

STATE OF THE BUSINESS**Mr. S. Gopalakrishnan**

CEO and Managing Director

Thanks Sandeep and good morning to everyone. Thank you very much for coming for this analyst meeting. We really appreciate and thank you for all the support you have given us over the years and for coming today. What I want to do over the next few minutes is cover seven themes. Starting with the summary of the results and where we are today. I will go into some highlights of the investments we have made, where we are on those investments and then what are the things we are looking at in the future.

If you look at the results for Q2, we had sequential growth in volume, we had sequential growth in revenue, we had sequential growth in margins slightly but we have been able to sustain margins and we have revised our guidance for the full year. I think the message there is that our business model is robust, we have architected the company for resilience, for being able to withstand tremendous challenges in the environment and we are able to sustain and when things improve we are able to show growth, we are able to take advantage and grow the business. There are still levers which we can use for example, utilization which is lower than what we would like it to be. It is around 73%, normally we would like that to be at 78-79%. So there are still levers within the business which we can look at in order to improve margins. There is tremendous stability in the model. I think the model has been proven again to be robust and being able to withstand tremendous pressure. So that is the first point I would like to make and my colleagues will take you through the numbers in terms of how we are growing, how we have revised the guidance. In short, we are saying that the next two quarters there will be sequential growth. For next two quarters for the Q3 and Q4 we have projected sequential growth of 1%.

Some other things we have done to manage the business wherever we are investing which is the second point I would like to make. First and foremost we have to run the business as proficiently as possible and as I said there are some structural advantages. For example, owning our campuses in India, so depreciation costs as against lease and rental costs. It's a structural advantage Infosys enjoys and this is the long-term thinking we have had about how the business should be. Of course that asset value is also building in our balance sheets and operating the business on a day-to-day basis very efficiently, making sure that the business is architected properly, business is operated efficiently on a day-in and day-out basis but we are still investing and we are not cutting back on where it is needed. So for example we have come out with a digital convergence form which has been released in India for digital lifestyle applications. It is commercially deployed along with a partner in India. We have a supply chain visibility solution which is today being marketed. We have several clients. We announced Learning services sometime back with 16 active clients for learning services. We announced Software as a Service. We have 2-3 large engagements. We have several deals in the pipeline. So we are making investments and these investments are starting to pay off. Over time they will become important piece of our growth strategy. If you roll back and look at a longer perspective, 10 years back Infosys was primarily in technology solutions, applications development & maintenance. Today it is a full services company. All the way from consulting, IT services, business purpose outsourcing, infrastructure management, it is a complete range of services today. Many of those services like infrastructure management, it is about 7% of our revenues, business purpose outsourcing 6% of our revenues, consulting and enterprise solutions about 25% of our revenues, these are all things in which we have invested about 5-6 years back and they are starting to yield results and the

business looks very different today. So our investments are clearly dealing with this and we continue to invest in coming up with innovative solutions, innovative business models and we will continue to do that and I will come back to this. So we are investing in sales, marketing, we are investing in solutions, creating intellectual property, we are investing in new business models, we are investing in Finacle - our core banking solution, we are investing in entering new industries for example, we have announced entry into government business in the U.S., we are already in government business in India. We are investing in growing certain countries Germany for example. We have an initiative to grow Germany as a country. We are investing in setting up Global Delivery Centers Brazil for example. This is a new investment for us and we hope to make Brazil part of our Global Delivery Center capability. Today we have centers in China, in Philippines, in Eastern European centers, in Mauritius, in Mexico, Brazil and of course consulting capabilities around the world. So we will continue to invest in developing our global capabilities. We are investing in enhancing our capabilities in sales and marketing, recruiting people etc. So definitely we are continuing to invest in these things and our ability to provide significant value to our client, continue to innovate, because when you look at any company today, there is only so much you can do from a cost perspective, at some point you have to think about where is this growth going to come from? And that is where Infosys is ideally poised because we are able to help them on the cost side as well as on the innovation side, as well as on their growth side and on the revenue side. The solutions we have announced, etc., allow us to work with them on the revenue side and this is across all sectors. If you look at financial services, insurance, healthcare, retail, Shopping Trip 360, is a good example in retail side. I have talked about our supply chain visibility which is again cross industry solution. So we are able to help them on the revenue side and that is the key differentiator for Infosys.

Now longer-term when I look at where Infosys is going to go as we transform our business, and we have been continuously transforming our business, there are two separate goals we have. One is on our geographical distribution of revenues. Today 62% of our revenues come from North America, 25% from Europe and about 12% from Rest of the World. Europe was actually slightly higher, about 28% couple of quarters back. Because of the currency depreciation, etc. Europe has come down to 25%. So we have a goal over the long period of time, not next quarter or next year, to get to a revenue distribution of 40-40-20. We want 40% of revenues from North America, 40% from Europe and 20% from Rest of the World. It is not through reduced growth in North America, it is increased growth in other regions. So we are proactively investing in other regions and proactively investing in Europe, proactively investing in Rest of the World, Middle East, Australia, South and Latin America. So we are proactively investing in these regions to grow these markets and these markets also require different types of services. More of system integration services, more of consulting services, more of new business models. For example in India, you will see in Binod's presentation, some of the engagements we have are completely different based on completely different business models. So we have a long terms goal to look at 40-40-20. The second long term goal we have is from a services and solutions perspective. You can classify our services under three categories. One is transformation services, the services which are consulting-led. Second is running the business and these are things like BPO, application maintenance, infrastructure management etc. And the third is where we take the responsibility to operate. We become the business function for the company. We take the responsibility for that and this is where significant investment into solutions, IP, etc. are going into. And today bulk of the revenue comes from the middle part, the 'run the business' kind of thing. Transform has gone up, consulting-led businesses has gone up to about 25% and very little on the operating side including our own product and things like Finacle. Over time you want to get to one-third, one-third, one-third because that gives us a balance in terms of stability of revenues, predictability of revenues, through the 'run' kind of business, it allows us to engage on the business and on the revenue side through our transmission services and it also allows us to leverage solutions, IP, etc. which Infosys will operate and also will allow us to take advantage of those trends towards cloud computing. And here it is not necessary that we need to develop the IP, for example today we have an HR outsourcing platform which is built on Oracle's platform but the licenses are held by Infosys. We

have a back-to-back arrangement with Oracle and we deliver services to them. We have two clients already on that, so where we operate the business function today. So one-third, one-third, one-third and that is the second goal we have. It's a long-term goal.

Long-term, I strongly believe that there is growth for the industry. Technology investments will continue, technology will have a significant role to play in terms of bringing more efficiency and bringing new growth to companies. Technology will continue to change businesses, evolve businesses and impact our lives. For example, the impact of sensor networks itself - devices are going to be connected on to internet and how that will impact business, is going to be significant over the next 20-30 years. Today 1.6 billion people are connected over internet but in the next 20 years 50-100 billion devices are going to be connected, appliances are going to be connected on internet. So you can imagine the impact of that on businesses and on our lives and things like that. Many of my friends tell me that they do not look at the map, they do not even know how to use a map and they just trust their GPS device in the car. It is a good example of how these devices are going to control our lives. If you want to look at climate change and what we need to do for climate change, how do you create smart buildings, how do you create smart city, every one of these will be impacted through the use of sensing devices and sensing plan on our business revenue and things like that? So there will be significant investment made in technology and I am confident in saying that technology will have a significant impact and through innovation, through continuous evolution of our business, transformation of our own business, we hope that we will be able to take advantage of the investments that are going to go into technology.

And lastly there is some consolidation happening in the industry, some mergers and acquisitions happening in our own industry. We believe that there is a role for a company which can provide services at the application level, closer to the clients which is where Infosys plays. There is a role for an independent services company. In fact if you look at many of the acquisitions, they are targeted towards increasing the services revenues in those companies which clearly shows that the value is at the application and the services layer. And there is a role for an independent company which can span technology, which can span legacy and modern technologies, which can work with large enterprises, which can provide them the kind of services that are required for becoming a true strategic partner and that is the role Infosys would like to play.

So in conclusion, our model has proven to be robust and solid even in this tough and difficult environment. We believe that we are continuing to invest and transform the business. I talked about some of the goals we have in terms of transformation. I talked about the investments we are making. Even in this tough environment we are making investments, we have certain long-term goals. On the long-term perspective I am optimistic about the tech industry and IT services industry and I believe that there is a role for a company like Infosys which can help large enterprises in bringing efficiency and bringing growth and that is where Infosys is positioned. Thank you very much.