Male Speaker: We now have the executive open house session. It is very rare to see the management team together and we do not want to come in the way between you and the senior management team. We hope you all had a fruitful day at Infosys, request you all to take time to fill in the feedback forms. Over to the management.

Male Speaker : <inaudible> This is just the board of directors, part of internal board. This is not part of the senior management, this just part of board

Narayana Murthy: Please stand up, introduce yourself, and then ask us any questions.

Anantha: Hi! Good afternoon everyone, this is Anantha from JM Morgan Stanley. Nandan you mentioned in your presentation today morning about this planning over three different stages and just hypothetically assuming that there were to be a sudden slow down in the US economy. Could you sort of try to integrate that into how that would feed into the planning session and how you would to react to that?

Nandan Nilekani: Well I think, that would probably happen in the shorter time cycle, because the whole operations assurance phase is essentially looking at this quarter as well as the next 4 to 6 quarters and trying to make sure that the supply and demand are all matched, that the recruitment is happening, that the training is happening, that the infrastructure is happening, that the forecasting system has captured the business pipeline. So I think those instruments will have the, if any slow down happens, then it will be captured there and then will make the appropriate mid course corrections. The 5 year one is really like testing the assumptions of the business, making sure that, you know we have certain sets of assumptions about the world, global delivery model, about China, about rates, and whether those assumptions are still valid or not; and the 3 year thing is really to drive the business units of Infosys to achieve our strategic intent of combining growth with differentiation. So I would think any cyclical changes will be captured and managed in the 1 year short-term operations assurance cycle.

Anantha: Most companies got caught by a bit of surprise in the last cycle, when like example, campus recruitments were deferred etc. Has anything changed to avoid a similar circumstance in the next cycle?

Nandan Nilekani: Well, you see the thing with campus recruitment is that the nature of the campus recruitment is it is 12 to 15 months, because you recruit now or we did that for people who join next year. So you have to take a call on that, you have to take a view that next year you need x thousand people from the campus, and we believe that it is better to take from the campus, because you get the first choice, you get the best people coming, and you can invest in them, rather than reduce less from campus and take more from the market. So if you take the view that it is best to take most of the entry level from the campus and if the campus cycle times are 12 to 15 months then you have to take a call on that, and we will take the call on that now. If there is a dramatic slow down 6 to 9 months from now, yes it may potentially mean that there are more people than we need, but I think that is a decision we have to take and we have to invest in those people.

Narayana Murthy: Also remember that this is an industry where you are recruiting 50,000 to 75,000 people every year. No other industry is able to recruit this kind of white collar people at those salaries in such large numbers, the corollary of that is as Nandan pointed out, if the economy slows down, obviously you have two choices, one is to say no we don't want you, which a company like Infosys would not want to do, because we want to honor whatever words we have said, so we may say look, we will defer those recruitment, that is inevitable, nothing can be done about it.

Nandan Nilekani: I think what we are really saying is, at this point, the risk of having extra people with us and the cost of having them, because of a slow down, is less than the risk of not having enough people with us to take advantages of the market place. It is just the judgment call that we have to make.

Anantha: Thank you.

Anirudha Dange: I am Anirudha Dange from CSLA: My question is mainly on slightly longer term pricing trends. Over the past two to three years, we have gone through a complete cycle that pricing was going down like there was no bottom and then suddenly things seems to have stabilize and we have seen may be a partial up take. What do you see as a long-term trends on pricing, in the sense that are we able to increase prices at this point of time from customer and how do customers see that you are making so much of margins, so are they still focusing on your numbers to negotiate when they sit on the table?

Nandan Nilekani: First of all I think if you just go back in history, the 1999-2000 timeframe when pricing went up, was also the time of the whole bubble era, where there was tremendous demand from traditional companies, from internet companies, dot.com companies, from telecom companies, you know the whole bubble, so lot of that, and the prices went up, and from 2001 to 2003, there was a correction of all that, which is why you saw the pricing decline, but over the last several quarters, we actually have been able to hold the pricing as you have seen in our results. Going forward, I mean one dimension of pricing increases obviously the demand supply issue, and certainly demand now is more than before and therefore at least that pressure to cut is not there, which is why we have been able to hold it. Getting pricing increases however is really for us to demonstrate more value, either by delivering the existing services better or by selling them new service at higher price. So I think it is for us to do those things right and only those things will result in price increases. They are not going to happen just because we go back to the customer and say, look our costs have gone up, so increase our price. I think that model is not going to happen. So I think, how well we execute on all the things we talked about today will decide whether we are able to get the pricing increases, but since the pricing increases will lead to us being able to invest more in our employees and in our company's business of the future, the pricing increase may also flow back into those activities rather than just flow back into margins.

Narayana Murthy: The important thing for us to realize is that, as you know, if you looked at **Michael Portis model** there are competitors, there are customer, and you are there, then we are all in the market, and then of course substitutes. There could be many thing, if China becomes a very serious competitor in the next three years, we have all seen what China has done in Olympics, right. I mean say second only to US. They are saying come 2008, they will be number one. So if China somehow makes up its mind and then they start learning English in a hurry, they are bound to start eating at the lower levels, and that is going to hurt smaller firms, because the bigger firms, we have the where with all, they will do bigger stuff, they have the brand equity, they have corporate connections at senior levels and all of that, but having said that the only solution we have is internally, how do we improve our per capital revenue productivity and how we improve value addition to the customer as Nandan pointed out, I think as Kris pointed out in the morning, we have several initiatives within the organization to differentiate ourselves from the pack, and as you know we are already getting a differential in terms of rates, in terms of margins etc., and we will continue to do that.

Anirudha Dange: But in today's environment which basically in FY-05, for example, the volume growth will be one of the highest ever. In that environment if we are not able to increase prices, then intuitively I mean in a industry where the volume growth is so strong, you should have tremendous pricing power, whereas that is not getting reflected in numbers yet?

Mohandas Pai: When the volume goes up, you will naturally get pricing power, provided the entire industry volume goes up. So what is happening today is that the entire industry is growing at 2.5 to 3%, but the volume in the offshore place is going up, that means we are getting market share, but the overall market is not going up. So the incumbents start seeing the revenues eroding, they do not raise prices to compete, right, till some of them possibly fall by the way side or whatever it is, there is a shift, so till that happens. Overall, industry is not seeing volumes grow up in the nature that we are seeing volumes grow up.

Narayana Murthy: Also I think once again I come back to my earlier thing, that is, in the last two years, the companies that have got hit are smaller companies, you know so many companies have disappeared, I do not need to mention their names. So the result, there is so much of competition out there that they will not allow the bigger players to increase the prices that rapidly.

Lady participant: I was just wandering that the strategies to tap existing customers versus new customers, to grow existing customers versus tap new customers, are they different and if so in what way, and are we therefore seeing a sort of different mix of services being provided to newer customers versus old customers?

Nandan Nilekani: First of all I think, with existing customers, there are a few things we have to do, one is we have to look at their spending, we have to look at what is our share of their spending, and we have to look at how we can increase either by offering new services that we don't offer there or by getting into new parts of the business how we can increase the revenue from there, that is one part. Second part with the existing customers is we have to examine where are our relationships, at what level in the organization and see whether we need to up scale those relationships, and in some cases we also have to reposition ourselves, because they may have seen us as an application provider and now if we want them to see us a consultative company or if we want them to see us as a solution provider, then we have to rebrand or reposition ourselves in their minds, so there is stuff we have do there, which is I think related to existing customers. With new customers, clearly I think we don't have that issue, but we have other issues of how do we come in, we come in as a solution provider, do we come in with a consulting led approach as we are doing in some cases, and if we are able to get in at the right level with them, then I think we are starting off on a different footing, but we are starting off small and then we have to use that entry point to get more and more share of their spend.

Kris Gopalakrishnan: One more thing which is happening today with respect to new customers, our prospect is that, unlike the companies which got in very early, they sometimes are in a hurry and they require consulting help, so with new customers there is an opportunity to do more consulting also, some times they use third party service providers to help them with offshore, sometime they expect the vendor themselves to provide that consulting help on offshoring.

Lady participant: Just as a follow up to that, I guess, global vendors are setting up in India as well, but then they may be only a certain level up to which they may actually be able to do so. So are there any sorts of alliances with global vendors in any sort of form that you might be willing to look at?

Nandan Nilekani: You mean global IT services company. Well structurally, we are competitors and structurally it is a race to the finish, so I don't know who you expect us to ally with them, I mean we can ally with an SAP or a Microsoft because they don't do what we do and together we can service customers, but what alliance we can have with somebody who is our direct competitor.

Lady participant: I guess in niche areas possibly where they may not be, it may not be worthwhile for them to build mass in India.

Nandan Nilekani: No but what is the need for us?

Lady participant: I guess it would broaden the market space or the customer exposure?

Narayana Murthy: You know our philosophy right from the 19.. whatever it is, from the time we founded, we don't want to go through intermediaries. We want to own the customer, we want to develop relationships. The company spends a lot of money on customer intimacy issue, we have Milan, we talked about Wharton-Infosys, we talked about various other initiatives, because that is how you get repeat business and that is how you grow fast, on the other end if you would hide behind an intermediary,<inaudible> unless as Nandan pointed out there is complement clarity of value addition, where we do not tread on their shoes and they do not trade on our shoes and our aspirations are very similar. You know many companies which followed these things, I don't want to mention, they have all more or less disappeared.

Amit: Hi! This is Amit from IL&FS Investmart. Do you think it is feasible to look at creating an alternate resource pool let us say at the entry level which could lower our cost and reduce the wage pressure that we currently experience on the existing resources, I am especially talking about resources let us say from skill sets other than pure engineering colleges, is that a feasible strategy at this juncture to consider?

Narayana Murthy: No, I think market rewards competence, market rewards skills, so whether a person is a B.Sc. or BE or 5 years or 4 years or 2 years, it doesn't really matter. That person may stay with you for one year to learn all the stuff, he or she will learn all the good things and then he or she becomes as market worthy as this BE or PhD or whatever it is, so really I don't know, I am not very certain.

Nandan Nilekani: But in some of our services today, for example, in our infrastructure and all that, we are doing that, we are expanding the base from where we recruit.

Kris Gopalakrishnan: Yeah it is not for cost purposes, it is for getting additional resources we are looking at alternate pools, you know it is not for lowering the cost.

Mohandas Pai: Yeah but the wage pressure at the entry level is less. Today you are able to get a lot of people, but then not trained resources, you have to spend money on training, which we do; and two, the wage pressure is essentially in the middle level, 3 to 7 years, that was 3 to 5 years now it is 3 to 7 years, that is where the wage pressure is in, these are project managers, and they are short in supply because the fact that you take that many years to become a project manager and the industry is growing at a rapid rate. But the entry level, the problem is cracked for the time being, and you must remember 4 to 5 years ago, we all went to the government to help increase the in take in the engineering colleges and that policy is today paying off, number of colleges have gone to 1300, doubled in the last 4 to 5 years.

Trideep: Hi! This is Trideep from UBS. As you create the consulting part of your organization, this is almost taken out, one is from the cost cutting stand point which is basic offshoring and the other is the consulting stand point, do you reckon that there could be some integration issues while you try to merge it within the same company at the end of the day, subsidiary is within the same company, one at the higher salary level and at a different kind of skill sets/offerings that you offer, and at the same time your traditional offerings?

Kris Gopalakrishnan: See for the same role irrespective of where the person is within the group, whether a person is in the subsidiary or whether it is in the parent etc., for same kind of value addition to the client, that means the billing rates are the same, the compensation would be the same, and that is how we make sure that the integration is as easy as possible, of course when you integrate different nationalities, different sets of people etc, there would be some differences, but the philosophy is for the same role and same value addition to the client, the compensation should be similar. So that is how we look at it. So what I am saying is typically a consulting service gets much higher rates from the client, may be an application development would get a different rate, and that is reflected in the compensation structure and things like that.

Trideep: Though the quantum of the businesses I mean which both of these individuals might eventually get for the company will be significantly different.

Kris Gopalakrishnan: Yeah that is for sales account, you know they are the people who bring in business, is that what you are saying?

Trideep: I mean there could if let us say, a $20 million application management account and there could be a $2 million consulting account as well, so the persons involved in both of these, while the consulting guy might get higher bill rates, but in absolute quantum of business?

Kris Gopalakrishnan: Right, so the role is different?

Trideep: Right.

Kris Gopalakrishnan: So you have to look at the role, you have to look at how the client values that role and things like that, so that is another, it is a client facing people, that's different structure.

Nandan Nilekani: But I think the important point to understand is that, the consulting guys are incentivised not just for the business they bring in for themselves, but how much downstream they bring in for the IBUs. So the consulting guys are incentivised and goal aligned to make sure that they create downstream work, and for the IBUs the consulting led work results in higher revenue productivity on the downstream. So both have a vested interest in making it succeed, I mean there are some structural benefits there which are not true of typical say EDS AT Kearney kind of situation. Here there is actually both parties have an interest in making it work.

Narayana Murthy: In addition, the bonuses that are paid, people or the variable compensation depends on the revenue that you bring in, it depends on the operating margin or gross margin at which you bring that revenue, accounts receivable, so there are various factors.

Trideep: My second question is I mean if you look at the volume growth this year, it has been really phenomenal, as someone pointed out the highest in the last five years, what do you reckon over the next, I mean the sustainability of this over the next let us say 3 to 5 years?

Nandan Nilekani: You are asking us to make a forward-looking statement.

Trideep: Thanks.

C. S. Choudhary: My name is C. S. Choudhary, representing CFS financial. I think we are a bit cagey about making forward-looking statements, so let us try the ……

Male Speaker: We are not cagey, we do not want to make forward-looking statements.

C. S. Choudhary: Okay. In gathering like this, I mean people always look for the better side of life, my question is that, new games, new rules, I don't think we have delved enough in this session on the threats in this new game. I probably like to specify some threats that I am looking at. Somewhere after your first quarterly on the television I heard, there was some expenditure having been incurred on stocking up some visas, right, that was your statement, I would like you to elaborate on that in the sense that post elections are we expecting any regulatory changes from the US government. Let me specify some of the other threats. When some of the other large consulting companies come to your backyard over here, so the pricing can go down, how much it can go down and how do we play that out?

Kris Gopalakrishnan: On the first question on visa front, you have to get visas in advance, because these visas are typically valid three years, five years etc., so you have to make those investments in advance. We are applying for visas which will be given after October, because that is when the quota gets released and things like that. So that is an expense you have to incur upfront in some sense.

Nandan Nilekani: No I think let me explain. See last year, three and half years back, during the bubble era, they raised the quota from 65,000 visas to 195,000 visas. Now this was the three year expansion with an automatic sunset clause, so that automatic sunset clause came in to effect in October of 03, therefore for this year, that is from October to October of 04, the visas have come back to 65,000, and those visas have now been granted, but the US government is accepting visa applications for next year, so what we are doing is we are applying for those visas, so come October we get our full share of visas, that is what we have meant by stock piling, so that is in terms of an decision to invest in the future to build it up. If you are saying what is the risk here, obviously the risk is that in the future because of regulatory or backlash pressures in the US, the number of visas is not increased or in fact it is shrunk, yes that is a valid thing, at this point our threat perception of that is lower than what it was may be 5-6 months back, but it could revive and certainly that is a risk that we should all be aware of.

C. S. Choudhary: Broadly on the second one, what I always feel that, pricing in any competitive environment cannot go up, it is more likely to always come down, so how much more down, if it comes, how can we compete with others and how can we see this game going forward.

Nandan Nilekani: Well I think if you are talking about the advent of global competitors into India, see they don't necessarily have an incentive to price it lower, because as it is they have other challenges of cost, so they don't have their incentive to price it lower than us, except as a loss leader, that is they want to preserve an account or they want to keep us out, but otherwise I would think that the pressure is more on employee cost going up than market prices going down, because employee cost is going to be the competition for the same pool of labor. Having said that, I think in the last four quarters we have been able to maintain our pricing and that is reflected in our results, and we expect, we hope to not only maintain it but if all our investments in consulting led assignments and other differentiation initiatives happen, then it should help us to actually maintain and if not perhaps even improve the rates.

Kris Gopalakrishnan: Just to add to that, see the disruption we are able to cause to the global system integration business is actually much higher, for example, in our package implementation, you know about 50% of the effort is delivered from offshore, so overall cost on package implementation by companies like Infosys is much lower and there the differential is actually much greater than the $2-3 they can impact us. The rates there are significantly higher and the impact of that on their business is actually going to be significantly more than their impact on our business at this point.

Narayana Murthy: I think the name of the game is innovation, you are right, when a service becomes commodity, price is the only determinant, no doubt at all, but that is the whole idea, that is why you need to innovate, that is why you need to bring new services, that is why you need to improve productivity, the quality you know all of that, and that is the only way you can increase and indeed it has happened.

<inaudible>

C. S. Choudhary: You said that there was some wage pressure in 3 to 7 years experience group, actually my question is related to what is the limit of organic growth and when is it that you will have to resort to acquisitions to keep maintaining your growth rate?

Narayana Murthy: You know, whether we acquire or we grow organically, we have to manage large numbers, right, there is no issue at all, whether if we acquire let us say an organization of 20,000 people at 29 plus 20, it is 49, that responsibility rests here, there is no doubt at all. So I don't know if that is the problem, the problem perhaps what you mean is will you be able to grow organically in terms of getting talent and economically creating infrastructure etc. We believe that given the fact and also as well as the overhead, given that our overhead is something like 12 to 13%, I think we are already a very decent operation, and given the fact that in countries like India and hopefully in China, we can build infrastructure, we can put in technology and processes very cost effectively, I am not very sure, as long as talent is not a constraint. That to me is the biggest problem.

Nandan Nilekani: I think if you are in a stagnant market share situation, where market is not growing and the only way that you grow is by acquisition, like say in something like pharmaceuticals or something, that is different, but in our case it is a growing market situation and there is this trend to globalization. So I think acquisition cannot be a substitute for organic growth, provided of course as Murthy said organic growth has the talent capability and so forth, so if at all the acquisitions we would do is because we have defined a certain strategic intent of where we want to be as a company, which is to combine growth with differentiation, and if on that journey, if there is some element of that journey which cannot be met by organic methods, than we have to do either an acquisition as we did in Australia or a quasi-acquisition we did in Infosys Consulting. So they have to be really driven by how much they will help in fulfilling the strategic intent rather than a substitute for organic growth.

Lady participant: I have two to three questions, the first is on China. I view it three things as far as China is concerned. One is that Chinese economy is a market for your IT services that you can provide to them, another thing that it can become a huge source of talent pool for you, and third things it that the Chinese IT industry becomes a competition for you. So out of the three things, what do you think will happen much faster and how are we going to take advantage of this.

Narayana Murthy: See we have defined three phases in China, first phase is to use China as a talent resource place for markets in Japan and markets in the US, Europe etc. Second is multinationals in China, you know this is predominantly, for example, as it is today we have worked with a couple of Chinese companies, we have worked with a couple of multinationals in China, all of that is happening, but if you look at the predominance, then I would say third phase would be Chinese companies. So that is how we have charted out the route. Now on the issue of competition from Chinese companies, you know we have accepted competition in India, we have accepted competition in Australia, in the United States, Europe etc., I think we will accept competition in China, that is given, I mean we cannot run away from competition, we fully accept it. In fact in some ways we like competition because that keeps us on our toes.

Nandan Nilekani: Also whether we go there or not they are going to be competitor. So it is not that by I going there, we are aiding and abetting they becoming competitors, they are going to become anyway.

Lady participant: Sir in terms of having a talent pool from there what will be the extra or the additional cost that you think will have to incur to train them and make them on par with any Indian talent pool that you have. I mean, how easy it is to scale in China in terms of having the Chinese talent pool, that's what I want to understand.

Mohandas Pai: Our experience is that English speaking talent at the entry will would cost you $1100 a month compared to may be about $350 in India. The middle level talent too is expensive. Middle level there is greatest scarcity of good project managerial talent compared to India. But it is a market of the future, it is a growing market, there is a demand there, so you need to go there, take their local circumstance, create an alternate pool, attack the market and grow.

Narayana Murthy: Today in the low number recruitment that we have done, Chinese students appear to be extremely smart. The average performance in various tests etc., I think they have performed better, but that's a very small sample, so we cannot get to any conclusion on a larger level. However, what people tell us is that given the fact that China is a very determined country, give the fact that they have decided to embrace English in a more faster way, I think in 3-4 years, I think you will see availability of abundant talent like in India, and they have also, I am sure you know it, China has spent tremendous sums of money in higher education in the last 5 years, and just as Mohan pointed out just like we in India went from 650-700 engineering colleges 1300 colleges, they too have done, and that is likely to give us benefits.

Mohandas Pai: Chinese speaking software talent is about 1/3rd that of English speaking software talent, similar to India, and in some small cities it is slightly more smaller, so the key thing is can the Chinese speaking talent brush up their English to be equal to the English speaking talent, and that is what people expect in 3-5 years. In that case the conditions will be very similar to India and the cost structure may be lower in some places higher some places, but albeit very marginally.

Lady participant: Sir my next question is on the exchange risk management side, though I would admit that Infosys has done it best among all the other IT companies, what we have seen in the fourth quarter that the rupee appreciated very sharply and it affected a bit negatively, and then in the first quarter it depreciated so that it affected positively. So are we able to frame any long-term policy as to how do we minimize the exchange risk or do we have to take a 6 month kind of a view and then manage it at best.

Mohandas Pai: Well the statement that we did much better than others, I would contest, for simple reason it is serendipity that the market went in one direction and we were properly aligned. Because on 31st of March, I was personally in a state of shock, Bala and I used to see the screen every half an hour and check our loss. So we cannot come to the conclusion that we are smarter than anybody else in the market place. It is just that there were a set of circumstances, we took a view or we are forced to take a view because of certain issues, and that view hopefully turned out to be better to us now. What is our ability to forecast? As limited as your ability to forecast. We all get the same market intelligence, we are subjected to the same news, we can analyze the same matter. What is your exposure limit? Like everybody else, may be one quarter, two quarters, three quarters at best. But the key issue I would submit to you is that our ability to tackle exchange variations of 4-5% over a reasonable period of time is quite good. In the sense that our flexibility in the model allows us to meet these adverse circumstances, but if there is a 5% shift in 15 days, like it happened in the last fortnight of March, we are going to get hit, but over the long term in the 10, 20, 30 years, the purchasing power parity difference that exists between let us say the United States, Europe and India, would diminish. Right now it is about 5 to 5.5 times; it would diminish. And second, the possibilities that the rupee would appreciate in the medium term is brighter than the rupee depreciating. The reason is that once again we have a surplus on the invisibles account. We have surplus of $19 billion in the invisibles account, we have a trade deficit of $15 billion last year, oil is going up from $18 billion to $25 billion this year, so the trade deficit could go up from 15 to say 22, and the surplus invisibles account this year will be about $21-22 billion. So over all there could be a balance in trade. So we will not see a large outflow of dollars unless there is a repayment of debt, and because of the own success of the software industry we could see more dollars coming in. So the key thing is we become more successful, more dollars come in, and the ability of rupee to maintain its level or appreciate becomes greater. So this is a paradox which we have to balance, and ability to balance is limited.

Lady participant: Sir can we say that if 4-5% appreciation per annum is something which is manageable by Infosys, if it happens over next 5 years that is built in your business model?

Mohandas Pai: Well I would say that the flexibility available to us to manage that magnitude is more than the flexibility in cases the magnitude expands.

Lady participants: Thank you.

Nandan Nilekani: I think what you are saying is 4-5% is okay if it is going up and down but only in one way.

Lady participant: Thank you sir.

Narayana Murthy: One important issue I want to comment on. I think it is time that Indian corporations looked at it as in the context of globalization, you know 97% of our revenues come from outside India, and most of it is in the global currency of dollars. So at least within Infosys all other than the finance department who have to do all this hedging and of that and who may be because of serendipity look good, but still we think in dollars, frankly I always think in dollars, the reason is we are a globalized corporation. We compete with several globalized corporations. Lot of our expenses are in global currency. So given that I don't want a mind set of rupee and impact of rupee and all of that, which of course Mohan is concerned, but the people who are in operations I think they should focus much more on business, much more on thinking in terms of dollars, that is I don't know, I would feel much <inaudible>.

Mohandas Pai: But there is a larger issue which I would seek your counsel too. What kind of a balance sheet do we manage, the dollar balance sheet, the rupee balance sheet? Just think of this paradox. We are listed in the United States. We are listed in India. We have a dual listing, the pricing mechanism both markets are different, there is a interest rate differential, we have investors who have 52% holders in stock who are outside India. Now they too have dollar assets. We have a rupee balance sheet. Which balance sheet do we manage? The US GAAP EPS or the Indian GAAP EPS? What should we manage? And the hedging technique will depend upon which you want to manage. And these are first questions that we have to resolve. The largest number of analyst covering us are in India, the analyst covering us outside is increasing, on TV interviews you will find us when we talk and reply, sometimes we talk in dollars, sometimes in rupee, sometimes about the EPS we always give the dollar figures, we talk about the EPS per ADS, so like Murthy said in the business terms we think in dollars, in financial term this paradox strikes us in the face ever quarter, every now and then when we discuss this issue.

Male participant: Hello, basically this question is related to verticalization. To an analyst like me basically so far verticalization in a company like Infosys just means like putting all the companies in a particular industry under one roof. Other than the banking industry, I have not seen like anything spoken from the management side in terms of any frameworks or structures that you have made, say for the manufacturing industry or for the insurance industry, and therefore like when we walk about the new games and the solutions focus that you are planning to have, can you like to elaborate other than the banking industry which are the other industries where you have globally competitive frameworks, say whether for the manufacturing, insurance or any utilities or telecom services providers?

Kris Gopalakrishnan: Yeah I will talk about, for example, in the retail industry you know we have distributor order management solution along with Yantra Corporation. We have worked in the RFID, we are doing some research work, we are doing some pilot projects in Europe, we have collaboration with both MIT as well as UCLA, we are part of the EPC Global, which is the consortium for looking at standards in the RFID space and things like that. So that's on the supply chain area. Then we have a point of view, we have solution, we have pilot projects, and things like that. Lead time optimization is another solution along with the company called Supply Chain, it is a very small company. Again we are going to market with a specific point of view solution, you know there is some solution built around the software of a company called Supply Chain. In grocery industry, perishables management is a big issue, so we have again a point of view solution in perishables management. In the healthcare care area HIPAA is a major this thing. So we have some solutions along with Informatica, Microsoft, and thing like that in the HIPAA area. So there are multiple solutions and point of views we have come out with for various industries and more and more we are adding to this. And financial industry we showcased today, you know Ashok must have presented to you with various solutions in the financial solution industry, but we have across the board on various industries now.

Ashok: Since we did not have time for us to present all the verticals what they are doing, we only showcased some of it for you.

Male Participant: Thanks.

Male Participant: But I think this is an important point that what is <inaudible>.

Narayana Murthy: If you talk in terms of products, yes it is only in the area of banking we have today. But if you talk in terms of productized services that we have talked about earlier, if you talk in terms of bodies of knowledge, if you talk in terms of artifacts frameworks, if you talk in terms of different levels of competencies, I think all those things are happening in insurance, in retail, in high tech manufacturing, in healthcare, transportation, etc. They are all happening, but you are right, we do not have a product in those areas, but we have frameworks and productized services.

Male Participant: Thank you.

Yogendra: Hi Yogendra from Crisil. We were just studying the contracts data for the first half of 2004 and we saw that in the top 25% of the deals in terms of size, almost 60% of the deal value went to the government sector, and this is worldwide, so large part is U.S. and Europe and APAC. Given the outsourcing backlash I guess this market is pretty much closed to you as of now but going forward is there something within the world agreement on trade and services or something post the election year where you think might look up because this seems to once segment which is really helping people like Accenture, ACSE to sort of keep revenues at bay or get them to increase slightly.

Narayana Murthy: You know that is, you have raised a very important issue and that is WTO. If we want to operate in areas and outsource to government, etc., etc, I do think that will get opened up because after all in India, I mean, IBM and HP they are all selling to various government agencies, banks, public sector units, etc., etc., that again will be an issue, which will be decided only after the election. After the new president comes and Iraq and all of that. But whether we are going to be in those area, certainly I think once they open up, once it is easy for us to operate, certainly we will do. There is no doubt at all.

Nandan Nilekani: Yeah and also you know, I saw the recent efficiency report in the UK where one of things they have mentioned is that they should outsourcing in government. I saw in the report, and verbally they have said outsourcing means anywhere. So I think, yeah, it is happening, but at this point it is certainly higher risk area for us than commercial areas.

Narayana Murthy: But there is one, I was discussing once with somebody. There is an issue here. Now, what some of the Americans are saying is look you don't allow our chattered accounts to practice, you don't allow our companies to have those names, all of that, you all those problems, lawyers all of that. I think unless India also takes a reasonably middle of the road stand, I don't know if that will get opened up in a hurry, so it is not going to be that easy, as long as we don't allow them the American's will always use it as a bargaining chip. So it all depends upon how Mohan's tribe and, you know, lawyers and all.

<inaudible>

Nandan Nilekani: Also I think.., yeah both lawyers and CAs, so they are the root of all this. No, I think, again government sector is different. For example there is stuff which has to do with national security which they will insist on local citizens. The stuff like municipalities where they don't mind. So I think there are again shades in that.

Yogendra: If we were to look at your recruitment patterns over the last 8-10 quarters, clearly there has been a significant broadening of the employee pyramid. Does that in anyway delay your transition up the value chain and does this mean that you would be postponing wage inflations for future years as these employee become 2 or 3 years experienced employees.

Mohandas Pai: Well I think that is a beautiful question. You understood the model very well. The model depends on the very board pyramid at the bottom and narrower base. And the question is will it bring in, is there a inflation build into the model itself as you go up the value chain, and two, will it allow you flexibility to go up the value chain. Now as far as the inflation factor is concerned you can counter that by going up the value chain by putting in more people at the top. But the pyramid is board at the bottom today because there are not enough laterals available in the market place right now. So you have make do with fresher and train them up, and we find that strategy pays off much better than getting in laterals who may not have the recruit experience or the ability to do high quality work in the manner that you want. But in case the market were to remain stagnant, in the case we do not add people at the pyramid, naturally the weighted average of the entire pyramid goes up. That is a moot point, that's true, and we did a modeling exercise about 4 years back and found it to be true, and we saw it going up at the time when we did not hire enough people at the bottom. Two, the question of flexibility of going up the value chain about the inhibition. We are building in flexibility at certain levels to go up the value chain and to create a customer facing group, a consulting group, which will drive the prices for the bottom of the pyramid higher too. If that strategy works, you will find that it is beneficial to have this vast pyramid at the bottom and higher prices <inaudible>, I mean, right now, we are in investment phase.

<inaudible>

Yogendra: Could you just give us optimum ratio between consulting revenues and your other revenues.

Male Speakers: Where there is demand in the market, not artificially <inaudible>. We don't want to set targets and go after them but we will invest in where the….. <inaudible> 500 at the end of 3 years you can figure out from that.

Yogendra: Does your strategy is different from say traditional Infosys company where you are profit <inaudible>. Parameters in consulting division will be much different from your traditional Infosys or is the same.

Male Speaker: <inaudible> invested, whenever we started new services, we have invested. <inaudible>.

Female participant: What number of consultancy division or subsidiary, is there any set ratio which says that you know X amount of downstream revenue.

Male Speaker: We have a formula, we have not published it.

Kris Gopalakrishnan: Consulting, if you look at the model we have talked about is 1+1+3. For every offshore team who is billed offshore. So is that is the typical ratio we looked at in delivering. That means in terms of effort it is <inaudible> are different.

Mohandas Pai: Because the consulting pays <inaudible>, costs are going to go up across the board. <inaudible>risk in the business it is going to go <inaudible>. First of all cost <inaudible> for the simple reason, we are a role-based organization where people are paid according to the role they play. They play the role <inaudible> they get paid less. It all depends on the role that you play. So it is not necessary, just because you have consulting <inaudible> you have some <inaudible>. Two, the risk profile goes up. Why? Because the consulting stream is very volatile. There is no annuity in the consulting. <inaudible> or consulting does not push the whole pyramid. The consulting is a piece very strategic <inaudible> could make. <inaudible>you can absorb. So even if consulting is very volatile we will make sure that it does not <inaudible>.

Male Speaker: Let us assure you that we have done lot of modeling. We have looked at lot of scenarios, but as Kris very rightly pointed out <inaudible>. Also, there is one more issue, you asked what happens in a typical consulting <inaudible>, not hold good here <inaudible> we have said that <inaudible> downstream efforts <inaudible> but you know our philosophy has always been under promise and over deliver, you know, we don't want to talk about it today. Let us learn a little <inaudible> let me assure that we will be the first ones to come out with data once we have a discernible pattern.

Female participant: One small followup question. You think this 500 consultant is a critical mass or it is just the entry, I mean, the initial mass, how do you see that?

Kris Gopalakrishnan: I know, see there are consulting organizations which are smaller than that, right. You know, 500 is a medium size consulting firm in the US, 500 people. Now, we are not limiting. We are saying currently the target is 500. Depending on the growth, depending on the market demand, etc., it will be more or less. It is not, we are not seeing this as a critical mass issue at this point.

Female participant: Thank you.

Male participant: I remember at the last analyst meet when we spoke about IT outsourcing deals and there were 2 deals that Infosys was into and decided not to take it up because of others issues related to labor. I just want to know what progress now has been made over the last 12 months in terms of examining these deals. How close we are to these deal, are we early exploring it or is it something which is out of our radar screen.

Kris Gopalakrishnan: We are exploring, in the sense we are participating in these deals. Our point of view is very clear today. The ideal scenario is where the upfront both the client as well as Infosys realizes that in order to move work to offshore, the employees who are taken over have to be small in number, because you don't require all those people, right? So if there is a possibility that we can limit the number of people to be taken over by Infosys, that is the ideal scenario, but we are today open to taking over employees. We have taken over some employees in certain cases and we have announced this modular global sourcing, where we have a particular point of view in terms of how the employee should be re-badged and then how many employees should be re-badged and things like that. That is the ideal scenario and which is what we are pushing at this point.

Male participant: Now that the offshore is mainstream and almost every RFP coming out of U.S. is having at least some offshore component, still there is the fixed price proportion of our business is remaining broadly at 30-35%, whereas smallish U.S. company would have a significantly higher fixed price component. Now, do I see it that still it is end to end and the client is unsure which is why they are giving time and material contracts or how do we see this.

Kris Gopalakrishnan: In fact in the larger relationship the tendency is for the client to do time and material. It depends on the philosophy of the company. If they want to actually benefit from the productivity improvements we bring in, etc., they actually insist on time and material.

Nandan Nilekani: Also remember they are thinking of our people as virtual extension to their people. So in the sense, it is a team that is working on all the things. So from that point of view time and material also makes sense for them.

Male participant: How do you see this changing going forward. I mean over the next 2-3 years do you think this is the right mix that we are having or it will move towards more fixed price. I am comparing only the U.S. companies, nothing to do with other Indian companies.

Nandan Nilekani: Well we can't take a specific percentage or something, but for example consulting assignments are probably likely to be fixed priced because they will have some downstream and they bundle. Similarly, solutions sets will also be. So I think if you look at some of the new initiatives we have, they may have more fixed price propensity than what is there today, but it is difficult to you know, how it will all overall pan out, I don't know.

Male participant: If you look at your organization structure today, in terms of consulting, it is a subsidiary, its having more horizontal services where as your organization is now more verticalized on the delivery side. So, just wanted to check as to how you overlay the horizontal model in consulting on a vertical structure, which already exist here, and will that change, in a sense would you see a consulting organization being more vertically oriented in the future.

Kris Gopalakrishnan: It is a mix. Today, we have North America in verticalized business units. We have ECUs, enterprise solutions group is an ECU, infrastructure management is a ECU. ECU means enterprise capability unit. We have system integration group as an ECU. We have consulting as a horizontal unit. So it is a mix. And Europe is a geography based unit, Asia Pacific is a geography based unit. So we are a mix of all these models today. The key thing is how do we incentivize people to deliver value to the client. If you look at our variable compensation structure is based on company performance, which everybody is incentivized to make sure the company succeeds. Team performance primarily dealing with margin and customer satisfaction. So the team is actually incentivized to make sure that, forget about your grouping but look at the customer and customer profitability and things like that, and then individual performance. So the incentive structures are geared towards successful delivery of projects, higher margins across the units etc. You will have a mix depending on where you want to have focus, you will have a mix in any organization, and Infosys is in that sense no different. As we grow larger and larger, the organization structure becomes complex. You have to learn to manage that you have to delivery value to client having clear incentive to look at customer profitability and customer satisfaction.

Nandan Nilekani: Specifically on consulting, we are also having teaming agreements of the consulting with different IBUs, so they have joined business plans, so for example, they were a teaming agreement with say Ashok's group then the BCM business plan will talk about how consulting will be leveraged and they will plan their resources and priorities based on that, so they use the business plan as a way to lock the two together.

Male Speaker: I think as we move forward, you are right. Because you we are not in the area of strategy consulting, which is really at the top because we are in some sense IT led consulting. It will become domain oriented just as Nandan pointed out, but then for example, Steven Pratt is a CRM specialist, that is horizontal, but that not to mean everybody will be horizontal. Each one of the IBUs will get strengthened with consulting skills from Infosys consulting as well as some within the IBUs.

Ramdev Agarwal: Mr. Nilekani, my name is Ramdev Agarwal, I wanted to ask you, you mentioned in the morning that size is very important after reaching, I think Mr. Murthy said about reaching a billion dollar landmark. That itself was kind of, put the Infosys in the global market in a different way. So is size itself a differentiator in the global market. Second, what is the global ranking of Infosys in the global rankings now in terms of global service base, because in TCS presentation, I think TCS was about 15th in size and less than 10th in terms of profits in the services companies worldwide, and what would be the aspiration of Infosys in next 5 years in terms of global ranking.

Nandan Nilekani: Well I think there are different ranking. Just by revenue across all IT companies, if you go by the business week thing, I think we are 77th, but if you look at things like profitability, return on capital, growth rates, we are actually in top 10 or 15. So I think it depends on which parameter you use to measure us. Secondly, I think what we are saying is that, I mean, you are right, billion is a landmark, but when our competitive landscape and our competitors are much bigger than us then we have to be bigger to, not that it is a negative but obviously the scale is becoming more important, so we have to grow rapidly in this business, so that's why we are talking about all the things we talked about.

Kris Gopalakrishnan: See billion dollar is a milestone in a journey and if you look at customers looking at a billion dollar outsourcing project or outsourcing deal, they would probably hesitate to look at Infosys. So size in some sense is a factor when customers look at outsourcing. Today, $50-100 million, you know, the customers will not hesitate to look at Infosys because they know that we can take those projects and it will not have that much a risk to Infosys as well as to the client. So we have to look at size also.

Male Speaker: I think size gives to you longer legs, like Mohan can run faster, whether he wants to run faster are not that is up to him. So size certainly gives you a certain strength, but size by itself will not be sufficient. Size is a good entry point to a club, but how smart, how much will you grow within that club depends upon how smart you are.

Depen: Yeah, this is Depen here. I just wanted to get my understanding on one issue very clear. This is on the modular global sourcing issue, which we spoke about in the morning. I think I spoke to Kris also in this regard. Just wanted to get this thing, to understand it much better like we are in fact under this model, we are in fact trying to advise clients to break up their whole outsourcing initiative into several modules and actually outsource this whole thing to separate vendors. So as the vendors are also able to actually stay abreast of the latest technologies and provide much better services. So on the one hand we are trying to advise clients to break up their initiatives and do it in several vendors, and on the other hand we ourselves are trying to provide all the types of services under one roof. So is there any contradiction. Is my understanding right or where exactly can I be rectified.

Male Speaker: Yeah. See the contradiction is not there, we have the capability to deliver end to end, but we must give the client the <inaudible> Infosys for everything, but the contract can be flexible and contract can be in <inaudible>, this is very simple. Technology is changing <inaudible>, every 18 months we are looking at a technology refresh. Now, so can you upfront in a contract <inaudible>because you can't even predict <inaudible> global delivery model is becoming embedded in multiple services. So <inaudible> client loses the flexibility unless you have embedded that. You can't even predict what trends <inaudible> deliver it.

Nandan Nilekani: And also I think, we are also in a sense, we are <inaudible> which is data <inaudible> that is not the way to go because the moment you do that you abdicate your life to somebody else. <inaudible> we are discouraging people from going that route. That is really what it is.

Depen: The end to end services, Infosys is a software service provider, now has moved to BPO and consulting. Just one question like, looking at <inaudible> software services <inaudible> is the trend towards companies which are providing integrated services only. Will it be a difficult proposition for <inaudible>3 years down the line.

Male Speaker: If you have some specific lets say technology<inaudible>, niche players will always<inaudible>Yeah, you will be less risky because you have portfolio of services <inaudible>, right, that same principle of portfolio<inaudible>

Male Speaker: Of course, the vanilla player without differentiating then you will have a problem, yeah.

Male Speaker: Thank you to everyone of you for coming here, taking time off, and I hope <inaudible> satisfied, and we look forward to seeing you next year and of course in between <inaudible>. Thank you very much.