more investment, private equity and the speed to invest in the utilities particularly into the transmission and distribution side and apart from that, their high fuel cost has put a pressure on their bottom line. Being heavily regulated in the US they are looking at innovative ways of cutting down costing and improving their efficiency and the other thing is all over the world, the utility customer base, the consumer base, as it is huge money which you can imagine, utilities are typically into million dollar customers plus. It is zooming all over the world because the world economy is growing. Obviously the pressure on supplying of energy, supplying of electricity and gas is increasing.

So a lot of changes to the market and if you look at what they have done in terms of sourcing particularly, I am using the global sourcing, because this is the trend today especially in the energy and resources spaces. Most of the companies are familiar with global operations and global sourcing. Utilities have been heavily regulated, heavily politically controlled and very very national centric. They are just embracing the whole global sourcing and off shoring and so on but in terms of where they are today, you can see that less than 10% of these companies world wide have actually gone full steam with global sourcing and out sourcing. So that is huge mind set change happening out there and they are looking for partners who really will support them globally. That is number one but more importantly these companies demand a lot of depth in the vertical knowledge. It is not just technology but the combination of technology and depth and the scalability that is what is being looked upon.

Now what is Infosys approach to this market? One of course, we want to leverage our operational excellence. There is absolutely no doubt about it because that is a differentiator for us. Because people look for predictably, assurance that when they assign a project to us, it will be completed on time within budget. Then being like I said, sunrise industry, we are walking into this industries with very little brand image or baggage. So when we have a great opportunity to create an absolutely new brand image and like Nadan said, we believe that we have an alternative to the legacy firms who have been in this business for decades, altogether. Their way of relationship management, the way they structure their contract, the way they are managing the SLAs, we are able to offer an alternative to most of these companies and they are eager to talk to us on that and the trick is to leverage the full service capability from day one. I will give you some data about how we have gone about doing that in the coming slides. But the key to the whole strategy is the verticalization which we believe is absolutely crucial because on Infosys side we have the service capabilities, we have the global reach, we have the scalability readiness, we have the technology capabilities but specific to these industries, now we are investing very heavily into building those vertical capabilities. Again there is a slide following giving the details. Resulting and we believe that we have to really accelerate growth in these markets both in terms of client base as well as in top line growth. At the same time go for differentiation in terms of our capabilities, in terms of brand positioning, it should be reflected in higher premium rate and so on. We believe that it is happening with the higher brand positioning in this market for Infosys.

Now very quickly if you look at the verticalization which is the course strategy which we are applying in this market, there are multiple dimensions to this whole thing from services, competency, partnership, industry alliances, solutions. This is how we are going about implementing. You find a lot of acronyms in here but very quickly if you look it, we are building a stack of solution out there which reflects our vertical capabilities for all these industries. To given an idea, IRP is a refinery portal which is looking at improving the refining proposal in refineries to the extent of saving three to five cents per barrel. This is the kind of value proposition we are making there. ITS is a trading solution, retail gas distribution is for large natural gas and other retail distribution for companies. CCSS is the utility client customer care solution, Procure-to-pay is the supply chain optimization and business process improvement for energy companies and resource companies. RFID, we are working in combination with other RFID teams in Infosys to provide assets management including human resources packing because it is a big concern for exploration production companies and they are extremely sensitive about their human capital deployed in the rigs and the offshore centers and we believe that RFID can bring a big difference out there, corporate performance management and so on. Vertical services, we believe ADM, the application development management services as it is called today, will transform into vertical services in the near future and we are getting ready for that because there is nothing like ADM for these players. It is GIS (Global Information Systems) or it is CIS (Customer Information Systems) or AMR (Automatic Meter Reading) and so on. So we are getting ready restructuring our own delivery capabilities in these vertical services. Two of them have already rolled out working for Infosys, the blue colors what we see is what is being built right now. Then competitive building. we can see major investment going in to this. Just to give you an idea, we have tied up with Oxford Princeton and Edison Energy Institute of US to offer external training for our people which is a world wide recognized certificate which is used by our own client companies and right now we have 55 people in level two. We are targeting to have 350 people plus, in 2006 to complete the level two. So just to give you an idea, level one, level two and level three are the grades for certification, level three being the highest which is the expert level and a domain consultant level. This is the combination of technology, it is the technology people who are getting trained with the certification. Similar to that if you look at it, niche products, tons of products been used by these companies along with the large ERP packages like SAP and so on, what we are doing is we are taking some of our existing expertise, existing people, cross-training and retraining them on this so that they are retrained, the run of the mill, .Net, Java whatever along with the least whatever technologies are required for these companies.

We are working with our customers not just as service provided but as go-to-market partners to help them to go for system integration of their end customers. So at least, 3-4 customers, we have these arrangements going on right now and we believe that this is the future area for us and last one out there, we are working with niche players, as well as the global players already have the global alliances and so on, but many niche players out there who are in those markets. we are working with them to build the teaming alliances or strategic alliances.

As a result, you can see in the last three years, since the last re-org in Infosys in 2003 and 2004 is when the last organization structure came to being, you can see how we have grown. You can see the growth in Energy, we started with a fairly good base and then it has been a pretty good growth out there 93% is the growth on an annualized basis and then Resources has grown tremendously, from almost nothing to a pretty large number now and then Utilities have been a kind of okay. Revenues as a percentage of Infosys. That will give an idea about where we are really delivering our promise. We started with a very low base of 3.28% of Infosys revenues coming only from this segments combined and now as of fiscal 06 end, we were are 6.68. I do not have the figure for the Q1 yet.

Geo-split - Europe is contributing the maximum in this because a lot of these companies are still headquartered in Europe, but the work is happening all over the world but this clearly based on our internal classification of where the company is headquartered. You can see an idea about the differentiation which we achieved. When we started off prior to the reorganization 3 years back, it was predominantly the ADM or the normal technology work as we call it which was contributing to our business. Today, the mix has changed drastically. In fact for the good. If you look at it, there are large ERP implementations and supports going on but the most impressive if you look at it, close to 10% of our revenue is coming from consulting, core consulting, domain as well as business consulting and this particular industry segment is the largest benefactor or utilizer of our Infosys Consulting Inc which is our subsidiary in the US. You can see the mix has changed quite a bit and if you look at the client base also, one of the reasons we wanted to show, this much of detail out here, which we will normally do not show, is the fact that we are opening clients, the client base is expanding very rapidly out here with most of them potential of at least \$ 10 million plus because we are not going for any client which is coming from this place. Like I said it is well identified, chosen clients/prospects which we are running after because there are plenty of clients out there.

I will end with 2 case studies. One is for a very large oil and gas major, \$ 300 billion revenue kind of a customer where in we beat two of their incumbent, the Big 4 legacy firms to do this end-to-end transformation which is a \$ 15

million end-to-end SAP implementation and the first time the TSW which is the Traders Service Workstation has been implemented on SAP for the gas business. This is basically in new line of business being created by this client for the North America region and we implemented the whole program starting from business blue printing all the way down to the SAP implementation in kind of a record time. We also believe that this is the single largest IT or business transformation program awarded by this particular client to any global vendor in the last seven years. So it gives us that feeling that we know this business, we are able to take up this kind of transformation deal and the clients seem to be endorsing that, particularly because the way it is not just one big monolith piece of contract but we break it down into manageable chunks and bring in that efficiency of the offshore, the Global Delivery Model, as well as being the high-end consulting but at the same time do the relationship management in a different way. It is not just a top-down or a bottom-up kind of an approach, it is an multipoint kind of a relationship management which goes well with these people. So it is highly visible, highly successful kind of a program. To give an idea, the supply and trading group and the gas and renewables group, their annual revenues is close to \$ 70 billion. Out to that close to \$ 15 billion will be managed by this particular line, 3000 products depots so to say and close to 2000 users online right now.

Another case study for a \$ 9 billion dollars US utility where in they had a challenge with respect to their customer service center and we undertook a program to completely revamp the whole thing and using technology to measure the reduction in average call handling because every second reduction in the average call handling time leads to a business benefit of close to \$ 1.5 million for the client. So that is how the business case is and this was one of the major inputs for what they call the 'Rate case'. Utilities in the US are extremely governed by the local public utility commission and there is an annual or a biannual rate case which these people go for and they have to substantiate how they have improved their customer service operations, also reducing their cost and then only they get the rate cases approved and this is the major input in that and the result I believe, as of last month I won the rate case. So once again the competition out here was some of the legacy, the Big 4 so to say, but combining our business transformation capabilities, our vertical knowledge and the offshore delivery combine, we did this project again in time. So that is a brief presentation. I am open to questions.

Naren

Okay let me not comment about others performances so on, but we do not come across lot of offshore players at least India based companies in our pursuits. We do not. Majority of our competitors seem to be the old legacy firms who are already engaged. It is a mix of bad performance because I would say energy-utilities as it is, is a new area for most of the Indian players also. I think the key is competency because unlike a lot of other industries, you cannot get this expertise in India because utility market in India is extremely different, very different from what is there in the Western Europe and US. The energy industry in India is very regulated, it is completely dominated by the national companies, it is not a deregulated market. So the competency, the vertical knowledge is simply not available in India. Secondly the technology usage in Indian companies especially in this particular segment is far, far inferior compared to a lot of the world players. I would except of course Reliance as an exception, they are really cutting edge when it come to technology. We know that. Third the Exploration and Production activity in India per se is right now centered around gas and not around oil. If we are not finding enough oil in India. There is a lot of gas being found but apart from that, there is no comparison at all. So the India IT, the software, and the consulting firms we are not coming across them that much.

Male speaker

_____ on IT by global energy companies and how does we _____ in the last few years, the change that we have seen because _____ high and they are minting money _____

Naren

Good question, I will get repeat the question for the transcription purpose. The question was, what trend are you seeing in the IT spending and do you think it is linked to the oil prices and what is happening in the market today. The IT spending is a misnomer. So there is nothing like the global IT, the large, especially the large super majors, their IT spending should be looked by the business lines. So the Exploration and Production in the IT is spending as high as 6% because that it is very, very information sensitive, where as if you look at the Refining and Marketing which is what we call the downstream, it is much lower at close less than 1% in many of the companies and the midstream which is the supply and trading side, again is very technology intensive. So the average is close to 2 to 2.5% or there. I would put it as for the large scale the \$ 1 billion plus kind of a super major, it will be close to 1.5% of you revenue total but if it is a niche Explanation and Production company, you can say the estimated 5%. So it

varies in that range. Utility companies on an average, national integrative utility companies spent around 3% of their revenues in IT but again one disclaimer there. The IT is very, very hardware centric also. They typically include their SCADA and the energy management systems on their IT but if they include that it is around 3%. For a large resources company in the chemical space, it is close to 1.5%. For a world wide operating \$ 10 billion plus kind of a company, it would vary again I would say 1.5% to 2.5% across the board. So that will give you an idea. Now the growth of IT spent is projected to be around 9% in the energy area and I will come to the reasons of that. Utilities in the North America region is a kind of going downwards, it is a (-) 3% spend whereas in the Western Europe, it is +3%. So I would say it is flat world wide and Resources on an average is growing at 2-3% percentage world wide, IT spending. Now specifically on the Energy companies, though the crude prizes have gone up, their internal budgeting model to the best of my knowledge is still very conservative. They operate between \$ 25 to \$ 35 per barrel kind of model because they know that it is extremely cyclic and the past experience might have though them hard lessons. So they are very conservative on that front. So we think that the spend will continue to be there because they are optimistic. You know the situation in the oil market, the supply is always is less than the demand today not because they are no assets. There is a problem with the asset that is for sure but more importantly the refining capacity is not close to where is demand is, so unless that whole thing, that cycle is getting changed world wide, the situation will continue that is the prediction. At least for the next five years, prediction seems to be that oil prices will remain high. I do not whether is a good news or bad news

Participant

Naren

What part of the revenue is coming from the upstream, you are talking of Exploration and Production? Let me do some maths. Close to 20% comes through that

The upstream companies, particularly the upstream line of business, they are eager to leverage offshore but subject to us bringing the right industry knowledge and the domain capabilities there. To be more precise they need people with geo sign, seismic data, reservoir characterization and such capabilities. If you can combine that with your technology, then they are more than eager to work with the companies out there. Their spend is increasing and will continue to increase because of two reasons. One, every company is focusing on replenishing their assets. They know that they have got oil down there but it is not optimal. So there is a lot of energy, effort and money going into that. Then there is a lot of focus in finding new reservoirs and all these new finds are going to be in very remote places. To give you an idea, most of the activities in the Caspian, in the remote parts of Russia or in the African side and to a large extremely South American and the Caribbean side. Now if they are going to spend from their own work forces and from their own pockets, and assembling large teams with it, they know that it is not a sustainable kind of a model. So they are looking for partners who will help them to do this world wide kind of scalability. So there is an opportunity.

Naren

I think we are very uniquely positioned. I believe that at least among all the offshore players, we have the largest E&P capability in those product line because we have been working, at least with out of the top 7 E&P service providers, I am talking about not the oil companies but the service provider companies who provide products and E&P services, we are working with at least the top four and we have that knowledge. Now also this is a very very highly IP intensive, confidentially intensive kind of an operation. So we need to do this fine balancing act of rolling out their services to the others but we have a large number of people who are well versed with these products and services. So we are still very much on the technology side. We are not doing the E&P services as I am telling, so to say, but we are actually supporting those products, integrating those products, integrating them for real-time information to go to the ERP side and so on. So that is what we are doing. It is very broadly called data management services. So you get the data up there and then you do the 3D visualization kind of a thing. We have expertise in all that

Participant

Naren

Yeah there is no doubt we are nowhere compared to a big player who has been well-entrenched out there. The big differentiator of course is one, is about bringing all these separate services, the consulting, for example the data management service which I talked about, the SAP kind of service or a PLES which is Product Life Cycle Engineering Services, all of them together and try to integrate that in stead of know keeping this separate, is one big differentiator. Two, is the scalability aspect. We do not force our customers to get into lock-in contracts which will run into 10 years and so on. We are open to scaling up or down depending up on the business requirements and that is the big plus factor. Three, the global deployment it is a challenge for any company today, there is a lot of things to go into that, the geopolitical situation and all that stuff. So we are going to be much more effective in that leveraging our people and supporting these customers on a proactive basis to do their global scalability. And, the relationship what you bring to the table, the experience, for example, the case study that I put up there, in customers own words, in the last 10 years they have not got a single large SAP deal like that going live on the committed day. That is the big thing. At that end of it, it is about capability and delivery execution, right? It is execution excellence. So to give an idea but it is close to \$ 70 million spent in 15 months, not many players in the world can actually do this today because it is not just about your expertise, your size and your credibility, it is also about your commitment and making sure that when some things are stretched, you supplement and then you scale up, come down and when you deliver it there right. So, at the end of it, it is delivery that matters. And these companies are extremely sensitive to that. To give you an idea again, for a utility company which is embarking on a Transmission Distribution restructuring or a process change, the date they come into the utility commission is sacred. It cannot be violated because if it is violated, they pay a penalty because these are regulated companies. Similarly an exploration company which has already deployed a rig at the offshore center, it is absolutely important that on the date, the rig is de-commissioned otherwise they are going to pay a lot of money in that, right. So the date become very critical and not many of these big players are actually that much really bothered about completing on the date. So that is the big advantage for us, Bring in the consultant and it is a very good solution for the cause.

Participant**Naren**

You are talking about the national oil companies of the Middle East. It is a very different game, but they are spending quite a lot of money. Now we have not really gone deep into that but if you take the three big oil companies out there which is of course you have Aramco, we have ____ and we have ____ they are spending a lot of money. Now I cannot talk very detail on this because we have not really gone into that market that deep but what we know is their challenge because there are traditional allies having this before, the Big 5. And after the year before last, major violence escalation in the Middle East, there is a big challenge in terms of getting the right kind of people out there. But Middle East market will have to change, mindsets will have to change, it is not comparable world-wide but spent-wise they are quite high. Now Saudi Arab Corporate Company, we know that they do not spend as of percentage in their revenues, they do not do that. If that is the day they will be spending billions of dollars or so to say. They have got a different model altogether like I said, they still go with ____ model of, if I remember right, under \$ 20 a barrel is the kind of model they use for all their internal spend, nothing specific to IT. But they continue to refresh their IT investments and infrastructure continuously. That is happening. So they have been early adopters of the SAP, the ERP systems but since they have hey refreshed it I don't know. But it is a big market.

Just to conclude right now, because of the kind of programs, the business transformation positioning what we have, productivity improvement also have been pretty good. I think we are close to retail when it comes to company wide productivity _____. So that is giving us a lot of confidence that this approach, the strategy of verticalization combined with the full service integration is going to be the future.

Participant

If you look at Accentures, they have invested in significant with domain competency. So have you mapped out for example how to reach their level of competency, growth potential for us is far higher that what Accenture can aspire to? What we need to do to get closer to their level of competency in terms of quantity, quality, in building the domain and also the platform in and framework to get in there. So where are we today and in three years' time, can we be a significant player in this business, can we be half a billion dollar kind of player sooner or may be billion

later since the potential is huge. It is an industry that is going to invest very heavily. So are you going to be one of the ERP, the PI group, growth companies?

Naren

Let me do not give any numbers but from a generic aspect whether we will be comparable to Accenture, I do not know in terms of scale or size I do not know. If you look at Accenture's earnings from these industries which is not growing, it is actually going down. That is my understanding. I mean, of course let me do not talk about Accenture out here. Our belief is that we can grow significantly in this area, we can see the growth rates which I showed there. The way we are looking at this also, if you just start looking at Energy for example, as one huge chunk, then it could be misleading and you may not have a focus. So that why we have picked three areas in this. Supply and trading is very close for us and it is our core strength area even today. E&P is a huge differentiated offering for us because they is not anybody like us in the E&P market today and three on the ETRM, Energy Trading and Risk Management side which goes very close to the supply and trading status, these are the three focus areas we picked. Similarly in Utilities, we believe that generation is something which we are not going to go after even if some of our competitors are very well entrenched there because politically it will be difficult for us. Generation is considered to be very closely guarded because nuclear power plant and all that stuff where as Transmission & Distribution and customers services are strong. You will see a lot of growth out there. Across the board, supply chain management, supply and trading is going to be applicable for all these things. So in these places, we are going to be market leaders in the next 3 to 5 years that is for sure. There is no doubt about it but is it comparable on a total basis, I do not know the answer of that right now. But one thing for sure, the Accenture that you named, we definitely come across them more often then ever before and our win ratio is improving steadily. So that is the best answer I could give. So we are going with a very specific focus, brining in that competency out here, training as well as acquiring competency to the market. That is the strategy what we have.

Thank you folks.