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New York, September 2004

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Unidentified Speaker: We've heard quite a bit on the 40,000 foot or maybe more than that level from Nandan, numbers from Mohan and on the demand side from Basab. Everybody is still -- let's hear something from supply of talent and how we're managing that from Hema. Go ahead, Hema.

Hema Ravichandar: Good morning. If you were in Bangalore two years ago, and on a Wednesday you had picked up the Times of India, you would have seen approximately two pages of job advertisements, all of which of course would have been for the software industry. Back to 2004, and on a Wednesday, if you again pick up the Times of India, you'll find at least 16 to 18 pages of advertisements for jobs.

The Deccan Herald, which is another leading paper, has moved up its job advertisements page to Wednesday from Friday and when our buses stop at the traffic lights to bring our employees, Infoscions to the Infosys campuses, you also have people free loading newspapers into the bus on a Wednesday. So, it is really a war for talent, it is a jungle and the HR talent; the human capital management talent, therefore, becomes very, very critical.

It is therefore no wonder that when conference Board did their recent survey on the top CE -- challenges that CEOs see from a leadership perspective, 6 of the 10 are human capital oriented. The ability to create a culture, which embraces speed, flexibility and change, a culture, which looks at creativity, innovation and entrepreneurship, the ability to acquire qualified talent both at the management and at the executive level, succession planning, knowledge management and a full 50% of successful company CEO's rated employee commitment, loyalty and job satisfaction as the most important challenge.

In this scenario, it is therefore critical that human resources understand the stakeholder expectations and key challenges facing each of this. The expectations hover around managing scale, managing risk, managing execution and managing diversity. While there is a large pool of talented engineers coming out, with 6 of 10 Fortune's most admired top 10 software companies setting base in India.

With 12 of the top 40 in the wired 40 having bases in India, with many large captive organizations having been set up by organizations based in various parts of the world, there is definitely a war for talent and the shrinking base of experienced talent. Add to this the issue that you have to handle several geographies, services and changing demographics and the challenge compounds.

From a managing risk perspective, the aggressive labor market has been double-digit attrition. If you track the history of attrition in the Indian software industry, in '99, 2000 it hovered anywhere in the range of 17 to 30%. In 2002 and 2003, because of the changes in the economy, the industry average according to NASSCOM published figures, was in the range of 12 to 13%.

And now in 2004, again according to NASSCOM figures it is in the range of 18 to 20%. So it is an aggressive labor market and there is double-digit attrition. There are changes to compliance in regulatory practices, all of us are familiar with the immigration laws, the cap of 195,000 coming down to 65,000 in another parts of the world also the challenges continue.

Software has moved from Tier 1 to Tier 2 category in UK in the work-permit application category and the German work Green Card category is due to (inaudible) at the end of this year. There is also the need to introduce market competitive benefit programs across geographies. Managing execution really means larger volumes that increase complexity and reduce cycle time. Two to three years ago, for a large part of the fresh engineer recruitment, you had a lead time of 12 to 15 months to get them in; today the challenge is to stock up and introduce a 1,000 strong batch in about 45 days. Cycle time for visa processing has also considerably reduced given of course the cap reducing from 195 to 65,000. So, operational pro-activity has become the key challenge and the key mantra in terms of ensuring excellence in execution.

And finally, of course, with demographic diversity in terms of nationality, gender, age and family status and in terms of making (inaudible) work, in terms of integrating employees of different profiles and organization, I think it is critical to create an inclusive work

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environment where employees are encouraged to bring more of themselves to work to create a virtual circle of productivity.

So, how is the HR response and how are we handling that? In terms of managing scale, we have grown from 250 employees in 1992, 1,172 employees in 1996 to 25,000 -- 2503 -- 253 in last quarter. If you look at it carefully, every two years, '96 to '98, '98 to 2000, 2000 to 2002, and 2002 to 2004, we have more than doubled. We have done this while maintaining and having a maniacal focus on quality. Typically, we processed close to 1 million resumes in the last financial year, and made offers to 13,500 employees, which is a 1.5 to 1% of the total number of applicants.

In term of the talent pool in India, the increasing number of engineering graduates which are coming out 178,000 are expected to come out in the degree program this year out of which the IT numbers are close to about 50% plus, about 100,000. Out of these, about 55 to 60% enter the workforce. There are also non-IT engineers entering the workforce, so you have a total number of about 100,000 across the two years. Given that we're hiring about 8% of those entering the workforce market and about 5% of the total pool, it becomes therefore critical going forward to augment the talent pools through new profiles and we are looking at undergraduates for several -- undergraduates in (inaudible) Science, Commerce for several of our service offerings. New geographies like China as well as Australia and inorganic growth like the Infosys Australia growth, and of course hiring of the domain specialists and consultants, which we talked a little bit ahead.

It's also important to build deep relationships with the campuses -- the educational campuses because 75% of our recruitment is from these engineering campuses and to widen the pool of trained talent and really based on the philosophy that if you give a man a fish you feed him for a day, but you teach him how to fish and you feed him for a lifetime. Faculty enablement, project work for student, sabbatical opportunities for professors and course availability are some of the innovative ways we are working on to augment and increase the pool of trained talent.

In addition, to build Infosys brand in new geographies, we have aggressive internship programs as well case studies and project work with international institutions. If you recruit, based on the key concept of learnability like we do which is the ability of the individual to derive generic knowledge from specific experiences and apply the same in future context. It's become critical to have as a backbone, strong competency-enabling framework. We have a strong entry level training, which is 14 weeks of comprehensive go/no-go training, which has been benchmarked by leading academicians in the US against US standards. And these benchmarks have shown that a four year engineering degree in any branch of engineering in India combined with our 14 weeks programs in competency-enabling is equal to a four years bachelor of science in computer science in any university in the US. This certification standard has also met the INS and the BCIS stringent standards, for visa applications.

Along with this, you have to focus also on continuing education with certification programs for key skills and role based training so that if you look at each role, the different streams and the different roles identify specific competencies both behavioral and managerial and technical and then develop training programs around that. Learning for us is like a little diamond. It focuses on technical aspect, the quality and the process aspects, the management development aspect, and the leadership dimension. Management programs really focus on three aspects: managing the self, managing teams, managing business and managing the client. And the leadership model is really a three-tiered model with ready-now leaders for global positions, ready in three to five and ready in five to seven years and training programs and developmental programs around all of these. In this program intervention, our key philosophy is that the company is the campus, the business is the curriculum and leaders must teach.

So senior leaders, including members of the Board, go out and teach the identified leaders in topics which are their strength and their passion; leadership, strategy, technology thought leadership, process excellence, etcetera. And finally of course part-time and distance education programs to augment competency (inaudible)

The second challenge is really to future-proof the organization. And the first trend here is of course in the area of compensation. Compensation trends of the marketplace now show

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the difference in compensation strategies are coming in into the Indian software industry. There is a reinforcement of the high performance work ethic. Companies are working towards being better employers for better performers and this is strong linked to performance and variable pay. Infosys has been quite a top leader in this perspective and we have aligned our programs very, very strongly to business performance.

In 2000, under 10% of our employees had more than 10% of their total compensation in variable pay. Now all 100% of our confirmed employees have at least 10% of their fixed pay coming in variable pay and this progressively increases through to 30%, 50%, 75%, and at the senior most level a 1:1 100% of fixed pay coming in the form of variable pay. These programs are aligned to company performance, team and group performance and of course to individual performance.

The second aspect of managing risk is to really ensure that you have enhanced retention. Our attrition rates have been considerably lower than what the industry has. We closed out last quarter at 10.9% against, as I said, NASSCOM set figures of 18 to 20%. In the years before, again, we had half of the industry average as our attrition figure. We've achieved this really through a culture of learning value add, which really encourages employees and talks to them about the alternate career tracks we have, the skill sets and locations, continuous enroll-based employee enabling programs, and also addressing the whole employee through initiatives like health and lifestyle enhancement and employee assistance programs which handle counseling, which handle critical care, which handle grievances and provide a positive work environment.

It is also important to future-proof the organization by ensuring that the right person is in the right place at the right time, i.e. the immigration challenge, and managing global talent deployment with its scale, feed, complexity and efficiency. Given all the changing dynamics in compliance and changing immigration scenarios, I think is one of the other things that is critical to future-proof the organization.

From a managing execution perspective, it is really working towards results. If we do this through three key intervention, through creating a high performance work ethic, a high performance, high productivity culture, with focus on performance and utilization measures with strong emphasis on personal accountability and alignment of organizational objectives with individual performance objectives and incremental slowdown. Using technology and process automation through HR's business process transformations, leveraging technology is another key area. And, of course, using internal shared HR services for creating a centralized efficient economies of scale operational work system is really critical and what we're doing for increasing efficiency.

From a managing diversity perspective, its creating a diverse, inclusive and positive work environment that focus on nationalities and gender, which have initiatives like Infosys Women's Inclusivity Network which is sponsored by the Chairman at the highest level, in North America by the Head of Customer Delivery and in India by myself, and customizing HR service offerings across diverse internal customers.

Finally, of course, differentiation is critical, and therefore doing it with a difference. The HR organization in Infosys has a clear line of sight to the end customer, it interacts closely with the end customer in several interactions, workshops on our HR best practices ensure that we are in constant touch with the customer, and of course, at times, sharing best practices and doing consulting assignments in the HR'space for our client.

Individual growth is slightly aligned to organizational growth, which means revenue and revenue productivity in integrated business units drive the vacancies for roles in the organization, and this, then, drives best in performance individual growth. Institutionalized utilization measures to drive productivity, leveraging technologies to evolve smart HR processes and integrating and sharing best practices across the Infosys group.

So, in terms of response, from a managing scale perspective and in summary, we have innovated through the extension of the talent pool. We - (inaudible) and working towards greater alignment with the business unit, and to increase automation. In terms of managing this innovating on the concentration models, always in compliance and understanding work force strength so that we can engage the Infoscion much more closer. In terms of managing execution, making performance count, automating, process

improvement and focusing relentlessly on people productivity. And finally, in the area of managing diversity, to ensure that policies, cultural aspects, role models and enablers are in place to encourage and create an inclusive work environment. That is the HR response. The (inaudible) accolades are there, internally as we stream up, we manage diversity, risk and execution; these HR strengths come into play. I am open to taking any questions.

Pratik Gupta: This is Pratik Gupta from Citigroup. Just a quick question on the current challenges, or challenges in the current environment. We're generally hearing of all the Indian offshore IT companies facing a sort of shortage at the mid level, you know, people with three to five years experience. And I understand as a response to that what you have been doing is hiring more people at the entry level and having your own training engine etcetera. I'm just wondering is that not inherently wage inflationary going forward that maybe you are postponing your wage inflation to three to five years, hence, as these guys get more experience and so on? Or are you saying that you think that the available pool of talent in the Indian market is going to expand dramatically in the next three to five years that the pyramid structure can be maintained?

Hema Ravichandar: Let me take the question from two aspects. One is, of course, the way we have structured our compensation with increased focus on variable compensation, I think is a way of addressing that issue. So you have increasing focus on company performance, revenue target, operational performance target, etcetera, so the total compensation of the individual comes through both fixed and variable pay so we don't hedge it (inaudible). The second is, I think, traditionally, I mean, if you look at over the last 12 years or so, the Indian industry has had a challenge in the middle management. So it's not something that is just new. And Infosys has always looked at aggressively hiring from the fresh market and enabling them very strongly, typically the recruitment of that level is between 70 to 80%, and 20 to 25% coming from the experienced hire market. And I think those trends continue, so actually I look at it (inaudible) the wage pressure kind of evens out because if you (inaudible).

Male Speaker: Yes. Could you restate the attrition statistics you sited at the beginning of the presentation and can you explain what drives the volatility in that figure?

Hema Ravichandar: Yes. So if you look at '99 to 2001, it was really the boom period. And in that period of time while there are no published figures that are there out in the market, the experience is that attrition was in the range of between 17 to 30%, and companies were experiencing anywhere of upward of 20%. In 2002 and 2003, it was a very different scenario, and in those years with companies actually laying off -- that multinational companies laying off internationally and therefore having clean impact in the offshore development centers, we saw attrition come down to ranges of about 12 to 13%. And now again, you know, you're seeing hiring increasing, we're seeing a hot labor market, we are seeing increasing activity in this area.

And again, while the published figures are not out NASCOM sources indicate the figures are in the range of 18 to 20%. Reasons for the attrition as we see in Infosys, one of the biggest reasons, is higher studies followed by perceived better opportunities and personal reasons, and, typically, if you look at the Indian software professional psyche you have the best and the brightest from the Institute of Technology or the National Institute of Technology or the other engineering colleges coming in working for about 18 to 24 months and then wanting to either pickup an MBA degree in one of the Indian Institute of Management or moving to proceed better opportunity in some of the other organization. So, it was really the economic scenario that reflected on the attrition figures and that's why you see the dip in 2002, 2003, and again it's picking up in 2004.

Lou (inaudible): OK. Great. Lou Mishas (ph) with Lehman Brothers. And I was out on your campus back in March, we've heard about lot of your capital expenditures going into building more facilities to train more people mostly out of undergrad, can you give us an update there maybe how many dollars you're spending, how many feature you're: adding, where you're all with all of that maybe how it's going in increasing capacity?

Hema Ravichandar: Kris, would you want to take that?

S. Gopalakrishnan: This year we're looking to spend about $150 million. We have about 200 -- 2.5 million square feet space in working process right now. And currently, we have about 5.5 million

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square feet space already in use and another 2.5 million square feet spaces in construction.

Lou: And how about the capacity, to train people (audible)

S. Gopalakrishnan: Yes. So, we have consolidated our training at the entry level in Mysore. We have a capacity to train 4,000 people simultaneously. And this is fully residential. And the reason for making residential is to improve the effectiveness of training. We saw that by making it residential, we take away all their worries about finding accommodation for a short period of time, because we centralize training. We can put in the right resources, in one location to make sure the best training is available, best training infrastructure is available. And lastly we can delay the decision of where in which location to deploy. If we, at least (inaudible), just in time, , capability, if it delayed the decision on where they will be deployed.

Lou Miscioscia: Thank you. Great. And one follow-up, did you go into the strategy for China, how many people you actually have in China right now, how possibly to look to grow there? And also talk a little bit about (inaudible) the language barrier (inaudible) when we go to China and the scope are pretty limited –(inaudible) over coming that if possible?

S. Gopalakrishnan: We have probably about 25, 30 resources, that we are recruiting today in China. We have a facility, which can accommodate up to about 300 and we can increase the capacity. We are moving projects to China it's taking some specific, verticals and specific clients to China. So, we're moving some projects. And our intention is to grow that as rapidly as possible, if not there publicly, stated what those targets are. We look at specific skills for example, in building to J2E, Java skills right now in China, because that language,: because the technology skills are available. And currently we're also recruiting mostly people, who can speak English and of course Chinese. So, that they become the core group and overtime we can and recruit more and more of the local, only people with the local language capabilities.

Unidentified Speaker: We're also (inaudible) Chinese. You know, who have been in other markets who can speak English.

Lou Miscioscia: (inaudible)or have the English speaking skills and that keep...

S. Gopalakrishnan: They are more expense definitely, and that's the issue.

Lou Miscioscia: Thank you.

Adam Frish: Hi. Adam Frisch from UBS. Could you talk about wage inflation a little bit here we've heard it's around 12, 15% or so, back in India, and where you think we are in the wage inflation cycle beginning middle (inaudible) , and we expect wage inflation to go over the next 24 months?

Hema Ravichandar: You know I think, reports from organizations like (inaudible) which are operating in India, across various companies and in the segment, puts the wage inflation at this point of time in the range of 12to 15%. If you look at periods of time when there have been intense activity in, a couple of years ago -- two to three years ago, before 2002, and 2003. It had probably reached much higher level, but now as I see it's a kind of mature market.

So, I think it will continue to be in the range of 12to 15%. What we are also seeing is that companies are increasingly widening the difference between the best and rest performers. So, traditionally while the Indian market had a closer differential and the companies were averaging around the, I mean, what -- concentrating around the average, now they are moving -- and making it increasingly more attractive for the higher performers. They were also finding the trend of variable pay coming into play at different levels and linked to company performance.

So, I think we have reached -- I feel in the next year or two in the range of 12to 15%. And I think variable pay component will come in quite significantly as well as the differentials between the best and the rest.

Adam Frish:	Ok. Just one quick follow-up, in terms of supplier, you (inaudible) concerned about the supply in India over the next couple of years and your ability to step up at a reasonable cost level with not only Indian companies recruiting and at the Universities technology specialty schools, but also other companies coming in and trying to build their own (inaudible)?
Hema Ravichandar:	Yes, actually, NASSCOM has recently released its report with KPMG. Now let me just share that with you. It says that in 2009, they see a gap of about 250,000 employees and shortage of engineers. At the current rate of absorption, at the current rate of talent enabling and at the current rate of people wanting to move into industry are not going for higher studies. Having said that however, I think, yes, right now we've seen the softening of the market. So, right now we have enough talent, but going-forward we need to augment this, which is why we're looking at new geographies. We are looking at new profiles. We also produced 2.1 million graduates and that is science, commerce, liberal art, which we're not talking off in this pool at all. So the ability to tap into that talent and create the strong foundation of software professionals, who have key learnability skills, is also going to be. But if you took the whole picture together, I think, there is enough talent. And I think industry and academy are working very aggressively towards bridging those 250,000 gaps.
Adam Frish:	Thanks, Hema.
Hema Ravichandar:	Thank you.