

**Open House**  
*Board of Directors*

P.R. Ganapathy: We come to the end of the day today and we have about close to an hour for question and answer session. Mr. Narayana Murthy, Chairman and CEO is here, Nandan is here. Mr. Narayana Murthy will make a few opening remarks and then we will have the Q&A. I presume you are all familiar with the process for asking questions. Those of you are not at a desk just raise your hand and a volunteer will bring you a mike. First, Mr. Narayana Murthy's opening remarks.

N. R. Narayana Murthy: Thanks Guns. Like all good things in life even the presentations at the analyst meet have come to an end. The theme "Growing in Chaotic Times" is absolutely apt. We are in challenging times. There is considerable anxiety around us in the customer quarters. The CEOs are not very clear about what the revenue pattern for their own corporations are likely to be in the near and medium term future. As Sobha and Phaneesh pointed out, people are very hesitant to open their wallets and that's perhaps one of the reasons why we see a certain downturn. Now, as Sobha pointed out, even in this challenging scenario, Infosys has delivered on every one of its promises; in fact it has performed better than what is promised; of course based on constant real time data that we receive through our sales channels and based on continuous deliberations at the board of directors meeting, we had to stand up and say that this is what we see around us and our growth rate is going to be, we estimate our growth rate to be about 30% for the year 2001-2002.

But while having said that, we also realize that there is going to be opportunity for end-to-end solution providers. People who demonstrate concept to execution, and we realize that on the one hand we have to enhance our revenue streams, and towards that we have seen presentations by Priti, by the DCG by Dr. Balasubramanian, by SETLabs – Subu. On the other hand, we said we have to ensure that we have to control our costs. We have to get more bang for the buck, and that is where Satyendra and Paddy Rao showed you how they are using the quality processes and models, productivity processes and models to ensure that we minimize rework, we enhance reusability, and there by we reduce costs to the customer, and of course to the corporation itself. Mohan also talked about how in this company the quality of earnings is one of the best in the world, and probably the best in our industry in the world.

We also talked about how we have been using a financial model, which as Nandan pointed out establishes its strength in PSPD, the predictability, sustainability, profitability, and derisking aspects. What was very important to note from Mohan's presentation is the fact that this company stands for certain beliefs and stands for certain convictions. It has complied fully with every one of the regulations in every country that it operates. Sure we pay much more tax than most of our competitors, but this is because we have to pay those taxes; that is the right thing to do. Mohan also pointed out how we have ensured that we have fully complied with the US regulations in terms of the salaries of our staff. It has tremendous benefits for us, that is, none of us need to lose his sleep because we have complied with it. No investor in the company need to worry about it because we have not violated any law.

This is a long-term corporation, and most importantly our colleagues, every one of the 10,000 plus Infosians is very happy that the company is not shortchanging them in any manner. It is also very interesting to listen to Girish, it is always very interesting to listen to Girish because Girish in the last few years that he has been the head of this unit, he has transformed this unit, it's truly an extraordinary achievement. As he pointed out, 5 out of 8 new private sector banks have chosen our solution, several public sector banks, several old economy banks, some of the established banks, as well as of course, banks in several countries, I believe about 14 countries, banks in 14 countries have chosen the Infosys solution. There he also talked about the challenges, he talked about how we have been able to bring tremendous value to leading edge banks.

We also of course underlying all these things is a very very important attribute of the corporation and that is its focus on human resources development. Hema made of course as always an excellent presentation on how we are making sure that our commitments to our colleagues has been fully demonstrated. We have not fired anybody. We have ensured that these people have utilized whatever free time they have had in learning new things, thanks to SETLabs, thanks to our education research efforts in making sure that personally they have become much better professionals while adding value to the corporation. In other words, it has been a very educative day to come here, stand at the podium, have discussion with you people, have interacts with a few of you people, and learn from some your comments. Now, what we will do is between now and 5 p.m. we have about 45 minutes, the reason why we have set 5 p.m. is simply because some of you may have some flights, so between now and 5 p.m., I have all the members of the internal board here. We have Mr. Phaneesh Murthy, Mr. Shibulal, Mr. Dinesh, Mr. Srinath Batni, Kris, myself, Nandan, and Mohan. We will try and answer every one of your questions, kindly use the black button to switch on the mike, or of course some of you who don't have access to that can use your wireless microphone and ask questions.

Participant: Actually, I have two questions, first is I think for Phaneesh. Phaneesh, I mean, marketing clearly is the biggest challenge for the software companies in the next one to one and a half years. So, what are the key trends that you see, the way the marketing was done probably earlier and how it is done today, and what are the difficulties that you are facing, this is basically to understand how the things are changing, secondly we have spoken about couple of new initiatives, how is marketing in those initiative different from the marketing that you do for the traditional IT services outsourcing. Second question is on the brand name, we have spoken about the Infosys brand and(o k, please continue)

Phaneesh: On marketing and what are the challenges. See, the biggest challenge right now is the delay in decision making, and the primary reasons for the delays in decision making are people don't know what projects are going to get continued funding, whether they are going to be actually there for some more time. We have actually found many times where a decision was about to be made within the next two or three weeks that person has lost the job. So, it is a very turbulent environment and because of that there are huge delays in decision-making. This is actually the biggest problem for us.

We are doing four or five things, which are slightly different but I don't if its helping, it is helping to some extent, but it is not helping in making a person who was not taking a decision take a decision. It is only helping in making the person who was taking a decision take the decision in our favor. That is what we are trying to do. The things that we are doing differently are: A. We have much larger teams involved in the sales, and this is because clients are doing significant amount of due diligence. Earlier, if a CIO could sign off on a million-dollar project or a million-and-a-half-dollar project and nobody else would ask the question. Now, it effectively becomes the committee decision so the CIO is that much more reticent about recommending unless he or she and his team has done the entire due diligence in a way which is very very thorough. So, for that all kinds of eyes have to be dotted, all Ts have to be crossed, so because of that our teams have become larger. We have a lot of people from, we have the sales team, we have the consulting team, we have the delivery team, we have the architects, we have the DCG people, all of them basically going as a team and trying to address all aspects of the question. So, it has become an organizational input into the whole thing. So, that is one.

The second thing, I think, that we have done is that we have shifted our focus marginally for the interim short terms. Insurance is the more stable market, retail banking is the more stable market, than may be the securities market or asset management brokerage, or has been for the last few quarters. So, you shift the emphasis a little, so you would have seen that in the new customer additions, the bias in the financial services moved to those kinds of customers. Similarly, in TELCO you would have found that the bias moved to more of the service providers because that is the more stable market than the equipment manufacturers right now. So, we have made some adjustments of that type. The third thing is that we are investing actually fair amount in marketing activities where we are trying to call people to our own conference or participating in various conference because we know that coming out of this we will be much stronger, so as we get our name out more and more, more and more people are feeling that we are a good low risk alternative to work with. Thanks.

P. R. Ganapathy: We will come to you. Give other people a chance, I will keep it on **track**.

Participant: Just one thing on the brand name of Infosys. Clearly, the brand name of Infosys differentiate itself from a number of companies, but essentially what we are talking about here is how does Infosys differentiate from probably the top two companies in India and say top five companies in the world. How is today, because the competition will be increasingly becoming the India centric where there will be competition among the top two or three companies. So, in terms of pricing pressures, in terms of the delivery capability, how does it differentiate?

Phaneesh: If I tell you that, that goes into public domain, so it no longer my competitive advantage, but broadly speaking against the companies who from the US are starting Indian operations, which is your next question. I am not at all worried. Actually, that is a great news for me because we are going to be competing in our home ground, we are competing on an optimized business model.

They are going to be struggling for quite sometime. I have found in general that if a project manager as an option, or if anybody has an option, they would choose the least personal pain option to do something. So, if for example, in a Sapiient kind of a situation or in an EDS kind of a situation, if the project manager was given an option to have the entire team on-site or to have the team based 10,000 miles away, you know, it is human nature to choose the least personal pain option. This whole global delivery model, while is great for all of the investors, it is a personal drain on many of the employees. So, you have to get committed to it at the corporate level, you have to get completely focused on it, and you have to bet your business on it, and until somebody is willing to do that, I don't think will be an effective competitor. Already, I got a call from one of my customers saying we got a call from the sales guy from one of your competitors. I said, what did he say. He said, we have got a new pioneering completely innovative business model. So, I asked him what is that. He said, well they are going to do some of their work in India. I said, well good news, you have been doing it for seven years, so you can tell them that you are more of a pioneer than them, right. So, it is really, I think, there is a lot of confusing messages which are going out from the market, and I think all of this is reasonably good news as far as I am concerned. If we can get them to compete on our grounds, I think we are fine.

P. R. Ganapathy: Next question first, we will come back to you.

Participant: Just a related question. In times of slowdown, companies tend to outsource more. If you look at, I am not saying your business model is same as EDS or whoever it is being traditional outsourcers, but over the last 12 months you have seen that your initiative to cut costs, has seen a lot of business going to traditional outsourcing firms. We have discussed all day that there is this huge advantage of outsourcing work to India, so why is that it is taking US corporations, or wherever, so much more time to get used to the India advantage. Is it something because of the model is new, or what is your sense in that?

Phaneesh: I think, in a down market, multiple agendas come in to the picture. If you remember, in 1992-93 kind of days, when the huge technology boom was not there, we use to hear all kinds of things, lobby of the National Association of COBOL Programmers, lobbying extensively to reduce H1B and keep jobs in America and stuff like that, all of that went away in 1994-95 when I mean there were a lots of weird arguments of all kinds. There used to be articles about how there were 8 Russian programmers living in a two bedroom apartment, and if this is the standard no wonder they pay, etc., I think, the lobby is for very active political reasons, and automatically when the jobs became too many, I mean the demand was so high, everybody forgot about it and everybody's salaries were going up and so on. The outsourcing, it is an interesting point that you make, that in a down market outsourcing actually goes up. I think, different types of outsourcing goes up in the down market. The first one is, people in general, while it may not seems so in the press, in general I think they try and protect their employees as much as possible. If they have an option of laying off 10,000 people or giving 2000 people to an EDS or a CSC, I think, they would like to choose an option where they can protect their employees as much as possible.

It is not to say that the corporations will not do what is important, but it will do. And added to that the political sensitivity of the fact that jobs going away from America, I think, makes it, it is not that it is not an accepted thing, I think, people know it. It is just that it is a difficult agenda to push in an environment like this. I just recently met a CIO, who told me that they are cutting \$650 million from their IT spending. I mean, if you planning to cut \$650 million, which means you have knocked off 2000 people or whatever it is, and cut various other things, stopped upgrades, etc. and then to go back to other people. So, in addition to the 2000 people that I laid off, and now give another 400 or 500 jobs to India is not, I think, is politically acceptable. While they may want to do this in the long run, I don't think they can do it in a politically sensitive environment like this.

P. R. Ganapathy: Next question at the back there.

Participant: I just trying to understand, for the companies who have experimented with the offshore model in the past, for them to get advantage by increasing more of work offshore, is much more easier as compared to a company which has never tried an offshore model. In terms of the marketing effort, will you weigh differently for a client, which has never tried an offshore model. And secondly, in terms of the advantages, which will be coming to a company, who has now trying offshore model, the advantage this year will be much less. So will it mean that the revenue from the existing clients who have been trying the offshore model for quite sometime, will keep on increasing where as revenue from new clients won't increase, at least till the time slowdown is there?

Phaneesh: I don't think so. I think, you will find that, even existing customers, I mean, we have to make sure that we keep on getting new customers, acquiring new customers, because existing customers also have cuts in their budgets. So, even if they want to do more, there may be many programs, many initiatives, which are cut, so how do you manage? We have to manage our growth, and we have to do whatever it takes for us to grow. So, we have to continuously seek new customers.

Participant: But can you just give us some sort of numbers like say for those who are outsourcing in the first year, what is the sort of benefit when you are shifting work from onsite to offshore, as compared to somebody who has been doing it for two or three years or may be more. How does the cost benefit advantage change over a year?

Phaneesh: This is completely dependent on how much of the work we end up doing as a percentage of the total spend; is it a strategic relationship; if it is a strategic relationship, are we hooked into multiple departments, multiple divisions, multiple groups; it is quite difficult to answer, in that broad sense, that second, third year, but we have seen that if the engagement size is more than a million or a million and a half, compared to a typical US consulting company, IT integrator or whatever it is, we have found that we are probably 35-40% cheaper.

Srinath Batni: Just to add to his comments. It also depends on the type of service and the technology area where we start off this work for the new client.

Participant: But just to add, won't it mean that since the initial project stages, more work is done on-site, so the advantage will be much lower in the first year, and for a company which wants to cut costs in the first year itself, the offshore might not be very good alternative at this stage.

Shibulal: No, that may not be entirely true, because in many of our services, we are very robust, knowledge transmission methodology by which we can quickly absorb the knowledge, which the organization has, and look at moving work offshore. So, even in the first year it will be, when you say first year, first year of operation with the customer, there can be substantial savings depending on the size of the opportunity, which we get into.

Participant: You have mentioned that clients are increasingly focusing on ROI and value. In terms of the new contracts you are signing, are the clients looking to quantify these values in terms of some benefits you assure because of you doing the projects?

Phaneesh: No projects are getting funded now without a clear business case, and I think there are strong metrics which are being put in place to measure these benefits and make sure that these benefits actually accrue to the organization **versus** may be two or three years ago, where it was a little more wishy-washy, saying broadly, we are looking at increasing productivity by X% or broadly we are looking at doing things differently etc. So, I think, there is a clear metrics system in place where they are tracking the productivity. Also, I think, much greater accountability definitely from us, I was saying that higher level of due diligence, so which means, if there are any changes from both sides, if there is a change from their side, when we push back, they really look at the change and try and figure out whether they want to include it or not, and if we change our price because of the change, then they look that very very closely and say, we need to check whether this makes sense to do and can you not absorb it and so on.

Participant: Do you get any contractual liabilities because of these?

Nandan: I think the point we are making is that, clearly the proposals that we submit and the analysis that we do for a project is far more rigorous in terms of return, whether it is in terms of cost reduction or defect or whatever, but by no means it has any contractual implication. It is just that the justification for doing that project is much more diligent and much more solid.

Participant: Just following up on that EDS and IBM related question. Basically, what you are seeing is that you think service is moving to the infrastructure guys at this point in time, but most of these infrastructure guys, most notably EDS and Computer Sciences, are also building application development capabilities. Simultaneously, IBM is going fairly strong into this area as well and now you have got Compaq as well, so this combined with the vendor consolidation that we have seen over the last, let's say 12 months or so. Will this lead to a situation where these companies start acting as gatekeepers and thereby push pure APS developers for the down the value chain?



Phaneesh: I don't think so. It's a very large and fragmented market. You can never have a situation where there are few gatekeepers. Even in accounts where EDS and CSE are there, we are still doing some work. It is because typically the exclusivity happens on data center maintenance; never do they give the contract for new technology initiative or new business led initiatives, so my feeling is as long as we plug hard enough and we work hard enough, we will continue to get engagements. I do not think the market is ready to be like the airline industry or something like that, six or seven airlines and nobody else kind of stuff.

Participant: Given that basically margins on hardware have been coming down and that seems to be a trend which does not seem to abate, most of these are guys are pushing their services around their hardware products, so would it actually be fair to say that you are going to actually see increased consolidation going forward compared to what we have seen in the previous 3 years.

S Gopalakrishnan: You will see new players coming in and that always been the case. It is not new. When technology changes and when business trends change, some will survive those changes, new players will always come in. If you look at the Compaqs of the world, IBMs of the world, HP etc., getting into services, they get in with a very different agenda than, let's say a company like Infosys trying to sell fewer services to the customers. So, there is a difference in how we enter a customer and how we try to sell ourselves and things like that. Given that, we also have the advantage of the global delivery model, which puts us in a unique place. More and more, as we become larger and larger, we are competing with these people, but we are unique in that competitive space also, so that is clearly a differentiator for us and an advantage for us. We are also trying to become the prime vendor overtime, just like these people are doing.

Participant: As in the morning, Ms. Meera mentioned that your SI consulting projects / engagements have doubled over the recent months, could you just briefly explain to me what exactly are you doing in SI consulting and (b) what is the offshore ability of those kind of projects?

S Gopalakrishnan: What we are doing today is solutions integration, which is part of the system integration, the total thing. What we are doing is solution integration. Most of the work we do, in terms of selection of packages, implementing packages, like SAP, Siebel, Oracle, integrating that with the existing applications or other middle web products, all that constitutes solution integration.

Participant: One more thing, on BPO, you already have some exposure to that through Workadia, I mean, it has got some about of BPO in it, do you have some idea of what kind of revenue productivity for employees you are looking at in the BPO space. What you have right now for IT services, whatever \$80,000 or so, what would be your expectation of the same for BPO?

Phaneesh: We intend to do BPO primarily on a transaction basis. So, I do not know if you want to talk about revenue productivity. My objective is to see if we can move it to a per claim, per cheque, per invoice, etc., etc., so we have not yet worked out all the economics of all that, in terms of exactly how much it will be. It will depend on the number of invoices, number of claims, number of grades to be settled.

S Gopalakrishnan: Having said that, we want to again reiterate, these are all very early in the service development, these are all future opportunities, and future revenue streams for us, over probably next 2 to 5 years time horizon really.

Participant: Given the current environment which is extremely competitive, I will be interested to know what your pricing policy is as an organization; do you have an internal hurdle rate below which you will not do any business; if so what is that and the question after that and related to that, is that, if you are going to be dropping prices, what happens to the existing customers? Are you seeing pressures and possibly going forward is that going to factor into your model?

Phaneesh: We have an internal hurdle rate. I do not think that we are ready to discuss it right now. In terms of pricing pressures from existing customers, I think there pricing pressure all around in the market. There is pricing pressure from prospects and there is pricing pressure from customers. It would be very naive to sit down here and talk about the fact that customers are laying off tens of thousands of people and making billions of dollars of losses and not ask any of the vendors to feel any of the pain. So, there is pricing pressure from customers. We are trying to structure this in multiple ways, some to our advantage and some to may be a short term disadvantage, but there is pricing pressure all round, from prospects and from customers.

Participant: Has there been an instance in the last 6 months where you renewed any major contract at lower prices or at a price which is lower than, or as a matter of policy, you do not bring down prices to customers, come what may? I am not talking new customers; I am talking of old customers.

Nandan: As Phaneesh mentioned just now as well as in our call in July, we have had issues of price re-negotiation, both in terms new clients as well as in a few cases with existing clients.

Participant: Early in this year, January-March, we saw the financial services and telecom domain getting affected, and really the Indian software companies felt the impact in revenues later. Currently, do you see any verticals, which are at risk in the similar case it was say in financial services or telecom?

Nandan: As Phaneesh also mentioned, the 2 sectors where we have seen the verticals doing badly, one of course is telecommunications where we have seen the full impact of that. In what really we call as financial services, which is about a third of our business, actually encompasses a wide range of financial services including retail banking, card processing, insurance and so forth.



So, it is not the whole of financial services that is facing challenges, it is really the stock market oriented activities like investment banking or brokerages who are really facing a lot of the problems, so that is where we have felt some of the challenges, but the other financial services sectors in fact are doing quite well, areas like insurance in fact are doing very well, and there is no other sector which really is facing the kind of turmoil. So, I would say the 2 sectors that have caused lot of the challenges are telecommunication and the financial services that deal with stock market operations, like investment banking and brokerages. In telecom itself, it is really telecom R&D. It is the outsourced R&D that was being done by large companies like CISCO, Nortel, and Lucent, it is that which is subject to cancellation and all that as they go through a lot of their problems, but there is no other sector that is like that.

Participant: What I wanted to know is if Infosys were to play in the big league obviously it has to have a very strong brand, and we normally see that you are competing with IBM and the Big 5. So, I wanted to know, amongst your existing customers and amongst the Fortune 500 companies, how many CEOs know about Infosys and what do they think about Infosys, and are they aware what kind of services Infosys offers?

Phaneesh: Good question, but the CEO does not buy anything. It is always the **CXOs** who really do the buying decisions in most companies. It is very rare that the CEO typically blesses a deal. So, a lot of **CXOs** know about us. I know some CEOs who know about us. What do they think about us? We are actually in the midst of getting a brand audit done, with all of these stakeholders, so we know within a few weeks, exactly what they think about us. But broadly, I think in general because of the references that we have got from the CIO, which is of a very strong technology company, very good in execution, has delivered consistently, and so on, I think they retain a generally positive flavor of us, but I don't know if they think that we will be able to do everything for them, so I would say broadly that sums it up.

Participant: One question, which was asked very often earlier, is regarding acquisitions. Now, there is no development on that front, so everybody seems to have forgotten that, but I think time is appropriate now, because valuations are very attractive globally, so what is Infosys thinking about that when we have \$134 million on the balance sheet?

S Gopalakrishnan: We continue to look for good acquisition candidates. In some cases, we are able to proceed further and discuss the details with the company, but in order to close it, really there has to be meeting of minds in terms of philosophy, in terms of culture, in terms of the vision for the combined entity, and of course agreement on valuation and things like that. So, it is complex. We are not looking at acquisition as a growth engine right now. We are looking at acquisition as strategic with a capability to round off our services, with the capability to enter new markets and things like that, and we continue to do that. We continue to pursue this on an ongoing basis.

Participant: To supplement it, now we are looking to go into SI and BPO business, are we looking at acquisitions in that area?

S Gopalakrishnan: Yes, certainly that is something we would look at.

Participant: What is your view on fixed-price projects, and are you looking at more fixed-price projects going ahead, is it relatively easier to sell fixed-price projects, because you can tell the client that this is the cost or something like that, and what fixed-price project as a percentage of total revenue will you be comfortable going ahead – fixed price or with time and material?

Shibulal: It is a very good question. I think our fixed price is about 27%, there is some fluctuation from quarter-to-quarter, which are not very material. Whether to do fixed price or not has to be decided based on a number of factors, the maturity of the technology, the clarity of functionality, which is required to be delivered to the client, and various other risk factors. Of course, the customer in many occasions will feel comfortable with fixed price because it reduces their risk. At the same time, we have to look at these various factors and then take a decision. I think that Phaneesh can add whether it is easier to sell it or not.

Phaneesh: I just want to add one more point to what Shibu said. The payment mechanism is delinked from the way we do the project. So, we are managing the project and we are managing the program. So, if you look at it, really fixed price probably adds a little bit of risk to us and gives us, hopefully better margins and so on, depending on how we execute on that project. I think the fact that we have both time and material and fixed price is because client's reactions are also mixed. Our reactions are also mixed and client reactions are also mixed. Client reactions are mixed because they know that if there is a fixed-price project then they will see 50 change requests which will come everyday because of the changes that they make, because requirements are going to change during the course of a project. Our reactions are mixed because what Shibu was saying, you know, some of the technologies that we are working on are completely bleeding edge, they are not stable, they should not be out in the market, and so on. So, because of this, I think we end up having this blend and we will continue to have this blend going forward.

S Gopalakrishnan: **(Audio blackout)**

Participant: Increasingly, we are hearing about this beauty parades by clients, so what has been the Infosys experience. How important a part rates play in such a scenario where lots of large Indian companies are presenting their abilities in front of the client?

Phaneesh: I would like to believe that we are more beautiful than many others. I do think that we have a good brand, which enables us to be in a position, which is fairly interesting, while we do not have a very dramatically different cost structure, the value perception is different and that I think puts us in a reasonably good position.

Participant: One follow up question on this. See, for example, let's say, to talk about a specific competition, maybe Wipro is a case in point, where there might be some minor differences in terms of delivery capabilities, but the rate differences are quite big, so in the recent past what has been experience like in such context?

Phaneesh: I actually do not agree with your basic assumption that the two companies have similar services or whatever it is. I think they are quite dramatically different. I think the point at which we offer the services is very different from the point at which they offer the services. They are probably good in what they do and I know we are very good at what we do. So, it is different, the services are different, and that is the advantage of being able to slice and dice the market in multiple ways and figuring out exactly where you come into the project, and where you come into the project will dictate what the price points that you can command, but where you come into the project also needs to be a function of the brand that you have, the capabilities that you have, the ability to interface and integrate with the business layers and so on and so forth. It is slightly different.

Narayana Murthy: I would like to add to what Phaneesh said, that is the perception of minor differences may not be correct. Let me give you data: 1. Infosys has been voted the best employer in the country in two separate surveys – The Business Today Hewitt Survey and the then the Data Quest survey. 2. We have the most aggressive depreciation for technology because we want our people to be in touch with the latest technology, and 3. We have the best per capita revenue productivity and that – nobody puts money on the table unless they perceive differential values, so on all those counts, while I have tremendous respect for Wipro, let's be very-very clear that the differences are not minor.

Participant: This question is to Phaneesh. Continuing on the price pressure theme, you mentioned that this price pressure is all encompassing across verticals and customer segments, I do want understand where do you think we are in this price pressure cycle, is it the beginning or is it somewhere in the middle or it is kind of getting over. Has it touched upon all your meaningful customers or is it just entering into the system. That's the first question. The second thing is if we believe, I may be wrong on this – that a large part of the pipeline in the activity is appearing to be on the application maintenance side for the moment. Given that scenario, what extent of differentiation can premium-branded firms like yourselves actually lead to a bottom line difference or an actual billing rate difference.

Phaneesh: On the price pressure side, I think has it come to an end, has it bottomed out, I think it is all function of how long this so-called slow down is going to last. I think we will see more price pressure, if the markets continue to be very slow. We will see more price pressure if more and more of our customers start having to lay off 20,000-30,000 people, having to write off \$5-10 billion in charges, etc. I do not see how we will get away from it. Your next question on maintenance, I think we are and we will continue to be the lowest total cost of ownership (“TCO”) to a client, lets not get away from that. I don't care what rates we charge. We are the lowest total cost of ownership, so because unit rate does not mean anything, I do not know if you have read a very interesting book called “The Mythical Man Month.” There is 1-20 times productivity differences between people. It is based on the kind of people you hire, it is based on the environment you provide, it is based on the culture you have built, etc. It is also based on the processes that you use and the management practices that you use. So, we will continue to be aggressively the lowest TCO in the world, but we will never be the lowest unit rate in the world.

Participant: Do you think this is competing within India itself using lowest TCO within India itself, given your price points.

Phaneesh: TCO is worldwide, it doesn't matter which country, I think, because if we are not lowest TCO, to the customer total cost of ownership is the combination of how well you can do your requirements, how well you can align with the business goals, how well you have done your architecture, how flexibly you have done your architecture, how you have considered cost of deployment, how you have managed the whole program, what is the defect density at which you have delivered, and how have you made sure that there are no project overruns, so it is a complete thing, and this is what any large solution integrator consulting, system integrator, application development company is doing. So there is no point in optimizing on one small element of this, you have to optimize on the whole thing.

Participant: Just one question for Phaneesh, when you are talking about the yield management, internal yield management, would it be correct to presume that the key variables that you are working on with the systems, are you back loading on that in the current marketing efforts that you are doing to get new clients on board.

Phaneesh: May be a fair short-term inference.

S Gopalakrishnan: I just want to add, provided our CFO agrees to any back loading.

Participant: Do we need to see a revival in hardware sales before we see software picking up?

Narayana Murthy: Well, I think the other day Mr. Craig Barrett was there and his view was that the PC sales will have to pick up first and then the software sales and finally the telecommunications lastly will pick up. So...

Participant: Sir, Mr. Craig Barrett need not be right. The most successful people have not been most successful in predicting trends, or economic trends rather.

Participant: We touched upon acquisitions and the need for meeting of minds and philosophy, can you detail which aspects of philosophy so far caused the acquisitions that you've looked at in the past breakdown, where have been the sticky points, specifically.

S Gopalakrishnan: Infosys is an optimized organization, we look at all aspects of the business in terms of starting with visibility of the business, predictability of business, looking at management practices like cost control, looking at depreciation, looking at in terms of the delivery of services, the quality of deliverables, references, we look at customer relationships, customer contacts, so its all aspects of business, and we want to try and see whether we can get similar answers as we are looking for within our own organization, and that's really meeting of minds. Basically, we are looking at a very high quality company.

P. R. Ganapathy: We have time for two more questions; we will take one here and the last one back there.

Participant: My question is to Mr. Narayana Murthy. You have been quoted as saying that the ship is safest in the harbor but that is not where it is meant to be. How happy have you been with this that the company is taking re-engineering itself, or repositioning itself?

Narayana Murthy: Yes, what I meant was that in every business we have to take calculated risks because that is how you grow. As I look at Infosys when the clients have a paradigm (**blackout**), we were one of the first few to seize that, and within a year, 28% of our revenues came from that. Similarly, we had a very carefully crafted Y2K strategy. We went from 0% to 23% as maximum, back to 0% in a matter of 10 quarters. Look at e-commerce contribution – we went from 0% to 31% in a matter of 6 quarters or so. Of course now everything has a component of e-commerce so I suppose we don't really look at it separately. We believe that in this company we have to make serious analysis of the benefits and cost and the probability of success of every new initiative we take. We ensure that we minimize the risks that we have to take; we ensure that we are conservative in our computations, in terms of our revenues, we make sure that we are provided for all the costs in every initiative, but we know that we have to take those risks, we have to go out. So, I would say so far I am quite happy with the way this organization has managed to sail to new destinations, new unknown destinations, so I am quite happy.

Participant: Given the fact that global IT services vendors have also been cutting prices in recent past, what kind of discounts do we now offer as compared to these vendors for application management, especially in maintenance related projects.

Phaneesh: Very difficult question to answer, I think, I don't know, we try and compete on the values and there is price pressure, there is no doubt about the fact that there is price pressure. I don't know if we are offering any discounts as such, but we may be doing certain other things for the customers.

P. R. Ganapathy: Thank you very much ladies and gentlemen for joining us today. Before I sign off, there are some people who have helped make today's event a success, so I would be failing in my duty if I didn't mention them before we leave. I think first and foremost, to our communication and computers group for all of the work that they did in making the presentations work flawlessly, videoconference work flawlessly, and this room really work flawlessly. A second big thank you goes to our communication and design group, who did a lot of the graphic work, the printing, and worked overnight to make sure that the final versions of the presentation were neatly printed up and put in kits for you, and all your name tags were printed up and kept for you in the morning. I think we would also like to thank really the caterers who provided us with an excellent tea and snacks as well as lunch, all of the volunteers who helped out today in the registration and signing in and rest of the processes, and also to the Infosys facilities team who made sure that there is a first class campus as always to receive you today and has kept it that way. Thank you for joining us, we look forward to seeing you next year.

Narayana Murthy: Thanks, most importantly, to all the analysts who have traveled all the way and spent a full day here, we are extremely grateful to you for your time.

Participant: Grateful for the respect and the help, and as always the Infosys did the innovation also in its analyst meet. Thank you.

P. R. Ganapathy: Please make sure that you have all filled up your feedback forms, you can leave them where you were sitting, or just hand it over to any of the volunteers.

M D Pai: We have a new company shop where we have designer wear, Infosys designer wear, if you like it you come and visit us. Please come and have a look, and please visit the Infosys Experience Theater. We have an experience theater where the preview is being held today. It has taken us about six to eight months to get it up and we would like to request you to visit that and go through a audiovisual experience.

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