

## INFOSYS US ANALYST MEET AUGUST 1, 2008

### Mr. S. D. Shibulal - COO

Thank you, Kris. Good morning everyone. It is a pleasure for me to be here. Now as Kris said I will spend the next 15 minutes talking about the core strategies we are pursuing at this point. I just want to give a history, brief history about our strategies. Every year we go through the strategic planning process. We identify strategies which are important to us, we prioritize them, and we invest in them over a period of time. Our strategies are always long-term. They do produce results over a period of time. These are not silver bullets; if you look at the past strategies, Kris mentioned one which is about building the non-ADM revenues. We started it about 7 years back and today more than 50% of the revenues come from non-ADM revenues. Another core strategy we adopted was to grow Europe. If I remember right about 8 years back, Europe was approximately 15% of the revenue. Today it is 27% or 28%. And that was another strategy which we adopted. To give you another example, we wanted to move out of Bangalore. So in 1999, 99% of the people were in Bangalore and today it is 20%. So these were some of the strategies which we adopted in the past and executed on them. When I say the strategies are long term, they produce results in the long-term but we also believe that the long term is a series of short terms. It is not like we will wait for 5 years to produce those results. We will produce them every quarter. They are built brick by brick, they are monitored every quarter, they are distributed across the organization and goals are set. So again this time, we have done the same thing. We have taken the strategies, we have operationalized them, we have created goals for the organization, we have then drawn it down to the units head and every senior person in the organization. So that way there is focus, there is the long-term focus as well as the short-term focus. There is cohesiveness as well as coordination between the various units and departments in achieving these strategies.

Now let me just remind you from the last year, we have 5 core strategies we were pursuing. The first one was to become a global trusted transformation partner. We have achieved major milestones in this strategy. Number 1, we have clearly defined it. We have defined it as transformational deals of a reasonable time, minimum maybe \$ 30 million to \$ 40 million which are driven more by the business than the CIO organization and also led through consulting that means certain amount of revenue coming through the consulting. Just to give you a data point, today our package implementation and consulting revenue is 23.7% of our overall revenue. So we have done a few other things. We have reorganized – last year in November we went through reorganization. We verticalized Europe. We felt that it is time for us to bring in synergies between US and Europe so we verticalized Europe. We brought in a level of leadership. The Executive Council was formed and that was about creating a new level of leadership. We integrated solutions, consulting and the domain competency groups we had within the organization into a single group. So the Infosys Consulting subsidiary which exists more on a statutory nature than an operational nature, today the consulting organization spans across the organization. There are people in Infosys Consulting subsidiary, there are people within ITL, possibly maybe close to 3,000 people who are doing pure consulting work. And we are also bringing in synergies between the consulting organization as well as our solutions organization which we build. Now let me talk about the results. We have multiple transformational wins in the last few months. I will just give you some color on some of them. So for example, one of the manufacturing vertical clients, we have a deal to use a single global SAP system. We are involved in preparing the scope of the project, complete organizational change management which is related to this. So it is not about implementing SAP; it is about defining the scope, driving the change management, working with the business lines and being a true transformational partner for the business. In fact the level of engagement is at the Executive Committee level as well as at the Vice President and Senior Vice President level in the organization. Another example I can talk about is again supply chain harmonization. They are forecasting and planning process across 30 countries. This is harmonizing their forecasting and planning process across 30 countries. Replacing multiple-legacy ERP systems and we are the sole transformational partner. In fact I am quoting the words from the client. So one of the criteria we are using to identify transformational deals is the clients willingness to say that we are the transformational partner for that program. That is one qualifying criteria we are using for these programs. So I am quoting the client directly. We are the sole transformational partner for this program. I have actually a few more but I will do one more and then move on. Again this is another ERP lead business re-engineering exercise and it includes business case preparation, change management, ERP package validation, implementation and the entire gamut of work. Again I want to point out that our transformational programs are end-to-end. That means we are

starting with the opportunity identification from a business case perspective and driving it all the way down to implementing and finally running the maintenance work. So we are using our true end-to-end capabilities in these transformational deals. Again the one which I mentioned is also actually referable. The last one, is an end-to-end turnkey deposit taking platform. It is a Bank-in-a-Box transformation deal which is a Finacle related. Infosys will help client in launching greenfield operations with whole new brand and product line launch to challenge established other players in the industry. So this is another transformational program which I can talk about. So there are good examples, good wins, and we are on track with this initiative.

The next one is differentiate and lead as a global sourcing expert. That is the second strategy which we adopted. It is about becoming an outsourcing partner for our clients. If you remember 3 years or 4 years back, we used to talk about our belief that old total outsourcing model is obsolete. We believe that the new model will be more about modularity of global sourcing, choosing best-of-breed partners in different areas. Today if you talk to any of the industry analysts, they talk about asset light model, they talk about best-of-breed, these are the exactly the thought leadership points we brought out 3-4 years back and today the industry had definitely adopted them. So what it means is that the large total outsourcing deals are being split up and their size is more in our sweet spot rather than the large behemoth deals. So our sweet spot is anywhere between \$ 300 to a billion dollars of TCO over maybe 5-7 years. This is our sweet spot and so there are more and more deals being broken up in such a way that they fall into our sweet spot. We have a unit which is focused on getting these deals called SGS (Strategic Global Sourcing) unit. They are focused on deals with TCO of more than \$ 100 million. Last year, their target level was lower, now we have increased it. So they work with large outsourcing opportunities of \$ 100 million and above. As part of this strategy, we are expanding our global hubs, global delivery capability. Our China center is finally starting to grow. In fact the numbers are slowly increasing. We have opened a center in Mexico, in Monterrey for same time-zone delivery. We are also expanding our near-shore centers in places like Brno. At the same time, we are investing in creating platforms for taking over these transitions and running them effectively. We are investing in our Mantra platform which is our differentiated ADM service platform and there is further development as well as mandate that we will use our platform in every one of these deals. Again that is showing very good results. This strategy has also given us very good results. There is one deal; I am just talking about \$ 100 million plus deals in Q1 just passed, 2 in Q4, and 1 in Q2 and I can of course give you some examples. One is an apparel manufacturer, \$ 113 million dollars deal, application maintenance and support; another one is a communication service provider, \$ 270 million in Q4; and then another deal in Q4, \$ 111 million that is more in IT, BPO deal with approximately 430 FTEs. Then in Q3, we had deals one about \$ 86 million. There are multiple others. In Q2, of course we had Phillips which was \$ 250 million F&A and procurement. So there are very, very good wins. We are chasing about 12-14 deals at any point in time. They take anywhere between 6-10 months to complete and we are very well positioned to winning these deals.

The next one is Kris talked about it; the next strategy is about building long-term scalability through non-linear growth engines. This is to break the link between effort and revenue. It is not an easy thing to do because we are in a people business, but we will work at it over a period of time. As Kris said we have launched multiple non-effort-based services. These are services where we charge the client not based on the effort. So if you look at the past, I clearly believe that year-on-year we have made productivity improvements approximately anywhere between 5%-15%. It is a very wide range but I clearly believe that year-on-year we have increased our productivity between 5%-15%, but if you look at our pricing models, most of that benefit has been passed on to the client because 60% is time and material which means that the productivity improvements are directly passed on to the clients. And on fixed price also, a lot of it or most of it is being passed on to the client. By pricing on non-effort-based mechanisms, we have certain ability to accrue some of that benefit to the organization. I am not saying that we will be able to get 100% of it but at least part of it. So our approach is to price our services based on an non-effort-based approach. So that when we increase productivity, we can accrue part of that to us and part of that to the client. It is a win-win situation because in this kind of a situation, we have a drive; we have a need and interest in increasing productivity because it accrues to us and at the same time, part of it can be passed on to the clients. Now Magic Mirror is an example. This is a platform which we are giving to the client. We will run it. We will share the transactions. The pricing will be based on number of transactions or it could even be based on the revenue which is generated as a revenue share approach. So we are looking at all these various pricing models in different ways. We are also looking at licensing the intellectual property which we have. We have over the last many years developed enormous amount of intellectual property. Until 3 years back, we never applied for patents; today we have 165 patents in-flight that means in discovery stages. Two of them have been awarded to us. We have two patents which are awarded to us which means that we can now look at capitalizing or monetizing some of this intellectual property which we have. Again, there are number of

examples which I can talk about in this space. SaaS is a service which we have launched. It is purely transaction based. We are not charging on based on the effort we spend. We are charging based on the number of transactions with a base cost. There have been a couple of wins in SaaS. One is a social computing platform for a high-tech manufacturer which we have won 2 quarters back which is right now in implementation stage. Once it gets implemented, we will price it; it is priced on the number of transactions. See the key is that it is not on the effort so whatever productivity improvements we make, if you create methodologies, if you apply tools, if you create reusable components, if you automate, a lot of that will accrue to us. So it is a very important shift from our pricing model. I have another example here. We have developed a platform called I2MP. This is in our infrastructure management space and this platform allows us to manage devices remotely. We now have started pricing the infrastructure management deals on a device base that means you have X number of devices, we will charge you, X x Y per device. Again which means that if we can develop the platform further and increase our productivity the benefit will accrue to us. I have a deal here which we have won. It is a small deal of \$ 10.8 dollars. It is device based, based on our I2MP platform. I have another deal which is again a new start for us. We are taking ownership of a platform for a client of ours. We will do the engineering and IP will belong to the client; it will not belong to us but we will be making product enhancements on that platform. The client will handle the sales. There is a base price plus a revenue sharing arrangement. So there we are putting in the effort, they are doing the sales; it is based on our ability to rollout some of those enhancements faster, better, smarter. And based on that, the sales goes up, we will get a certain amount of revenue shares on that deal. That is another example. The third one I have is a licensing agreement with a client of ours where we will jointly take to market some of the intellectual property which we have; another device based pricing deal similar to what I talked about. So again we are making good progress in our non-effort-based pricing mechanisms. We also have methodology for pricing our maintenance deals based on tickets. We are coming out with platform-based BPO where the pricing will be based on transactions or tickets, so there is good progress and good investment being made in this strategy.

The next one is operational excellence. This has been our core value for the last 28 years. It is nothing new to us. We are investing in tools and technologies to improve our productivity, improve our quality, and improve our operational effectiveness. I would believe that we are the only organization in the world which I can think of which has devised a method to measure our operational effectiveness. Our senior management, a part of their performance depends on how well they do in the operational effectiveness area. It is measured at a unit level and the units get rewarded based on the Operational Efficiency Index which we measure. As I said, we are definitely increasing our productivity. We have 2 new initiatives under this phase. One is implementation of tools for various platforms. So we have identified tools for each of the platforms and we are implementing those tools in a mandatory fashion which means these tools are not optional. If you are doing an outsourcing deal in maintenance, you have to use Mantra. Similar to that in each of those technology platforms, we are implementing tools which are absolutely mandatory and at the same time, we are developing reusable components. These are components which are being developed by a group of people based on the demand which is out there in the organization and these components are traced through the development phase. The usage of the component, the benefit which we derive from it, the improvement in quality, the reduction in effort, each one of these is being tracked. Again, this is linked to the non-effort-based pricing because the more non-effort-based pricing we can do, these components will actually increase productivity and will help us get better margins. So today we have about 535 assets in the reused eco-system. This has been done in the last 12 months. And the reuse is very effective in quality as well as in quantity. We also have as I said an Operational Efficiency Index by which we measure the organization and the units. We have been able to reduce our critical risk projects drastically over the last 24 months. We have a separate cell focused on looking at high-risk projects. We have a methodology in place by which we will do early identification of high-risk projects and then prevent them from moving into critical risk. This cell will bring to bear the entire organizational strength in making sure that the high-risk projects are managed and they do not move into critical risk. So in fact over the last 2 quarters, I believe that there has not been a single critical risk project.

The last strategy which we have is to groom global leaders. This is about developing new leaders within the organization. As I said as part of the reorganization we did, we created a new layer called the Executive Council. There are members in the Executive Council who are looking after a wide range of operational issues at this point in time. We instituted a new index called Leadership Index which is an index which we measure for these and many more leaders within the organization. We have a tier leadership program in place - tier 1, tier 2 and tier 3, a total of 500 people. Tier one is 50 and tier 2 is 150, remaining 350 in tier 3. Of course, we have a high performance work ethics and very much performance-based compensation philosophy in place. We have enormous recruitment capability across the globe. Our InStep program which

is our internship program in India; this year we received 4,000 applications for 126 available positions which means that we are not only able to attract the best in India, we are able to attract the best across the globe today. We have employees from 72 nationalities and 4% of our people are of non-Indian origin today. So again there is serious amount of effort being put into developing the level of talent within the organization at the highest levels and at the lowest levels. Of course, I can spend next half an hour talking about the certification program which we have in place, which is for everyone in the organization, again a mandatory certification program to increase competency of our people.

So let me conclude, our strategies are meant for creating sustainable growth. It is meant to enhance the quality and the quantity of our revenue. It is a cohesive approach. It is a wide- banded approach. It is implemented through the organization. These are long-term strategies but done in a short-term manner. The results are measured on a quarter-to-quarter basis and tracked. And in my mind many of you asked the question what next and I clearly believe that these strategies are the answer to your question on what next from our side. With that, let me conclude. Once again, thank you very much and it is a pleasure to be here.