

**NON-LINEAR MODELS AND SALES AND MARKETING****Mr. S.D. Shibulal**

COO

Good morning, everyone. Once again let me welcome all of you to the analyst conference 2009. It is indeed a pleasure to have you all here. So you all heard Kris, he talked about the key highlights in business as well as some of the major initiatives we are taking.

Last year during the same conference, I talked about the five strategic themes which we were running. And I gave an overview of all of them. The first one was to be a transformation partner for our client. The second was to be a partner in large outsourcing deals. The third was to create new engagement models in the market, a new way of engaging with the clients. Fourth was execution excellence. And the fifth one was to be an employer of choice, continued to attract the best talent in the market. So we have made progress in all of them. We have had good wins in almost all the areas, excellent transformation deals, even in these tough times. As Kris said our revenues from consulting and transformation today is 24% or 25% and in my mind, it is actually counted differently than the industry standard. If I apply the industry standard the number will actually move up because the industry counts outsourcing and consulting as two big buckets whereas we have things like some part of the development, system integration outside that percentage. On the large outsourcing deals also, we have good wins during the last one year. And the third one was a very innovative one, the new engagement model. So during the next ten minutes, I will be giving you an update on the new engagement model in a much more detailed manner and talk about one of the other major initiatives we have taken up during the year.

Now why new engagement model? Why do we want to do this? If you look at our revenue, we have traditionally engaged with our clients on two broad models, two broad ways of pricing, time and material and fixed price. Our revenue from time and material is approximately 60% and the fixed price today is about 40%. While this has happened, the clients have matured and the industry has matured. The level of transparency in the time and material model is quite high. While we talk about outsourcing, converting fixed cost to variable cost from a client's perspective over a period of time, that has changed. Today, clients actually need visibility even in fixed price. Clients are looking for tying down the expense to real business outcome. They are looking at what is the business benefit you have delivered. What is the exact outcome you have delivered to the business rather than paying on a time and material basis? So this model is meant to give that level of transparency, that level of comfort and convert the fixed cost to true variable costs based on business outcome, based on number of transactions, based on number of devices managed by your partner rather than the number of people engaged in those programs. Now it is also about introducing a paradigm shift. It is about linking the revenue or the expense to things which are very different. It is about linking revenue to outcomes as well as intellectual property created by your partner. Kris actually mentioned some of it. So over the last one year, we have worked with our clients actively to deliver or to win deals on these models. We have had good success. Interestingly enough, if you talk to many of our clients today in many of their RFPs, they add this line or they ask for model, they ask for proposals which are based on these kinds of models. In olden days, the proposal request was either time and material or fixed price or left to the vendor. Now the clients are very, very interested in seeing proposals which are based on different engagement models and many of them are what we have innovated, what we have talked about and what we have educated our clients on. To give you some numbers, we have 84 clients today

engaged with us on these models. In fact, in the current year, in FY10 itself, we have added 27 new clients. These are not new clients to Infosys, but 27 new clients were engaged in these new models. We have won 114 deals of approximately \$150 million of TCV in this year alone in these models. And our opportunity pipeline is also extremely healthy. It is very attractive to the clients. It enables the clients to truly have variable cost. For example, if you are paying based on number of transactions, if there is an economic downturn and the number of transactions goes down, your costs, your expense truly adjusts to a new transaction level. It also allows clients to link, as I said, their expense to business outcome.

Now the pricing models are varied. We have transaction-based pricing. It could be what Kris talks about, on an HRO platform or a procure-to-pay platform. The pricing will be based on transactions. It could be ticket-based pricing. We have developed a pricing model for maintenance work which is traditionally done on time and material or on capped time and material. We have developed a pricing model which is based on ticket. You can have small, medium, large or complex or non-complex kind of ticket and your pricing is linked to a number of tickets which you produce rather than a number of people engaged. It can be based on applications portfolio. You can base it on a number of function points or a number of programs involved in the portfolio. It can be based on different kinds of work bracket or for example, for testing, it could be based on test cases. For infrastructure management it could be based on number of devices, so you would be quoting based on number of servers, number of workstations. So these models allow us to do a couple of things. From the client's perspective it is truly variable, it is outcome-based, it is linked to business outcomes as well as transaction outcome. On our side it allows us to leverage our intellectual property. The more productive we are, the more intellectual property we can develop, the more platforms we can develop, it allows us to increase our productivity and part of the benefit will accrue to us. It allows us to build some amount of non-transparency or opaqueness in the kind of resources which we can deploy on these engagements.

Let me give you two examples. The first one I have is a global firm in airspace and aero engineering work, in aero engineering and manufacturing segment. We have created an ability to manage their work load. So we have created a work load management capability based on unit of work and ticket-based pricing. So they were engaged with us in the past on a different model and now we are engaged with them on ticket-based pricing which allows them to truly manage their peak loads very easily with us. Another example I have is a large financial service provider and where we have implemented packet-based pricing for a Fortune 500 global financial service provider. It has reduced their costs and management overheads. Interestingly once you get into these kinds of pricing models, you really don't need that complex vendor management capability on the clients side because one of the things the vendor management group does is to look at all the resourcing, all the experience levels and things like that where as in this case these are all business outcomes right, you are talking about number of transactions, number of tickets, so the management layer or the amount of overhead the client needs to put on to these kinds of programmes do come down in these models. It also allows flexibility in ramping up and down for the client and it gives us flexibility in the kind of resources which we can use when you engage with the client. So there are quite a few success stories and I just talked about two of them.

Now the one point I want to mention before I close out that issue is what Kris talked about – innovation. This is something which we have been working on for the last couple of years. We actively went into market about 12 to 18 months back. And sooner or later, you will start seeing it as more of an industry standard rather than anything else. But I just want to point out that we were the ones who actually thought about it and innovate it and took it to market. Today in markets the adoption is so fast, in fact, I am already seeing clients asking for these kinds of proposals in many of the RFP's which are coming our way.

The second part of the new engagement model, again Kris mentioned, is about intellectual property based pricing or IP based pricing. We have filed 204 patents over the last 3 years or so. It

is not that we were not developing intellectual property before 3 years. I am sure that we have developed enough intellectual property over the last 20-25 years. We never filed patents because commercializing the intellectual property was not a priority from our side. We had never really looked into it deeply. Today it is become an important part of our business. Infact when Kris talks about 30-30-30, the part of that 30% is supposed to come from commercializing the intellectual property. And one part of that is to file for patents and as I said we have filed 204 and we have been awarded 4. Infact the Shopping Trip 360 which Kris talked about has intellectual property as well as patents behind that. Most of the products we are working on are of two kinds. One I call Blue Ocean, these are areas where products have not existed in the pasts. It is not like we are building another SAP platform or Oracle platform. These are areas where the innovation is happening and new innovative products are coming out. The second kind of products we are developing is what I call White Space. These are spaces where there are no products. There are no viable products in the market today. So if you look at the digital convergence solution which we have already rolled out in India, it is a Blue Ocean product. It is delivering interactivity over digital TV over the satellite in India and in other markets. It is not a product which is out there. It is a platform over which you can deliver multiple applications. This is not a project, this is a product in the platform. We are the ones who are hosting the platform, we own the IP and the payment is actually based on number of set top boxes or number of transactions.

Interestingly enough somebody actually was joking with me, it's true that if you order pizza in Delhi using the TV, we will get paid some part of the money. So these are different kinds of models. And the foundation is the intellectual property which we have built. So Kris talked about category analytics, supply chain visibility as well as digital convergence. For example, the Shopping Trip 360 which is the digital platform, is an absolutely unique platform. It is meant to create an ecosystem between the retailers, the CPG provider and the consumer. It is meant to create an ecosystem, where for example, you are delivering coupon to a consumer right when he is standing in front of the product. Imagine this, you are standing in front of a lane looking at Tropicana orange juice and you get a coupon on your cell phone. That kind of store awareness is what we are talking about. The system will know who the consumer is, what is the level of privacy which he has accepted and where he is so that we can deliver targeted coupons and targeted other kind of value-added services to the consumers at the point where it is most relevant. And the ecosystem is supposed to consist of all the parties involved. It is being piloted. Of course, you can see that these are really innovative and really it has to be adopted into the industry. It is not about one enterprise. It is about creating an ecosystem consisting of multiple enterprises. It involves the CPG provider, it involves the communications service provider, retailer. Currently it is being piloted and we are expecting it to be adopted over the next couple of years.

The other part of the intellectual property development is in what we call Infosys Business Platform. Kris talked about some of them the HRO platform which has been already adopted by a bank in Australia. We have a platform for the newspaper industry called "Newspaper-In-A-Box", the first client is going live as we speak. Then we have a source-to-pay platform which is being rolled out, no client yet. The important point here is all these platforms are hosted and managed by us. These are end-to-end services which means these are fully managed for the clients. And the client is being built based on completely different parameters than our traditional parameters.

We also have the iEngage which is our social computing platform in the market. It is a SaaS platform which is built on industry standard product as well as our own intellectual property as a layer above the industry standard product. It has already been adopted by two of the hi-tech manufacturers, already live in the market. Again, as I said here again, it is an integrated service. It combines hardware, network infrastructure, applications software and professional services, maintenance and support. Everything is owned by us, everything is being provided by us and it is the turnkey solution as far as the customer is concerned. It is built on industry standard products. It has a single point of accountability that means we are accountable and full ownership and de-risked from a clients' perspective. I have already been shown time tag

There is only one other point I wanted to make is apart in the new engagement model which is extremely market-facing activity, we have one another major initiative this year. That was to invest in sales and marketing. In the beginning of the year we had announced that we will be adding 100 sales people to our sales workforce during the year. I believe we have added 70 or 80 people into the workforce. Now we are looking at another 100 people to be added in the next six months to nine months. So we are talking about total of 200 new people to be added to our sales and marketing workforce over a period of 12-18 months. This is in fact an addition of 30% over the existing workforce. The only point to note is that these numbers are gross. We have to speed up and make them net. That is the challenge but these numbers are gross. So we will continue to invest in sales and marketing. We believe that these are the times when we need to be closer to the clients; these are the times when we need to invest in sales and marketing and we are investing. And we are investing in two different places predominantly. Number one is in our horizontal services. Again, Kris talked about it. Our application development and maintenance revenue today is only about 40%, the other 60% of the revenue is coming from new services which we added over the last six to seven years and that is where we are investing our sales and marketing dollars. So, 50% of the people are going into these units where these are more SMEs - Subject Matter Experts as well as sales people rather than hardcore sales people.

The second important investment is in new client additions. Our client base continues to be the Fortune 2000. We have 571 clients. We are looking at adding a lot more clients in the Fortune 2000 space over the next few years. So we are adding what we call hunters into the sales and marketing space. So 50% of the people will be hunters who are being added. Their predominant focus will be to add new clients, to increase our client base in the Fortune 2000. So this is an extremely important initiative. We have executed on it half-way through. And we will continue to invest in sales and marketing. We are also adding client partners. We have added two of them in the last two quarters. These are extremely senior level people who will work with specific clients, focused on providing end-to-end service capability, including transformation, outsourcing and the new models I just talked about. Marketing is another area where we are increasing our spend, predominantly in the field dedicated to industry and geographies, Europe and specific verticals. Product and platform marketing also will continue to be a focus area because of our new models I just talked about.

So let me conclude. Our focus has been to help our clients over the last one year. Our focus has been to help our clients adopt to the challenging economic and business environment. There is a need to optimize costs, increase efficiencies and to do with more with less with our clients. They are looking for new models of engagement and we have delivered on that requirement. We are looking at strengthening our partnership with our clients and we are investing more and more into our sales and marketing area. You can see that. I talked about the number of people we added, the amount of investments we are doing into sales and marketing. So these are the two points I wanted to talk about. Once again let me welcome all of you to analyst meet. Thank you very much.