INFOSYS TECHNOLOGIES LIMITED

ANALYST MEET 2010

July 19, 2010

Open House

CORPORATE PARTICIPANTS

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Participant
I just want to check the progress under New Engagement Models. So last time when we came for the Analyst meet we were told some 200 odd proposals were submitted under it and so what has been the progress after that and what has been the conversion and what has been the progress exactly?

SD Shibulal
There has been a good progress in the New Engagement Models. In the morning I said that the revenue from the New Engagement Models is approximately 4.5%-5% and it is in three different and broad areas. Number one is the platform-based offerings - iEngage, Flypp, then HRO, those kinds of offerings and there are multiple clients on the iEngage platform. Flypp got announced recently and it is going to go live with Aircel. In HRO, we have clients right now and there is another platform called Newspaper-In-A-Box and we have acquired McCamish which will give us a platform to take to market. So good progress there. Then the IP based offerings are also there, the iTransform which is approximately 6 clients at this point _________ for manufacturing. Some of them are in the market and others are in development. The third component is the non-effort based pricing side where we have applied though multiple service lines. For example, we have infrastructure management on device-based pricing. Some of the recent deals which we won, we have used that pricing. We have transaction-based pricing for maintenance which is a small part. For testing, we are doing function-based pricing. BPO is using transaction-based pricing. So we are applying that to various service lines at this point. These areas- IP-based, platform-based and non-effort based pricing, are the 3 areas contributing to it and the revenue is approximately close to 5%. This does not include Finacle. We are not counting Finacle under this revenue.

Participant
I have two questions. One was related to the movie which you all showed. Was there a message in that in terms of how the world is evolving and therefore Infosys is trying to place in a certain situation not looking very serious and stuff like that? Second question is based on my understanding, today of all the presentations, I really liked the new digital presentation which Mr. Dadlani made. When I heard it, it looked like a huge opportunity, so where do you see that growing and therefore what kind of resources you will need given that it is slightly away from the regular IT business. That is what I learnt from that. If you can just give an indication?

Kris Gopalakrishnan
You know the caricatures are just fun, that is all. It has to be fun. It has to be enjoyable especially when the CFO decides to have fun. To the second part of your question, each one of the opportunities is very large. Each one of them we believe is going to have a significant impact on multiple industries over the next 5-10 years. So for example, Digital Commerce, it can change retail, it can change banking, it can change healthcare and telecom. So it will have significant impact across the industries, each one of them and huge opportunity. What we want to do is either enable this to happen through a broad-based offering. Flypp is a broad-based offering, m-Connect which is a middleware for mobile technology, again a broad-based offering. So we want to come out with broad-based solutions or we want to capture part of the transaction revenue. That is where we are looking at new business models. We may not actually sell the solution but we will make it part of a new business model offering. That is also possible. The reason why we are concentrating on these things is because the dialogue changes with our client partners. We can now go to an operator and say that you can use Flypp and you can actually have an app store without worrying about developing one yourself or worrying about which phone you are using. Because most of the app stores today are actually device-dependent. You have an Apple app store or a Samsung app store or a Nokia app store. There are very few operator specific app store

and we are changing the game by saying that you can have an operator specific app store and that abstraction can be taken to TV, that can be taken to something else. We have an app store for TV also. So we are trying to do multiple things and of course, we need to figure out how to make money on that.

Participant
______The kind of employees you would need will be very different from…

Kris Gopalakrishnan
We have those employees. When you have 80,000 engineers, I think on the talent side, this is not a challenge.

Participant
What are your plans for the $3.5 billion of cash that you have? Any immediate plans to utilize this?

V Balakrishnan
Right now we want to keep it to make sure that future is secured. We will have a lot of opportunities to invest that cash because the market is evolving, the industry is changing and we are also getting the returns that we desire in the business. We get 35% return on capital employed and we always want to have one year's of expense as cash. We have to balance all these three and if at some point of time, if we don't find the use, we look at returning it. Right now, we want to keep it because the environment is uncertain and there could be a lot of opportunities which may come on the way.

Participant
What is the hurdle rate of margins we are looking for the government vertical, both in India and U.S.?

Kris Gopalakrisnan
Our margin expectation medium to long-term from any business we enter is company average rate. We don't have a lower expectation for any particular business because that doesn't make sense. Over time we should be able to get similar margins from any new business we enter. Our philosophy is always that in any business we operate, we must get the highest margin in that business. So there are two answers to your question. Let us say that a government business across the board is lower margins. Then we want to get the highest margin in that business. We don't want to set a hurdle rate because then that sets the expectation or that sets the maximum. So going in we will say that we want the same margins as the rest of the business and if you find that it is difficult, then we will re-calibrate and make sure that we get the highest margin of any player in that space. Those are the two philosophies we have.

Participant
What are the challenges for Infosys specifically? Besides the fact that employees and others which are common to everybody? What is Infosys pertaining, issues or challenges that you need to address to, capture or to grow the rate that you envisage to grow? What would those challenges be? Besides the big industry specific, downturns and offshoring or offshore in that stuff?

Kris Gopalakrishnan
Most of these are industry challenges. How each company faces these challenges is probably where the differences will come. We have decided to position Infosys as a strategic partner. In that sense we are investing into transformational solutions on one end and changing the business

model, looking at IT at the other end. The strategies may differ from company to company which specifically chose in a particular challenge to have. We also expect superior returns, superior margins. We are not a volume player. Again, strategies slightly differ from company to company. We look at profitable growth. We have long-term focus rather than short-term. Because of that our responses are slightly different.

SD Shibulal
I just wanted to add to what just Kris said. See if you look at today, we are talking about issues at the highest level of our client organizations. These are not issues which are discussed by the program managers or the project managers or even the directors in our client organizations. We are talking with the CXO level people when you talk about these changes. We are trying to go up the hierarchy of the organization and the value chain of the organization. At the same time, you have to make sure that some of your other services are not getting commoditized. You have to work this portfolio game very well. At one end you keep going up to the value chain, going up the hierarchy of the client organization, build those relationships; at the same time make sure that your lower end is not getting commoditized. That is one big challenge. I think Kris did not use this word but he uses it all the time, about relevance. Relevance to the client, is a big theme for us. Many of you ask us, why do you change the strategy map? We always say that we have to be always relevant to the client. No organization can remain relevant to their clients unless they evolve. We have to evolve with speed and innovation. Relevance and trust and then Mohan was pointing out to me saying that one of the big challenge as you grow is to be local and at the same time global, because we operate in some 35 countries and we have to be locally compliant to everything and also a global corporation and there are sometimes serious conflicts which comes into picture.

TV Mohandas Pai
You must not mistake what is current today because of growth to what is the prospect. The challenge of resources in this country has been tackled. For example, there are 3,000 engineering colleges with 1 million seats every year. 4 years from now 800,000 engineers will graduate. So that is not a challenge. Challenge is getting them appropriately trained which has been a challenge for the last 5 years and which will remain a challenge for the next 5 years. Apart from that, the bigger challenge that we have is getting the right kind of domain expertise and technology expertise to enable us to go up the value chain. We need to have a layer of people who can be billed at let say \$100-\$ 150 an hour onsite. If you look at IBM and Accenture, they have a large number of people who are getting billed at \$150 an hour. We don’t have many. Our people who provide services worth \$150 an hour are getting billed at \$75. We have to create a layer of domain experts who can be billed in the local market because the client feels they delivered appropriate value. If we are able to get 4,000-5000 of them in the next 2-3 years, you cracked the problem. You are going up the value chain, you are getting billing at those rates. Above \$ 175, \$ 250, Infosys Consulting is able to get very easily. In between there is a gap and that gap has to be filled and if you do that in the value pyramid, we will have large number of people being billed at every rate. At the same time like Shibu said, preventing commoditization at the bottom. You have a large player in India who wants to be the lowest cost supplier of services in the world. The ambition is very clear. The lowest cost, the lowest billed supplier of service in the world and doing very well. We have to question ourselves itself. So getting the right kind of people is the essential challenge.

Pankaj Kapoor
Sir, one of the message I think in today’s presentation was that there is a shift from just vertical specific business opportunity to look at more from an ecosystem-led opportunities which are coming in. If I look at the comment that you made on getting that domain expert as a challenge, what I am trying to drive at is that if there is change in the thought process around your acquisition strategy? You have not been very acquisitive enough in the last few years, but going forward the

way the market is evolving, the kind of challenges that we are seeing, obviously, you have the means, the kind of cash that you have. Is there internal thinking in terms of the way we are looking at the acquisitions?

Kris Gopalakrishnan
There is no philosophical change about acquisition in the sense that we will look at the right company for the right reasons, right strategic fit, right price. The model has not changed. Are we looking at more opportunities for acquisition much broader? Yes, we are broadening our view. There is definitely a drive to find the candidates whom we can acquire. So that is there.

Pankaj Kapoor
Sir, with just 3 maybe in the last 4-5 years, can we expect now to become much more in numbers?

Kris Gopalakrishnan
I can't tell you that. Because unless it is closed, there is no point in talking about it. Is it more or less likely? I really do not know how to answer that question because it doesn't matter whether we want to do it more etc., because unless we close it, it doesn't matter, whether we look for acquisitions or not. We are very clear. We will close an acquisition only if there is a right fit, right price, right reasons, right strategic fit all that stuff. That is not going to change. Philosophy is not going to change

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Participant
Sir, sorry on persisting on this, but forming an important …?

Kris Gopalakrishnan
Yes, acquisition will be important and we are aware of that and that is why I said we are increasing our focus on acquisitions but the philosophy of acquisition is not changed.

Participant
Good evening. This question is for Eric. From your presentation, it seemed that a lot of opportunity in healthcare is going to be driven by the public sector or by the federal and state government in the U.S. At the same time you are also launching a public sector practice to be headed by different individual. Clearly at some level there will be a lot of interplay between the two it seems and I just want to sort of take us back to Accenture which has actually merged these two units just a short while back. So I am going to sense if there is any game play here that makes sense keeping them separate?

Kris Gopalakrishnan
By the way it is the same, Eric.

Eric Paternoster
I'm going to be the same person. I have IPS responsibility and will continue to run the healthcare vertical business. That is one of the reasons why we went that way because that is one of the high potential government areas. We are going to start with a federal focus, take advantage of the huge healthcare reform opportunity in the US that is going to be there for the next few years.

Participant

SD Shibulal
We definitely see that the cloud adaptation is something which will happen. The value proposition is very compelling, so that means it has to be adapted. There are concerns of security, privacy and various other matters but eventually many of them will get sorted out. In fact, I just read an article saying that the US government is taking an initiative to look at some of their systems and figure out how they can be cloud hosted. They are looking at all the security and privacy issues. When we work with our clients, the opportunity is to advise them first Many of our clients are not likely to put their core systems on a public cloud on day 1 but they are definitely looking at taking advantage of the technology by moving into the private cloud situation. Our opportunity is to work with them, to advise them on how to create a cloud strategy, do a portfolio analysis, figure out the priorities which ones should go first, what would be the ROI on doing those kinds of things. We are already working with these clients on data centers consolidation, virtualization in those areas. This is a natural extension for us to advise them on the cloud space. Then we can take some challenges with them saying that every system which we maintain for you, we will move to cloud and it will provide you with better value and what we can get out of it. Those are the opportunities at this point.

Participant
Cloud results in lowering cost to the user. Would it result in lower overall IT budgets?

SD Shibulal
This is a story which has been going on for the last 30 years. Please remember mainframes are still going to be there for a long while even after cloud comes. That means the complexities of the environment is only going to go up. Because now you have some part of the system in cloud, some somewhere else, some in public clouds, some in private clouds. All this has to talk to each other and that is where the complexity is. As Mohan says, that is how we make money. So things can only get complex. Nothing is going to get retired overnight.

BG Srinivas
During my presentation I was also relating to when the ERP wave came, people saying the ADM is going to go. It is still there, still significant part of business is happening. Likewise you will have opportunities on the cloud, in the cloud and around it.

Diviya Nagarajan
Hi, my question is to Mohan. I think we have seen some spike-up in attrition despite the kind of wage hike you have offered over the last few months. We seem to have had some problems with attrition, largely probably because the industry is picking up very sharply but how much of a challenge do you think it will be over the near-term and when do you think you can get back attrition to more controllable levels? That is one, and secondly, it is very interesting that you should talk about, hiring those 3,000-4,000 people who will go out and bring those $150 plus kind of billing rates. Any color on the time frame that you are looking on here and where you will draw these resources from?

TV Mohandas Pai
Well, let me answer the first question. What you saw in the last two quarters in attrition is an aberration because the market opened up and for the last two years companies had not hired. They have shed the bench and there has been a deficit of people. When the lid blew in terms of growth, people went and grabbed everybody walking on the street and the only way to get them is to offer them 25-30% more and some people tried to do some targeted poaching. So we had attrition. But now we have given a salary hike to people and a large hike of 15%- 20% in the experience group of 3-7 years. That is the most vulnerable, that is where the attrition highest and

we have given a new salary hike. That has created a new benchmark for the industry. That means anybody wants to poach in that area they got to pay 30% or 25% on top of that 15-20% that we have paid. So it makes it very expensive for them to poach. So we have set a new benchmark. You have seen the reduced margin because of that but that over a period time hopefully will go away. We believe that attrition will come down this quarter and from next quarter, hopefully it will come back to more normal levels except we have announced a massive increase in lateral hiring. We may hire 9,000-10,000 lateral this year which is extraordinarily high and we have done 3,000 in the first quarter and this quarter is about 3,000-3,500 people. A lot of other companies are going to lose lot of people. Are we going to lose a lot of people too? Our feeling is that it will come down from where we were but this is going to carry on till you come to a new equilibrium. There has got to be a balance of terror. A new level of equilibrium and that will hopefully come maybe when everybody realizes that it is best to hang on to your own people rather than go hire people from outside more and more and that realization has to come to our leadership which has already come and to our unit leadership where everybody is now making sure they communicate more, they talk more to people, hang onto them and be very sweet to people and also outside where industry feels that it is better to hang on to your people then go to the market and poach from others by paying something more. Every time you go and hire some lateral the unhappiness quotient in the company goes up because in a team of 10 people you find one new person coming who is getting paid 20% more for no reason except he is a lateral. So there is a spiral. That spiral has got to settle down. I think by this year end hopefully there will be an equilibrium in the industry and as far as we are concerned, we are nearly there.

To your question about hiring this 3,000-4,000 people, I think may be the next 2-3 years but that is going to be game changing. If you look at the value pyramid, may be 30% of the 2 largest companies in the world get billed at $150 plus and that is an enterprise space. If you look at all companies like us, may be 1%-2% gets billed at that rate and is all overseas. To do that you have to hire local consultants, people who are local citizens. You have to hire people with expertise and you have to hire people who can assimilate along with you. It is a tall order. We started the journey two quarters back. We already got across the enterprise may be 100 people already there and we are becoming aggressive and it has to be hired in local geographies.

BG Srinivas
Significant part of that hiring will happen in the US and European markets.

Diviya Nagarajan
The immediate fall out to that answer would be then what happens to margins going forward because definitely, this would push up your bill rates………

TV Mohandas Pai
They will earn margins for themselves because the cost-income ratio is pretty good. If you hire 4,000 people and bill them at a year, it is a billion dollars. You got the whole world to hire them from. Will they earn the margins? Yes. They will be part of the chain and the entire chain will give the margins that you want. For example, if you see Infosys Consulting, they are doing pretty well. They probably last quarter were one of the most profitable consulting companies in the world.

Participant
Well excluding the deferred tax write-backs, yes. Thanks for your answer.

Mitali Ghosh
The upbeat start that we had to the session, goes in line with the upsurge that you have seen in the volume. If you could help us characterize perhaps what is resulting in this kind of upsurge in

volumes? Is it a lot of discretionary spend from clients or is there a broader theme like pickup in infrastructure or BPO or may be just increasing global sourcing which I suppose probably goes for every thing

SD Shibulal
It is predominantly led by U.S. It is very clear. It is led by verticals like BFSI, manufacturing and retail. Interestingly, in the last quarter the maintenance revenues have gone up. We have seen growth all around. There is strong demand for infrastructure services. There is strong demand for lights-on work which is maintenance kind of work. We are seeing good demand in the transformation space. We are running about 20 of them right now and we are seeing good demand in the consulting and transformation space. Overall, what is happening is that the US corporations have started spending. They have a lot of liquidity in their hand. They have probably some $1.2 trillion of cash or something like that and they are investing for what they believe will be the future. If you look at the retail space, we are working with 8 out of the 10 top retailers and we are working with most of them in the Digital Consumer space. If you look at the manufacturing space we are working with many of them and the manufacturing institutions will then become extremely complex and BG keeps telling me that we are trying to help them become more simple and nimble in their environment. In the BFSI space, I believe there is a start at least starting of spending on the regulatory space. The M&A work is starting to come down. We benefited from the M&A work a couple of quarters back. Now the regulatory spending is starting to happen. The new bill will definitely increase the regulatory spend. In the healthcare, there is spend which is going to happen because there is all kinds of new regulations coming into the healthcare and that spend is coming up. So it is mostly led by US, BFSI, manufacturing, retail. If I pick out couple of areas, infrastructure comes to mind, then maintenance came to mind, consulting and enterprise solutions we are seeing very good traction.

TV Mohandas Pai
I think President Obama is the best friend of the technology sector. He has passed two stupendous pieces of legislation - 2,500 pages for the financial bill and healthcare I do not know how many pages, maybe 7,000 or something like that - huge, to unravel that and to spend on technology. For the next 3 years I think there will be a lot of business coming that way.

Mitali Ghosh
Just as a follow up to that given the kind of demand trends you are seeing what do you really expect on the pricing front going forward, I mean do you expect some kind of pricing power to come back in the latter half of the year perhaps?

SD Shibulal
At this point in time we have assumed flat pricing. We have not assumed any kind of pricing increase or uptick in the coming quarter. There are a couple of reasons. One, even though the US corporations have started spending, if you look at the fundamental things, they are still very weak. There is no liquidity in the market, the unemployment rate is extremely high, there is overhang of Europe and Greece and all these things going on. Number two is the fact that the tail effect of the negotiations which we did. For example during the last year we had openly said that we have had pricing renegotiations with quite a few of them and most of those happened with the bigger clients because the smaller clients usually do not have the power to renegotiate. In an environment where the bigger clients are growing faster, it puts pressure on the average. To some extent, we have seen that last quarter because if you look at the top 25 grew faster than the company; the top 10 also grew faster than the rest of the organizations. Tail effect is still going through and due to that reason we have assumed flat pricing for the rest of the year.

V. Balakrishnan
What we know is what we factor. We know the revenue productivity regarding the first quarter that is what we factored for the rest of the year. Absolute prices are not coming down. What you see in the blended pricing is a mix of customers, mix of verticals, mix of services. For example, last quarter, maintenance grew faster while the Enterprise Solution and Consulting remained flat as a percentage to revenue. This does not reflect the pricing environment. We are not seeing any drop in absolute prices but it could change depending on the business mix.

Mitali Ghosh
Sure, I understand that. I was asking more about the trend, not really the quarter pricing we saw. From a like-to-like basis what you are saying is you are not really seeing a pricing uptick (uptake) likely to take place, apart from what you factored in?

V. Balakrishnan
No, it is going to take some more time for you to get the pricing power. There is too much of macro uncertainty which is there all around the world and clients are very cautious. Many clients have huge amount of cash. But they are not investing because they are seeing uncertainty all around. In this kind of environment it is going to take some more time for you to get the pricing power. Of course, cost has come up so everybody will go and ask the customer for higher rates but for you to push the whole base, it is going to take some time. The uncertainty has to grow and you need some stability for you to get it.

Mitali Ghosh
And just last question on this, what is the kind of pricing discipline you are seeing in the market, particularly from maybe global vendors who are losing share?

V. Balakrishnan
It is a very competitive market. I do not think that has changed because there will always be some vendors who compete on price and have much lower price point in some customer instances. Of course, that has come down. It is not like last year. Everybody understood one clear thing. The more you price it lower there will be somebody else who can price it lower than that. Right? So there is no end to this game. People have realized that to that extent they will be more reasonable and responsible in the marketplace.

Participant
I have two questions, first on the pricing front. In the last quarter the offshore pricing fell by 4.2% so has it been because of customer renegotiation. Second, could you please throw some light on the BP account front and are these two interrelated? There were rumors in the market that BP asked for around 7.5%-10% of reductions. Is it because of that that offshore billing fell?

V. Balakrishnan
As I explained earlier, it is a mix issue. It is not an absolute pricing issue. It depends on the client mix, it depends on the vertical mix, it depends on the services mix. What you are seeing is a blended pricing that could change. We do not comment on any individual clients, but BP is a great client for us, is growing faster. We have not seen any concern on the ground and what you said is right that it is a rumor.

Participant
Over the last 10 years, your SG&A has come down from about 15% to about 12%. Where do you see that going forward in the next 2-5 years considering that you want to move up the value chain,

and you want to do more of transformational work and you want to have more consulting type of people working in your organization?

V. Balakrishnan
Sales and marketing is around 5-5.5% of our revenues. G&A could come down if we get more efficiency. Sales and marketing will not come down as a percentage to revenue. Probably we will spend that money but understand we are not in a consumer business. We do not need a Tiger Woods to come and endorse our brand. Most of our sales and marketing spend is on people. The biggest cost in the sales and marketing is people cost. That is not going to change dramatically. Even if we hire 100 more people that is not going to go up to some 10% of revenue. Absolute numbers will increase but as a percentage to revenue, it will almost remain in that range.

SD Shibulal
So, once again, thank you very much for coming. It has been a great pleasure to host all of you here. Thank you.