

Infosys Technologies Limited

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As you know, we have seen continuous revenue growth, continuous volume growth. For example, 7.7 % volume growth Q1 over Q2. So volume growth is still very strong. We're seeing continuous addition of clients. And the most important thing is we've been able to get back the operating margins we are used to. There were concerns about margins etc and we have shown that within a quarter we've got the margins back in spite of the appreciating rupee. We have revised the guidance for the entire year. Now, these have been touched upon as part of our quarterly results. In the presentation further down, you will get more detail on these things.

Let me give you my perspective at the highest level, at the level of what is happening across organization, what is happening across the industry, where do we stand, what are some of the things we're doing. We believe that the spent in IT, the spent in offshore is driven by many things which are happening in the industry today. If you look at any organization, one of the drivers for them to continue to grow - one of the drivers for them to see increased activity is globalization itself, opening up of new markets like India, China, leveraging India and China for sourcing, as well as working with companies in these markets to improve their own business, their own collaboration, taking advantage of what we call "Flat World" itself.

We see most of the companies we have been talking to, most of our own clients having some initiatives in this regard. And we've been doing CIO surveys in the last couple of years amongst our clients and outside our clients and in a majority of the cases, they have said that they have significant initiatives within their organizations to take advantage of the flat world, the flat world theme and things like that. They also clearly tell us that they have to increase the flexibility within the organization. They have to increase the way they do sourcing, which is the second driver for our business.

Traditionally when people look at sourcing, they will look at staff augmentation model or on the other extreme, a complete outsourcing model where you would take the entire IT function or any business function and outsource it to a vendor partner. Today the choices are many. A few years back we had talked about Modular Global Sourcing. Today, I think it's the reality. Today if we look at Infosys itself, we have multiple sourcing models in operations with our clients, some of our solutions, services etc have different models possible. A simple example would be fixed price project where you have pricing based on transactions, pricing based on units of work, pricing based on a particular business function, outsource and within their business function, you can actually look at BPO plus IT. You can look at BPO separate from IT. You can look at just infrastructure alone. And all of this is using the Global Delivery Model embedded in it. So the options in sourcing are pretty large and Infosys itself has developed several solutions in this area. If you look at our System Integration practice, how we do migration from one platform to another platform is based on the number of systems which are being migrated, number of workstations that are being migrated. If we look at some of the infrastructure management solutions we have, they're based on (unintelligible).

On the BPO side, we've come with transaction platform where customers can purchase the platform including the BPO piece and take advantage of that. And the pricing is based on number of transactions which are processed or volume of transactions which are processed. So the sourcing itself is changing and this is also helping companies like Infosys do very well.

The third driver is our ability to understand business much better, our ability to work at the business level with our clients, our investment in Infosys Consulting, our investment in Infosys BPO which allows us to work with our clients at the business level and provide business solutions. We're also investing a significant amount of money in research in intellectual property creation and the value addition in our solution and the services we deliver have also been increasing year after year. And my colleagues will talk about some of the solutions which they have brought to market in particular industries.

The global footprint of our operations is increasing. As you know, through Phillips acquisition we have now got a presence in Poland. We have 700 employees in Poland. We have capability in Finance and Administration through this acquisition. We're seen as a large player in the F&A in BPO business now. Of course, we've got Phillips as a client through this also. It also demonstrates our willingness to look at takeover of employees, takeover of offices

and things like that and where it's appropriate, where it is strategic to us, then we will look at such transactions in the future. All these things have changed the industry, changed the positioning of Infosys. The industry has changed because there's a convergence in the model. There's an acceptance that sourcing has to be modular-discrete. There's an acceptance today that Global Delivery Model is a way in which you have to deliver these services. And then when you look at the best practitioners within the leadership today, you will see that Infosys is placed in a unique position and our model is optimized and with the number of people with the number of offices we have, how we look at other geographies and things like that.

So today when we look at other geographies, locations like Poland, Czech Republic, Mexico, these are, to begin with, going to be locations from where we provide unique and specialized services, maybe specific time-zone-related issues or specific language-related issues to be addressed from these locations. And when you look at China, China is a location from where we can source IT services longer term. We'll have to definitely established China just like we've established India as a preferred location which means convincing our clients that high quality work can be delivered and there is value addition going to be delivered out of China. And we strongly believe that in medium to long term, given that the long-term challenge from a talent perspective, China is the only location which has characteristics and scaling ability similar to India and that's why we have invested in China and we want to continue to grow China.

We also look at how the business of our clients is performing especially in this market. We are in touch with our clients. Of course because of the long-term relationship which we have with our clients, clearly, we have better visibility, better understanding of how they are seeing. As I said the volumes have been strong; we are in touch with our clients and we feel that, at least at this point, there are no concerns to the business in which we are, which is IT and outsourcing. Budgets may be flattish going forward next year. We'll wait of course to see what the budgets are going to be in January timeframe. But at least the indications we're getting are flattish and outsourcing to India, offshore outsourcing should continue to be strong. This is what industry analysts are saying. This is what the indications which we are getting when we talk to our clients.

Now, let me switch to some broader parameters from an Infosys perspective. If you look at how our margins have performed over the last several years, we talk about the levers which we have in the business, starting with utilization, onsite offshore ratios, business mix, client concentration, geography, we talk about the effect of scale in the business -- there are several levers in the business which allow us to manage margins and things like that. Starting from 1993 onwards, when rupee was probably close to 23 rupees to a dollar, to 2003 it went down to 48 rupees to a dollar and then 2006 between 43 rupees to a dollar and now it's close 39. You have seen that we have been able to maintain our margin to a very narrow band. That shows the resilience and the flexibility and the ability of the company to manage its business. And as I said in the beginning, from first quarter to second quarter, first quarter the rupee appreciated by about 7%, second quarter I think it's about 2% or something like that. If the appreciation is gradual, we were actually able to do a much better job in maintaining margins. And we have also said that our long-term philosophy is to have the highest margins in this industry, whichever way the margins move, it will always be in the range and we want to make sure that we are at the higher end of this margin because that's what we believe in.

Second is if we look at the growth itself. Over the last five years, in 1999 we were about \$ 120 million, since then it's grown quite a bit actually. We did the first billion dollars in 23 years, second billion dollars in 23 months, then 12 months for the third billion. And this year again we're looking at growth of 35%, right; our guidance is 34%-35%. So the growth has been actually pretty strong for the company and consistently we have shown that we're able to grow the business. We have also demonstrated that we are able to leverage our relationships with our clients. 67% of our revenue comes from relationships that are three years or older and 95% which are one year or older. Repeat business is very high. Stickiness is very high. And we have shown that we're able to cross-sell very well into our clients. While our revenues have grown by in the last five years by six-fold, last five years the revenues have gone up by six-fold. The number of clients have not even doubled for Infosys, which clearly shows our ability to work with our clients and our ability to cross sell, our ability to leverage things like consulting, BPO, etc in a much larger relationships, much closer to our clients, and things like that.

Last point I want to touch upon is on the recruitment side. Clearly, medium to long term the challenge for this industry is going to be from the people side and we'll be focused on being an employer of choice. We still get a tremendous number of résumés to choose from. Still the number of people who joined is less than 2% from the résumés we get. For next year, we have already made 18,000 offers in the campuses. Last year, it was about 13,000, so this year already 18,000. And our model is that the rest of the recruitment happens in the financial year, kind of just in time because this is a huge commitment we are making upfront. This shows actually tremendous confidence in where this industry is going etc. And we've already made 18,000 offers in the campuses. This year, we have increased our numbers for this fiscal year. We began the year with 24,500 then at the end of Q1 we said

26,000 gross hires and this quarter 30,000. And if we exclude the Phillips deal, which is about 1,500, it's still 28,500 so we've increased the numbers for this year. And we're confident that we'll be able to get the required number of people to fuel the growth. Given our status in India, brand equity and our ability to recruit in the market also, over time you will find that Infosys is focused on recruiting in the market, in campuses also. We have the third batch undergoing training from the US in India, we have the first batch from UK undergoing training in India, and we'll continue to recruit in the market also.

So in closing, at the end of Q2 we've got the margins back, the growth story continues. We're focused on large relationships focused on outsourcing, focused on transformational deals, focused on maintaining our position as the best employer, focused on building solutions, IP, value addition in what we do and focused on globalizing our footprint such that we can provide the required support to our client. And our clients are our real asset and the long-term relationships which we have are our real asset which gives us a lot of predictability in our business. Thank you very much.