



18th International XBRL Conference

Values with a meaning - towards reporting of the 21st century

Alexander G. Welzl
EFFAS

Agenda

- **About EFFAS – a standard setter in terms of investment professionals’ requirements**
- **Intellectual Capital – disclosure and valuation in the 21st century**
- **Infosys Technologies – leading edge disclosure**

About EFFAS - a standard setter in terms of investment professionals' requirements



- Set up in 1962 as a professional association for nationally-based investment professionals associations in Europe
- Umbrella organisation: 25 member organisations, representing more than 14,000 investment professionals
- Head Office: Frankfurt am Main
- EFFAS executive bodies: AGM and Executive Management Committee (EMC)

Chairman: Giampaolo Trasi
Deputy Chairman: René Willemsen

EFFAS

– setting standards with a global footprint I

EFFAS has 6 permanent commissions

- **EFFAS Commission on Intellectual Capital (CIC):**
 - Developing and promoting a framework for investment professionals and corporates
 - Models for intellectual asset based value creation
 - Sector specific metrics for measurement, disclosure and valuation

- **EFFAS European Bond Commission (EBC)**
 - Fixed income and derivatives standards throughout Europe
 - Improving the efficiency of European bond markets
 - Provide authoritative information on European bond markets

- **EFFAS Commission on ESG (ESG)**
 - Establishment and coordination of a consistent position by EFFAS on all relevant aspects concerning ESG reporting, measurement and valuation
 - Promoting the adoption of KPIs for ESG
 - Representing EFFAS at international conferences dealing with ESG

EFFAS

– setting standards with a global footprint II

- **EFFAS Financial Accounting Commission (FAC)**
 - Accounting standards, guidance on analytical methods
 - Member in several international financial and accounting bodies (EFRAG - European Financial Reporting Advisory Group, etc.)

- **EFFAS Market Structure Commission (MSC)**
 - Comments on regulatory proposals (EU Commission, CESR, IOSCO, etc.)
 - EFFAS position papers
 - Pro-active lobbying for the sake of investment professionals

- **EFFAS Training and Qualification Commission (TQC)**
 - Standards on education and examination
 - Continuous development of syllabus
 - Benchmarking of national educational standards
 - Co-ordination of conferences and seminars

Training and education for investment professionals

EFFAS promotes the development and dissemination of international professional standards in order to contribute towards a high level of quality in the professional practice of investment professionals.

As a founding member of the global training association ACIIA®, EFFAS has successfully launched training toward the CIIA® -Certified International Investment Analyst degree in Europe. The CIIA® ensures tailor-made professional qualification by offering global, as well as local market, knowledge within its examination structure.

As a member of the Association of Certified International Investment Analysts (ACIIA®) EFFAS offers the Certified International Investment Analyst (CIIA®) designation. ACIIA® represents over 30,000 investment professionals world-wide.

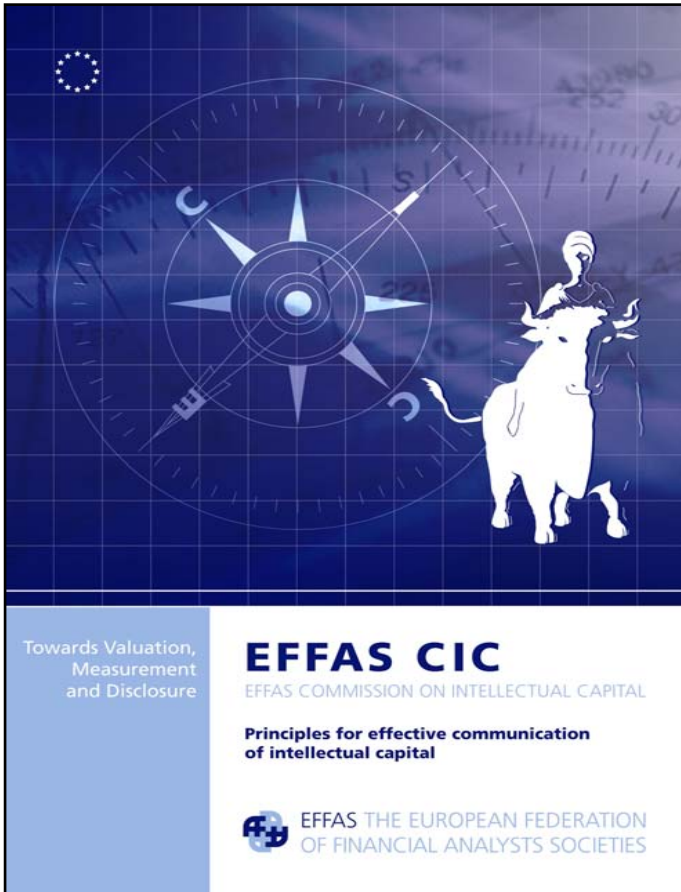
Intellectual Capital – disclosure and valuation in the 21st century

EFFAS Commission on Intellectual Capital (EFFAS CIC)

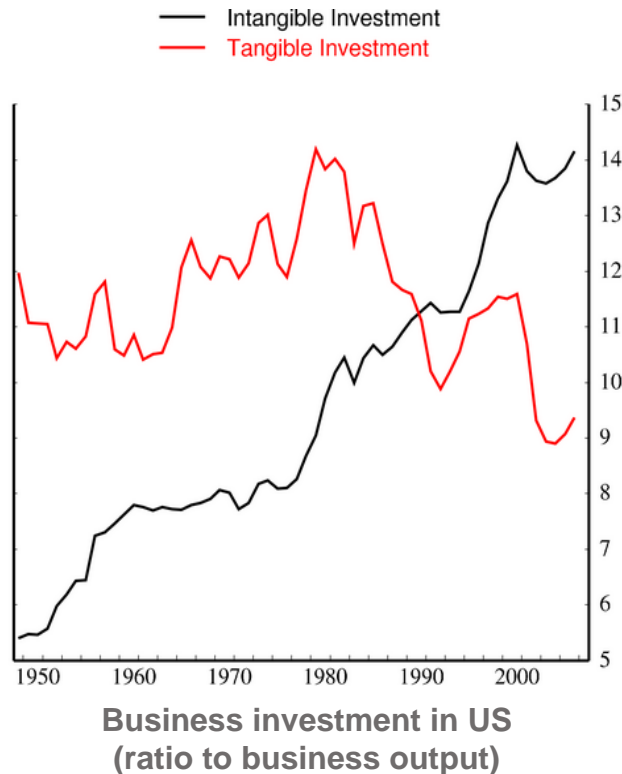
- **Chairman: Giampaolo Trasi**
European Coordinator: Alexander G. Welzl
- **Global pioneers in investment professionals community**
- **Ten commandments of intellectual capital measurement, disclosure and valuation**
- **Sector specific approach: development of industry specific intellectual capital indicators**

EFFAS ‘Principles for Effective Communication of Intellectual Capital’, 2008

http://www.effas.com/pdf/EFFAS_CIC_web.pdf



20th Century - Growing Importance of Intellectual Assets



▪ Reflected in corporate expenditure:

- Investments in intellectual assets are matching to those in tangible capital
- U.S. intangible business investment was more than \$1 trillion in the late 1990s: software, innovation (R&D, design, etc.) and firm competitiveness (brand, human capital, organisation)
- In first 6 years of this decade: intangible business investment 40% larger than tangible investment

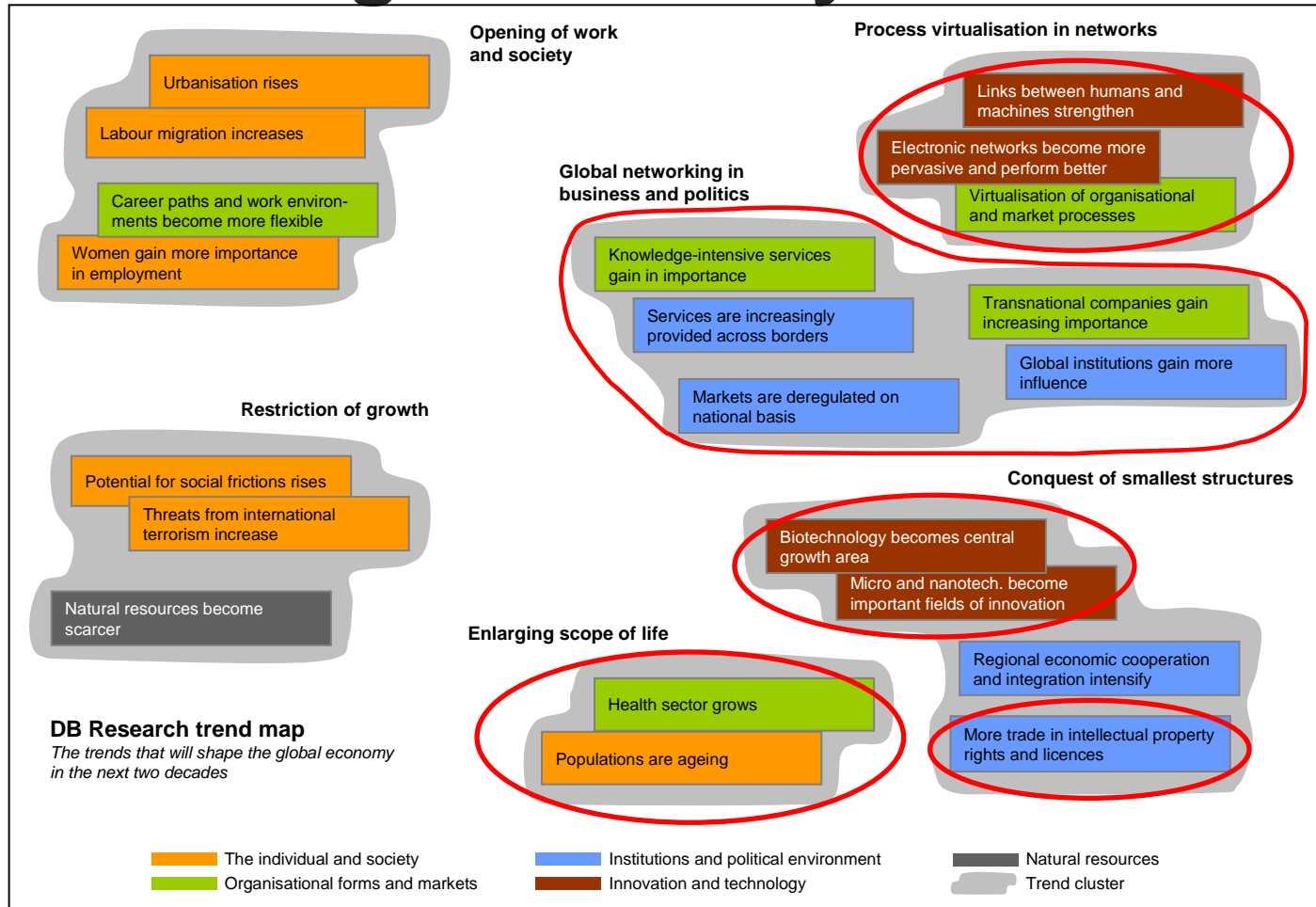
▪ G6 and EU-15:

- R&D-intensive producers and knowledge-intensive service providers in 2002 made up one third of economic output in G6 and EU-15

Sources: Corrado, US Federal Reserve Board (2007);

Hofmann, DB Research (2006); Tojo, OECD (2008)

2020 - Trends in the global knowledge economy



Source:
Hofmann,
Deutsche Bank
Research (2006)

Increase of Knowledge Intensity of Goods and Services

- **New forms of division of labour:**
 - Differentiated sourcing (outsourcing, offshoring)
 - Emergence of new value creation networks with intensified co-operation of actors (co-opetition)

- **Competitive products based on more complex scientific knowledge:**
 - Pharmaceuticals (biotechnology)
 - New materials (nanotechnology)
 - Financial services (mathematics and information sciences)
 - Smarter products (cognitive sciences)

- **More demanding customers**
 - Ancillary services get more important

Intellectual assets

– The fourth Production Factor

OECD Definition of Intellectual Capital/Intellectual Assets (2008):

‘Resource utilised in future value creation without a physical embodiment’. It includes

- Proprietary Knowledge
- Human Capital
- Relational Capital
- Organisational Capital

EFFAS Definition of Intellectual Capital/Intellectual Assets (2008):

- Staff and management skills, human capital
- Software
- R&D and Innovation
- Brands and patents
- Strategies
- Processes
- Relationships with suppliers and customers

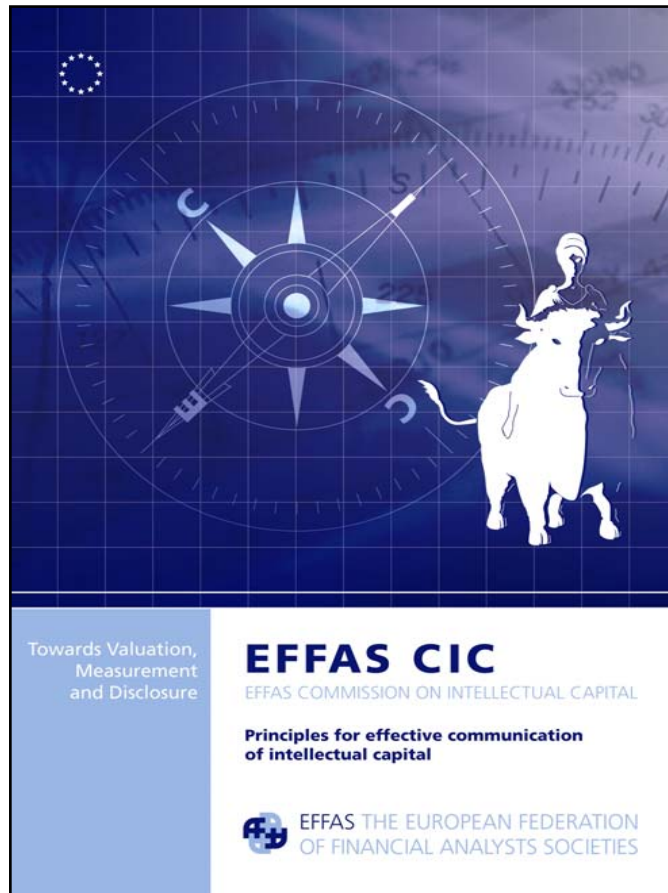
Intellectual Capital - the road ahead

Progress in the disclosure of Intellectual Capital may only be achieved by clearly aligning interests between the company, asked to provide a higher quantity of better quality information to the outside world (with associated costs), and the investor, who will use this information within his valuation framework.

The virtuous circle that we hope to see is one whereby:

- the company first of all becomes used to managing and measuring its intangible value drivers
- it subsequently raises their visibility by reporting such drivers to the market
- thereby triggering a greater valuation in respect of competitors
- this will reduce the cost of capital, forcing out and justifying further efforts in terms of communication and transparency in respect of this fundamental component of enterprise value.

The 10 EFFAS Principles for Intellectual Capital-Disclosure



1. Clear link to future value creation
2. Transparency of methodology
3. Standardisation
4. Consistency over time
5. Balanced trade-off between disclosure and privacy
6. Alignment of interests between company and investors
7. Prevention of information overflow
8. Reliability and responsibility
9. Risk assessment
10. Effective disclosure placement and timing

EFFAS Recommendation of IC-Disclosure Instruments

Corporate Intellectual Capital and IC-based value creation should be disclosed:

As part of the Annual Report:

- Included in the 'Management Commentary' (or 'Management Discussion and Analysis')
- Best practice case: Infosys Technologies Ltd., India

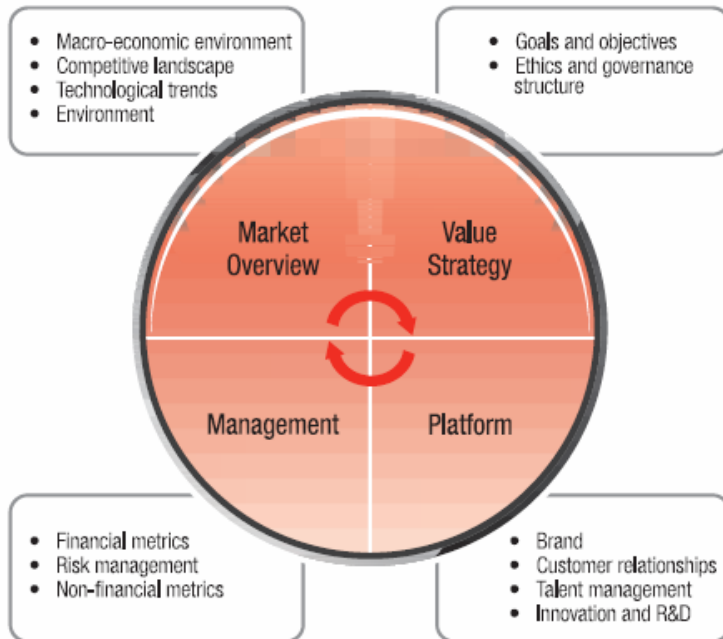
As a separate Intellectual Capital Report:

- In the context of the whole corporate reporting system
- Best practice case: Infineon Technologies Austria AG (IFAT), Austria/Europe

Infosys Technologies - leading edge disclosure for intellectual capital

- **Infosys Technologies Ltd. (NASDAQ: INFY):**
 - Revenues: over US\$ 4 billion.
 - Infosys defines, designs and delivers technology-enabled business solutions: amongst others business and technology consulting, application services, product engineering
 - Global footprint:: over 40 offices and development centers in Asia, Europe and the Americas
 - Workforce: over 91,000 employees.
- **Infosys business model and reporting – ,Value Reporting’:**
 - Referred to in detail in ,Building Public Trust: The Future of Corporate Reporting‘ by Robert Eccles, Robert Herz, Mary Keegan and David Phillips (2002)
 - Covered as business case in 2007 by INSEAD and HBS business schools
- **Intellectual assets disclosure as part of Annual Group Report since FY 1995/96**
- **XBRL based reporting since 2005**

Infosys Technologies' Value Reporting™ Disclosure Model



The following sets of metrics are included in Infosys' Corporate Value Reporting :

- Brand valuation
- Balance sheet including intangible assets
- Economic Value-Added (EVA®) statement
- Intangible asset scorecard
- Human resource accounting and value-added statement

Infosys Technologies

– Value Reporting Key Facts

- Data collected division wise as well as for subsidiaries worldwide
- Publication: annually (not included in internal quarterly reporting)
- Responsibility for this report: Corporate Finance Team headed by the Chief Financial Controller of the Corporation
- Intangible metrics are co-related to employee data but not directly related to executive compensation model
- Internally similar measures are adopted to evaluate business performance, employees are adjudged based on metrics that are additional to the financials

Infosys' human resources valuation

The dichotomy in accounting between human and non-human capital is fundamental. The latter is recognized as an asset and is, therefore, recorded in the books and reported in the financial statements, whereas the former is ignored by accountants. The definition of wealth as a source of income inevitably leads to the recognition of human capital as one of the several forms of wealth such as money, securities and physical capital.

	2008	2007
Employees (No.)		
Software professionals	85,013	68,156
Support	6,174	4,085
Total	91,187	72,241
Value of human resources		
Software professionals	92,331	53,592
Support	6,490	3,860
Total	98,821	57,452
Total income	16,692	13,893
Total employee cost	8,878	7,112
Value-added	14,820	11,879
Net profits excluding exceptional items	4,659	3,861
Ratios		
Value of human resources per employee	1.08	0.80
Total income / human resources value (ratio)	0.17	0.24
Employee cost / human resources value (%)	9.0	12.4
Value-added / human resources value (ratio)	0.15	0.21
Return on human resources value (%)	4.7	6.7

Infosys' Intangible Assets Score Sheet

External structure – our clients			Internal structure – our organization			Competence – our people		
	2008	2007		2008	2007		2008	2007
			Growth / renewal					
Revenue growth (%)			R&D			Total employees	91,187	72,241
In US Dollar terms	35	44	R&D / total revenue (%)	1.20	1.20	Added during the year		
In Rupee terms	20	46	R&D / value-added (%)	1.36	1.40	Gross	33,177	30,946
Exports / total revenue (%)	99	98	Technology in vestment			Net	18,946	19,526
Clients			Investment / revenue (%)	2.67	3.44	Laterals added	8,523	8,023
Total	538	500	Investment / value-added (%)	3.00	4.01	Staff education index	2,51,970	2,03,270
Added during the year	170	160	Total investment			Employees – No. of nationalities	70	65
Marqué clients			Total investment / total revenue (%)	8.95	10.87	Gender classification (%)		
Total	113	114	Total investment / value-added (%)	10.08	12.71	Male	67.5	69.1
Added during the year	24	26				Female	32.5	30.9
Revenue contribution (%)	46	44				No. of non-Indian national employees	3,678	2,028
Revenue Derived – No. of countries	58	54						
			Efficiency					
Sales / Client			Sales per support staff			Value-added / employee (Rs. crore)		
US \$ million	7.76	6.18	US \$ million	1.08	0.92	Software professionals	0.19	0.19
Rs. crore	31.03	27.79	Rs. crore	4.32	4.14	Total employees	0.18	0.18
Sales & marketing expenses / revenue (%)	5.49	6.69	General & admin expenses / revenue (%)	7.97	8.03	Value-added / employee (\$ million)		
DSO (days)	72	64	Average proportion of support staff (%)	4.71	5.18	Software professionals	0.05	0.04
Provision for debts / revenues (%)	0.26	0.19				Total employees	0.05	0.04
			Stability					
Repeat business (%)	97.0	95.3	Average age of support staff (years)	29.4	30.9	Average age of employees (years)	26	26
No. of clients accounting > 5% of revenue	1	1				Attrition %		
Client concentration						Excluding subsidiaries	13.4	13.7
Top client (%)	9.1	7.0				Excluding involuntary separation	12.1	12.2
Top 5 clients (%)	20.9	19.4						
Top 10 clients (%)	31.4	31.4						
Client distribution								
1 million dollar+	310	275						
5 million dollar+	141	107						
10 million dollar+	89	71						
20 million dollar+	47	36						
30 million dollar+	32	25						
40 million dollar+	22	16						
50 million dollar+	18	12						
60 million dollar+	13	11						
70 million dollar+	12	9						
80 million dollar+	10	4						
90 million dollar+	6	4						
100 million dollar+	6	3						
200 million dollar+	1	1						
300 million dollar+	1	-						

The above figures are based on Indian GAAP consolidated financial statement

Infosys' Risk management report

Our unified view of the risk universe

Strategy	<ul style="list-style-type: none"> • Planning effectiveness • Growth engines • Leadership 	<ul style="list-style-type: none"> • Service differentiation • Brand and reputation • Execution of strategy
Industry	<ul style="list-style-type: none"> • Geo-political change • Technical innovation • Competition intensity 	<ul style="list-style-type: none"> • Access to capital • Industry and market dynamics • Market selection
Counter-party	<ul style="list-style-type: none"> • Vendor selection • Vendor exposures • Credit management 	<ul style="list-style-type: none"> • Supply-chain management • Customer exposures • Customer concentration
Resources	<ul style="list-style-type: none"> • Talent supply management • Talent development • Career value management 	<ul style="list-style-type: none"> • Scalability of infrastructure • Deployment efficiency
Operations	<ul style="list-style-type: none"> • Operations planning • Execution excellence • Business activity disruption 	<ul style="list-style-type: none"> • Complex execution management • Contingency planning • Data for decision-making
Compliance	<ul style="list-style-type: none"> • Environment dynamics • IP management • Data security management 	<ul style="list-style-type: none"> • Contractual compliance • Contractual exposures • Litigation / violation response

Information for decision-making

Infosys – a global pioneer of XBRL based financial reporting

- **Information disclosed to SEC using XBRL:
Statement of Financial Position, Income Statement,
Statement of Stockholder Equity and Statement of
Cash Flows**
- **Depending on development of taxonomy worldwide
Infosys plans to provide all financial information in
2009/10**

Thank you!



EFFAS

The European Federation
of Financial Analysts Societies

Frankfurt am Main

Operational Office:

Einsteinstrasse 5

DE-63303 Dreieich/Frankfurt

Tel. +49-61 03-58 33-48

Fax. +49-61 03-58 33-35

Email: info@effas.com

Internet: www.effas.com