

Infosys Technologies Limited

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EMEA – Mr. B.G. SRINIVAS

Good morning once again. And in the next couple of minutes, I'll be talking to you about another geography which is of very strategic importance to Infosys and this happens to be Europe, Middle East, and Africa where most of my presentation will be focused on what's happening in Europe. The standard Safe Harbor clause.

I will be covering Europe as a market, our portfolio, both in terms of where our revenue share is coming from, the market segment as well as the industry verticals that we are focused on, what's the current market condition and what has been Infosys' specific approach to making growth in Europe happen. And also, would share with you a couple of client case studies and the kind of recognition we've had in the extremely challenging marketplace. One thing which continues in terms of characteristics in Europe is the fact that it continues to be challenging. The other fact is also true that it is fragmented. You see a lot of initiatives amongst the government as part of the European Union, to bring many things together in terms of trade, in terms of eliminating barriers for movement of people -- a lot of initiatives. But still, in terms of IT outsourcing and the maturity of the marketplace, it continues to be fragmented. So in this extremely fragmented as well as challenging marketplace, there is also an upside in terms of the market potential. It continues to be the second largest marketplace outside the US and then that is the reason why we've also very strategically focused our energies on making growth happen in Europe, and you'll see as the results speak for itself.

Our approach to Europe, recognizing these challenges, recognizing the fact that you cannot have a unified approach to address such a fragmented marketplace has been in a very structured manner. We have stayed very focused on those markets which have a very high leverage in terms of the market size itself, also in terms of each specific marketplace, in terms of its maturity to outsource and offshore. And also, we have seen in a unique manner, as we've been through the journey in the last several years, our investment in Europe has not only started to pay dividends, but increasingly we have seen the traction, the kind of growth rates we have experienced in Europe is significantly higher as compared to the rest of the world. Today in Europe, we have over 100 active clients across 20 countries, across various industry segments. This growth does not happen out of one geography or out of one industry vertical segment as you'll see. So it's coming from diverse type of portfolios which has also de-risked our dependency on a particular market or a particular industry vertical segment.

As I said, the numbers speak for itself. We have had a fantastic track record in terms of growth rates. In the earlier part of 2000 when the revenue base was pretty low. Even in the last three years, when the revenue base in Europe significantly increased, we have seen over 57% growth rates average CAGR even in the last three years. Again, in terms of our footprint, our investment, we have today 18 offices across the various parts of Eastern Europe. This includes two near-shore centers -- one in Czech Republic, one in Poland which is a part of the Phillips deal. And also in terms of our diversified portfolio across industry vertical segment and the countries where you see the business happening. And today, European revenues contribute to 27.4% of global revenues and this has happened in spite of the fact that overall, Infosys continues to grow aggressively year-on-year.

Giving you a revenue breakup, even in Europe, if you look at the industry verticals, financial services does contribute significantly. However, you will see the telecom services currently overtaking in terms of actual revenue share. And then it's also obvious that there's a lot of activity in this sector. And we have had several clients whom we're partnering with to make this happen not only in terms of delivering IT services but also partnering with some of these technology firms in going to market with their services and that has added significant revenue, on top of which, we are also partnering with them and enabling them on the product development side. Financial services continue to be a dominant segment for us. We work with the top five of the top ten European banks. Even in other sectors, retail in UK, we work with five of the top ten UK retailers. So we have had significant traction across different vertical segments. In the last six months, we have opened four energy and utility client accounts in Europe -- two in UK, one in Netherlands and one in the Nordics.

In terms of services, again, unlike the US revenue mix, there is a distinct change. The non-traditional ADM services contribute significantly higher in terms of percentage in Europe. Both package implementation, consulting, as well

as other services, which include testing and validation services, infrastructure management services, BPO contribute significantly. We have 32 client accounts where we deliver infrastructure management services in Europe. We have opened nine key accounts in the last six months through our consulting services, both including package as well as technology and business consulting. So today, 30% of our revenue comes from package-led consulting services. At the same time, and in terms of industry vertical domain, we've also opened three new accounts in the media sector in the last four months. So you can see a very highly diversified portfolio. But again, this did not happen by chance. This is a very focused effort. We have deliberated on in terms of each segment to go after, where to build capability and which market to address.

I did recently mention about the fact that Europe continues to be fragmented. If you look at the propensity for outsourcing and offshoring, UK continues to lead. Last year 40% of all the large deals which were outsourced, happened out of UK. And even though Germany and France are the two other big markets in Europe, in fact Germany is as big as UK in certain terms but in terms of outsourcing, only 15% of the large outsourcing deals happened out of Germany. And interestingly, the third was not from France. The third happened from Netherlands. Though Netherlands is by itself not that big a marketplace but 9 percent of the large outsourcing this last year happened in Netherlands. And we have participated in two of them and last year when we won the ABN deal and this year the Phillips, both happened out of Netherlands. So it is a little unique in terms of what's happening in Europe. Our presence in Switzerland is also significant. We have a large manufacturing client in Europe in Switzerland. So in terms of our penetration its UK, Benelux, Switzerland, Germany, France and the Nordics in that order. So we are clearly focused on these markets. And in each of these markets we are clearly focused on the kind of capability we bring in terms of industry vertical domain expertise, the service offering in each of these markets. For example, in the Nordics, most of the outsourcing has happened in the IT infrastructure management services space. And in some areas, it's been more on the package-led implementation, both ERP and CRM applications. If you look at UK, financial services and telecom continue to lead. And in these areas, it's been more on discretionary spending in the financial services space as well as in the telecom, it's a mixture of both supporting applications and implementing order management solutions and CRM solutions for the telecom sector.

We also see slowly the fact that the multi-outsourcing deals, multi-vendor outsourcing deals continue to be the trend. Gone are the days where the clients are just dependent on one vendor. Even in public sector, consortium-led deals are more popular today and customers are clearly de-risking themselves in terms of their dependency on one single vendor. And we, as a part of our sourcing expertise, partnering with the clients, partnering with some of the deal consultants and evangelizing our service offering around how to structure deals in a multi-vendor environment.

We also see emerging services are relatively new, whether it's SAAS based, whether it's platform-based. In Europe in the banking space, some of the large banks who have expanded their operations in emerging markets are looking at platform-based service offering. And then our product Finacle fits in very clearly in that space and the customers are expecting a BPO-led or a service-led offering around Finacle to address their expansion in the emerging market space. Also, as we go forward, we could increasingly see these happening on platform-based offering as we talked about earlier. We also see a significant amount of M&A activity happening in Europe not only in financial services but also in manufacturing and in energy and retail. Some of these are already outlined. And to them, we have a very structured offering of how to carry out integration when these kinds of mergers happen. As was talked about earlier about the ABN acquisition, it's a unique situation there, it's not just about acquisition. It's also about acquiring a company and then breaking it up into key parts as part of the consortium. So there will be challenges, there will be investments which will go into these kinds of initiative. And today, we are very well positioned because of two of the partners in the consortium are already our clients.

In the competitive landscape, again, Europe is not just dominated by a single player. There are global system integrators who are having a significant presence in Europe. There are also a lot of European players, both regional as well as localized in each of the countries and of course there are the Tier 1 offshore partners still working in Europe. So we have three distinct sectors competition. And in that competitive landscape, the way we have approached Europe in terms of our strategies, in terms of investments and capabilities has clearly played out in terms of our growth, in terms of our coverage and the market share. Even today, Europe in terms of their imperative for outsourcing, clearly they're expecting quality, they're expecting innovative solutions. They're also looking at scalability and flexibility as some of our clients expand their operations into the US market as well as the emerging markets. And last but the least, the cost reduction which is also a key. Because as the globalization is impacting some of our clients in Europe, they're also looking at how do they internally improve their own efficiencies and in that context they play an important role.

Our approach, as I mentioned, some of which I have covered. The quality of delivery and expectation from a client is extremely high in Europe. And our delivery track card, you will see also that the clients have recognized us, has

been extraordinary. And that's the only way to make an impression, that's the only way to make a sale happen in Europe once you get the first entry. So, apart from ensuring that your fundamental quality of deliverable is extremely high, you need to be innovative, the industry-specific led solutions and our solutions around some of the platforms, be it packages like SAP and Oracle and CRM packages are weaved around platform changes, around Microsoft technologies. We have actually invested and we have been able to actually open some of our new client accounts through these service offerings.

In terms of building local capability, there are several ways you're adding to the local talent. One is of course we continue to recruit locally experienced talent both from consulting and business development enterprise. We continue to also take over as a part of some of the client acquisition deals like Phillips and ABN. The domain expertise comes from these clients where we take over employees. The third initiative has been through our near-shore center in Czech Republic and going forward also in Poland where we will continue to increase our capacity in these centers to other near-shore requirements. And the fourth one is of course, as we started just piloting this year is we've hired 25 UK graduates out of colleges and they are undergoing six-month training in India, they'll be coming back. And as we expand our business, we would increase this into other colleges in other geographies.

In terms of our participation in industry specific events not only to increase our brand awareness but most importantly to showcase our solutions for specifically developed for the European markets, the industry forum, the retail forum, the bankers forum, and of course, in terms of sourcing strategies, we are one of the partners on the Gartner forum which happens in Europe. Apart from that, we also partner very closely with the SAP, Oracle and Microsoft and we are a key sponsor in most of their events in Europe where again jointly we are able to showcase our solution footprint in these technologies as well as, the client case studies where jointly with the clients, we have the ability to showcase what point solutions we have built for our clients to address some of their key concerns in their specific businesses.

I will quickly touch upon some of the case studies, one common theme you'll see across some of these case studies is the fact that most of them are non-traditional, they are more consultative led, whether it is technology, whether it is point solution we have built. We build specific domain that we have brought to the table. So, again, the engagement is at a very strategic level, With the CIO community or with the business head where we've partnered very closely in bringing the solutions. Again while some parts of the parts of IT services can be commoditized, we are able to make a difference through these approaches and this has given us a very strong leverage in terms of our positioning in the marketplace, our ability to command premium pricing, our ability to remain profitable in spite of this significant growth we have seen in those marketplace.

Again, recognition in Europe doesn't come easy, the client expectations are extremely challenging and they get it down to the nitty gritty, they are much more detail oriented so obviously their expectations are high. If we have to really get awards in this particular geography where we compete with European players, compete with the global SIs, this is something very proud achievement for all Infosys to have being acclaimed as the best IT partner and then some of them are in the public domain. RBS, we did the get this award, again, competing against the global SIs. Again, Sainsbury is one of our clients, a leading retailer in UK has recognized us. Also Daimler Chrysler, the name in Germany, in the automotive sector. At the same time, both Gartner and Forrester have given us good ratings in our coverage in Europe. So, as we go forward, we are looking forward to getting the billion dollars in revenue this fiscal year and that is a significant milestone for us. So we continue to invest, we'll continue to make a difference in Europe and in the marketplace.

Thank you.

Joe Foresi

Hi. Joe Foresi from Janney Montgomery. I wonder if you can first talk about the difference and maybe this selling process in Europe as compared to North America, are there any parameters or any differences that you could bring to light for us?

BG Srinivas

Okay. Again, can't make a flat statement when you compare these 2 regions. If you look at what happens in Europe and UK specifically in terms of selling process vs the US, I would say there's a lot less and in terms of their dis-similarity, there is less in UK because the very nature of the fact that they already experienced benefits, they are extremely mature and they are used to outsourcing and offshoring and they have embraced it whole-heartedly. In fact, there is also talk about offshoring becoming a part of some of the RFP coming out from the UK public, the

government sector. So, UK, there's not so much of a difference. But if you look at the other parts of Europe, Germany, France continue to be slow in terms of the way they go about. There is an extreme high degree of consensus building that takes place within the client organizations. It's not driven necessarily from the top, even though the directions come directly from the highest levels in order for them to really make a move. They have to build consensus within the organization and that is what becomes challenging. At the same time, the kind of labor regulations they face automotive becomes a limiting factor in terms of what they can outsource without significantly ruffling feathers within the client organization. But at the same time, in spite of this, we have seen clients breakaway from the traditional model, take ABN and Phillips as key examples. They have not only ___unions and with the labors, they want _____ with their management in making bold moves. So what I would say is, I have to put it in generic terms, it is slow as compared to the of US, but it is changing. It is changing because the business imperatives are also changing for European clients, they are definitely seeing challenges in making their growth happen and remaining profitable. So the globalization is impacting some of the large clients, not only in the financial services but in other sectors. Manufacturing, if you look at interestingly, they have set up their own captives on the engineering side in India and other parts of Asia. So to some degree, the manufacturing sector is also seeing some kind of exposure because they themselves are expanding. So these are some of the things which we are seeing as a trend.

Joe Foresi

Okay. And I was wondering if you can also talk about the type of growth. Are you moving into Europe with existing customers that have presence there, or is it growth coming from domestically located customers?

BG Srinivas

Most of our customers in Europe are European clients in the sense they have domestic presence. Some of them have pan-European presence. And a few of them have global presence. So that's the kind of clients. And in fact, I would say less than 3% off our clients in Europe are American based clients having operations in Europe.

Karen Ahooja

Hi. Karen Ahooja from Eminence Capital. A couple of questions. One, I was wondering if you could comment on the pricing environment in Europe relative to US, is it better, worse, same? And also, if you talk a little bit about, some of the labor laws and how that impact business in Europe? If you look at it versus North America in terms of the relative penetration, is there any way to quantify kind of what inning we're in Europe versus the US and North America, which obviously is a little bit more mature?

BG Srinivas

In terms of penetration as I said, in spite of the local labor regulation, UK there are no such regulations. While UK also has labor regulations, but they are much more open in adopting. But if you look at the continent, it's about what to do with labor force they already have. It's not easy to let go them, according to the current laws. But then there are ways to manage that in terms of one of course, in some of the deals like Phillips, you have option to take over employees. There are other options in terms of reassigning both within the clients and then offshoring certain elements where certain elements of the regulations do allow for offshoring and that doesn't become a hindrance. So we are actually, again, specific to each country, working with our clients. And also, we have legal experts, HR experts who help us in shaping some of these things. That's how we have been able to penetrate. Now whether this is going to change, my own belief is it will change for the better because otherwise, the client environment and their own growth is being hampered, if they are not able to overcome these barriers. And there's a lot of dialogue happening between the business and the government in these countries. And in some of those forums, we do participate. In fact, even last year in Davos in January, there were industry forums between government and the industry trade bodies which happened in France and in Germany where we did participate. Change is happening but change is slow. And then that characteristic will not change, unless something dramatically changes in Europe. But then the fact that, if you look at the upside, even if we strike a billion dollars in terms of our revenue in Europe, it has the potential of \$ 100 billion plus, right? So there's a lot more in terms of our addressable market share. So from that context, I would say the growth rate in Europe at least in the near future, we would continue to be see on an upside as compared to rest of the world including US. What's the other part of the question?

Karen Ahooja

It's on the pricing environment.

BG Srinivas

Pricing environment, okay. The pricing environment, again, you have to look at differently. We do definitely enjoy some kind of a premium with the kind of services, the kind of positioning. But in some sectors, it is getting challenging. Financial services, manufacturing continues to be really a little challenging. But, however, both in terms of actual price points, we have been maintaining a premium and also the cost base in Europe is higher as compared to the US. So our profitability in Europe is on par with rest of Infosys. So price points are higher, so is the cost based. So to some degree it gets netted out. But because of our service offering, we _____ in the US in terms of percentage share, we are able to remain much more profitable.

Karen Ahooja

And so I guess in terms of what you're reporting in terms of quarter-over-quarter and year-over-year increases in pricing, is that occurring in Europe as well?

BG Srinivas

Yes, especially in the new services and when we go for contract renegotiations, 3-4 percentage points is something that we have been experiencing. On what we have not seen too much of a trend and what happens more in US is on volume discount. So we have shied away from that and then it has definitely benefited us. But if you look at a couple of years ago, where we didn't have those volumes coming from Europe, things could change. Today, we have more than five \$ 50 m clients coming from Europe but in spite of that, we have been able to remain comfortable.

Karen Ahooja

Thanks.

Moshe Katri

Can you comment on the profitability of the European business? Is that at par with the company and then you said that you do enjoy premium pricing, is that because of a different mix of services as Europe has seen a higher mix of the new services that you've been introducing during the past few years? Thanks.

BG Srinivas

I said both, one is yes, we are as profitable as the rest of the company and in some areas, a little higher. But why we've able to enjoy that kind of premium pricing, it's just clients wanting to give it but they also demand more in terms of returns on their investment. So we've been able to one, clearly differentiate in this extremely demanding marketplace, in terms of our service offering. And then solution focus that we brought including leveraging some of the IPs that we have. And in Europe, I would say because their attention to get into details and wanting to know what exactly we do and the kind of process we have and the quality metrics we do have within the company, they are able to appreciate that more, not in just some of the value of results which is equally important, but in also in terms of how we go about delivering those results. And in Europe, there's just a lot of that because they want sustainability in terms of our delivery. And we believe that our process does provide for that and they get into that level of detail and once they are done with that, they are ready for more

Moshe Katri

And do you think Europeans are more open to discussing changing the pricing structure of those deals that you've mentioned this morning or are they more open to talking about outcome based contracting, that's number one and then two maybe also comment about maybe your typical competitors in Europe? Thanks.

BG Srinivas

Okay. Yes. In terms of clients looking at changing the pricing models and shying away from time and material or fixed price, incidentally, fixed price contracts in Europe is slightly higher as compared to rest of Infosys. But apart from that, the new price structure, I would say the new pricing structure is little early, the discussions are happening especially in the infrastructure management services and BPO. Some of them have already happened where we have moved over to transaction based prices. But I would say, it's still very early so say what the big impact would be. Competitive landscape, I did mention about European players, the global SIs, we encounter them across most parts of Europe. They have a significant presence. Local players, pan-European players, Cap Gemini, Atos Origin, Logica and in some specific cases and specific geographies, we encounter the local players, in Germany, France and UK. And if you look at the tier-1 offshore players, it's the traditional ones, TCS and Wipro

Sandeep

Friends, we now break for coffee which is being served outside the room. We'll be reassemble here continue the proceedings again at 10:25 am. BG and all the speakers who are speaking to you in the day will also be present for the open house. So the rest of the questions we can take later. Thanks.

BG Srinivas

Thank you.
