

FINAL TRANSCRIPT

Thomson StreetEventsSM

G - Q2 2008 GENPACT LIMITED Earnings Conference Call - Reclassification Discussion

Event Date/Time: Aug. 06. 2008 / 9:30AM ET

Aug. 06. 2008 / 9:30AM, G - Q2 2008 GENPACT LIMITED Earnings Conference Call - Reclassification Discussion

CORPORATE PARTICIPANTS

Roanak Desai

Genpact Limited - IR

Vivek Gour

Genpact Limited - SVP and CFO

CONFERENCE CALL PARTICIPANTS

Joseph Foresi

Janney Montgomery Scott - Analyst

Ashwin Shirvaikar

Citigroup - Analyst

Dave Koning

Robert W. Baird - Analyst

Ed Caso

Wachovia - Analyst

Julio Quinteros

Goldman Sachs - Analyst

Karl Keirstead

Kaufman Brothers - Analyst

Tien-Tsin Huang

JPMorgan - Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to Genpact's call to discuss the revised presentation of income statement conference call. My name is Erica and I will be your coordinator for today. At this time, all participants are in a listen-only mode. We will be facilitating a question-and-answer session towards the end of this conference.

(Operator Instructions)

I would now like to turn the presentation over to your host for today's call, Mr. Roanak Desai. Please proceed sir.

Roanak Desai - Genpact Limited - IR

Thank you, Erica. First of all, apologies for those who had trouble dialing-in, very sorry. Welcome to Genpact's call discussing the revised presentation of our income statement after reclassification of foreign exchange gains and losses in the respective operating cost lines. I am Roanak Desai, Head of Corporate Development and Investor Relations. With me is Vivek Gour, our Chief Financial Officer.

We hope you have had an opportunity to review our press release, which included the annual and quarterly income statements on a reclassified basis for the years ending 2006 and 2007 as well as year-to-date for 2008. Vivek will first take you through the changes and how to think about them. We will then open the floor up to questions.

Aug. 06. 2008 / 9:30AM, G - Q2 2008 GENPACT LIMITED Earnings Conference Call - Reclassification Discussion

Please note that some of the matters we will discuss in today's call are forward-looking. These forward-looking statements involve a number of risks, uncertainties, and other factors that could cause actual results to differ materially from those in such forward-looking statements.

Such risks and uncertainties include but are not limited to general economic conditions and those factors set forth in today's press release and discussed under the Risk Factors section of our Annual Report on Form 10-K and other SEC filings. Genpact assumes no obligation to update the information presented on this conference call.

We will refer to certain non-GAAP financial measures which we believe provide useful information for investors. You can find a reconciliation of those measures to GAAP as well as related information in our press release on the Investor Relations section of our Web site, Genpact.com. With that, let me turn the call over to Mr. Vivek Gour, Genpact's CFO.

Vivek Gour - *Genpact Limited - SVP and CFO*

Thanks, Roanak. As we had indicated during our first quarter 2008 earnings call earlier today, in order to reflect more clearly Genpact's costs, including the impact of our long-term foreign exchange hedging strategy, we have reclassified our foreign exchange gains or losses from a separate line item, which used to reside above income from operations to cost of revenue, SG&A and net revenue, as applicable.

The residual foreign exchange gains and losses relating to re-measurement of balance sheet items, primarily accounts receivable, are now shown on the income statement, below income from operations. This reclassification does not affect net income or earnings per share in any way.

As you know, we have long-term, non-speculative hedges in place against our projected non-US dollar costs. These -- this hedging strategy of ours gives us confidence that our actual costs are essentially neutral to short-term movements in foreign exchange rates and thus allows us to protect our margins. Our hedging strategy is part of our operating and risk discipline and has been implemented consistently since our inception. Our hedging strategy is not opportunistic.

This practice allows us to price our long-term client contracts and meet targeted margins based on reasonably predictable dollar costs. Given that we receive revenues in one set of currencies like US dollars, Pound Sterling, Japanese Yen and Euros and we incur production costs in other currencies such as Indian Rupees, Chinese Renminbi, and Romanian Leu, we believe this is a best in class risk management practice to make our costs of production in non-dollar currencies more predictable in dollar terms. In many ways, this is similar to a prudent airline hedging its largest cost exposure, i.e. fuel.

Until this quarter, our income statement had only one FX gain/loss line, which lay above our income from operations. Our hedges are fully compliant with Federal accounting standard 133 and therefore are qualified to be included in income from operations.

The gains or losses related to our long-term hedges serve as offsets to corresponding movements in cost of revenue and SG&A due to movements in foreign exchange rates. Historically, it was the primary component of the FX gain/loss line.

We now have, sorry -- we have now reclassified these gains or losses back to cost of revenue and SG&A to reflect how we manage the business operationally and how we assess our financial results. As we mentioned last quarter, a small part of the FX gains or losses are related to re-measurement of balance sheet items, particularly accounts receivable. This re-measurement depends upon the exchange rate on the last day of the quarter. These gains or losses are not directly related to our operating costs.

Therefore, this re-measurement gain or loss is now represented in a FX gain/loss line that lies below income from operations in the reclassified basis of our income statement. In the second quarter of 2008, this line was less than \$1 million of loss. We continue to expect this re-measurement to be in the single digit million dollar range.

Aug. 06. 2008 / 9:30AM, G - Q2 2008 GENPACT LIMITED Earnings Conference Call - Reclassification Discussion

Let me now take two illustrations to make the point more clear. First, let me walk you through the second quarter 2008 numbers to illustrate what we have done. You can follow these numbers in Tables A and B in the appendix of the press release.

On the historical basis, the second quarter income statement show the net FX gains of \$7.2 million above income from operations. Of this \$7.2 million, our long-term hedges resulted in a gain of \$8.1 million for the quarter while the re-measurement of FX resulted in a loss of \$0.9 million for the quarter, giving a net figure of \$7.2 million.

The gains on the hedges are predominantly a direct offset to foreign exchange related increases in cost of revenue and SG&A. A small portion was reclassified to revenue, given how we structure the hedges in China to comply with local regulations.

Therefore, \$6.1 million of the hedge gains was reclassified to cost of revenue decreasing the reported cost from \$153 million to \$147 million. \$2.2 million of the hedge gains was reclassified to SG&A decreasing the reported cost from \$69 million to \$67 million. The \$0.9 million loss on the re-measurement of assets now sits in the new FX gain/loss line that is below income from operations in the reclassified basis of the income statement.

A de minimis \$157,000 of loss was reclassified to the revenue line. Once again, we are making these reclassifications so investors can clearly understand how we operate our business and how we look at our business. I would also like to walk you through our fiscal year 2006 numbers where our foreign exchange hedging resulted in a loss. You can follow these numbers, in Tables E and F in the appendix of our release.

On the historical basis, the annual 2006 income statement showed a net foreign exchange loss of \$13 million above the income from operation line. Of this \$13 million, our long-term hedges resulted in a loss of \$11.1 million for the year, while the re-measurement of FX resulted in a loss of \$1.9 million. Losses on the hedges are predominantly a direct offset to foreign exchange related decreases in cost of revenue and SG&A lines. \$6.3 million of the hedge loss was reclassified to cost of revenue, decreasing the reported costs from \$361 million to \$369 million under the reclassified basis. \$2.8 million of the hedge loss was reclassified to SG&A increasing reported SG&A cost of \$159 million to \$162 million.

The \$1.9 million loss in the re-measurement of assets now sits on the new foreign exchange gain/loss line that is below income from operation in the reclassified basis of the income statement. For 2006, none of the foreign exchange losses were reclassified to the revenue line.

As you review the historical quarters, you will note that the majority of the changes are in the cost of revenue and SG&A line as the foreign exchange gains or losses get reclassified. As I said earlier, there have been slight changes to historical revenue numbers. I would also like you to note that our hedges do not always result in gains. As you see for 2006, we incurred losses, which predominantly offset foreign exchange related decreases in cost of revenue and SG&A.

Prudent risk management suggests that we protect ourselves by improving predictability around our FX rates using our hedging strategy. Re-measurements of foreign exchange gains and losses have now been excluded from our GAAP and adjusted income from operation. As a baseline, our adjusted income from operations margin was 15.8% in 2006 increasing to 16.3% in 2007 on the reclassified basis. Once again, these reclassifications don't change the net income or earnings per share and all of the reclassification items have always been included in our financial statements.

In summary, this is a prudent way to manage risk in our business and global operations. We made these changes to provide a clearer view of our costs in a multi-currency environment. It demonstrates the way we manage the business and measure our results. As we grow and gain scale with our clients, we continue to expect to drive leverage and improve margins as per our guidance. With that, we can open up the floor for your questions. Thank you.

Aug. 06. 2008 / 9:30AM, G - Q2 2008 GENPACT LIMITED Earnings Conference Call - Reclassification Discussion

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Joseph Foresi. Please proceed.

Joseph Foresi - Janney Montgomery Scott - Analyst

Hi gentlemen. Just two questions here. First, I look at the reclassification on the revenue line and I go back to last year. It looks like you added about roughly \$500,000 last year in gains to the revenue side, is that accurate?

Vivek Gour - Genpact Limited - SVP and CFO

Yes, that's accurate.

Joseph Foresi - Janney Montgomery Scott - Analyst

And what are your expectations for this year? Because if I put the same \$500,000 on 25%, that gives us the extra 1% guidance upside. Is that a fair way of looking at it?

Vivek Gour - Genpact Limited - SVP and CFO

No, that wouldn't be a fair way, because it's an assumption of movement of multiple foreign exchange rates between the Chinese Yuan, Japanese Yen, the Japanese Yen versus the US dollar, et cetera.

But that number -- that gets reclassified to revenues will in all likelihoods be south of \$1 million for the foreseeable future. That will always be a de minimis number. And our guidance that we provided of growth of revenues of 26% to 28% does not assume any hedge gain or loss being reclassified to revenue.

Joseph Foresi - Janney Montgomery Scott - Analyst

Okay. So, the guidance did not exclude any gain or loss?

Vivek Gour - Genpact Limited - SVP and CFO

Yes, I mean we did not factor that in because it would be \$500,000 or \$200,000 -- it's a de minimis number on the base of our revenue.

Joseph Foresi - Janney Montgomery Scott - Analyst

And will you break that out each quarter on this --?

Vivek Gour - Genpact Limited - SVP and CFO

No, we will not be breaking that out each quarter.

Aug. 06. 2008 / 9:30AM, G - Q2 2008 GENPACT LIMITED Earnings Conference Call - Reclassification Discussion

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay. Will the -- the \$500,000 would add 1% though? I mean it's not that -- if it was still in the same trajectory, it would add 1%, so it's not -- you can't totally, I guess discount the -- the possibility there, correct?

Vivek Gour - *Genpact Limited - SVP and CFO*

\$500,000 on \$800 million --

Joseph Foresi - *Janney Montgomery Scott - Analyst*

It's \$500,000? Am I misreading?

Vivek Gour - *Genpact Limited - SVP and CFO*

Yes. We -- as I said, the number is likely to be minimis. We do not expect it in the foreseeable future, medium term future to be any number more than \$1 million, which will be less than \$1 million either way.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay. And then just lastly, any effects of -- on the balance sheet and the cash flow for any hedging changes?

Vivek Gour - *Genpact Limited - SVP and CFO*

No.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay. Thank you.

Vivek Gour - *Genpact Limited - SVP and CFO*

Thank you.

Operator

Our next question comes from the line of Ashwin Shirvaikar with Citigroup. Please proceed.

Ashwin Shirvaikar - *Citigroup - Analyst*

Hi, Vivek.

Vivek Gour - *Genpact Limited - SVP and CFO*

Hi Ashwin.

Aug. 06. 2008 / 9:30AM, G - Q2 2008 GENPACT LIMITED Earnings Conference Call - Reclassification Discussion

Ashwin Shirvaikar - Citigroup - Analyst

I have just a basic clarification. When you say adjusted income from operations, is that the same as cash EBIT?

Vivek Gour - Genpact Limited - SVP and CFO

Same as cash EBIT, no, not exactly. Adjusted income from operation is the income from operations, as you see it on the GAAP presentation of the income statement plus we add back the formation accounting charges, the stock option charges, the fringe benefits, and on page 14 of our press release, you will see the walk over there. I haven't really sat down and seen whether it's exactly equal to cash EBIT, so I'm sorry I am not in a position to immediately answer that question, but I could take it offline with you.

Ashwin Shirvaikar - Citigroup - Analyst

Sure. One question I have and it may run through this in your presentation, but there is a lot of moving parts here. So, when I look at the historical June 2008 income from operations divided by net revenue, basically the margin hits 11.1%. When I look at the reclassified, it's 11.5%. So, from this reclassification on the -- on that number, it looks like there is some margin benefit, right?

Vivek Gour - Genpact Limited - SVP and CFO

We had -- in June 2008, we had a small foreign exchange loss due to re-measurement. So, in the original or historical way of presenting, it would have been a part of income from operations and the newer way of presenting that loss has been stripped out of income from operation. Therefore it has (inaudible).

But similarly, in the quarter ending March 2008, we had a foreign exchange gain of about \$6.7 million due to re-measurement, which was earlier sitting in the income from operations in the historical way in which we used to present it. And then the new way we presented that gain gets stripped out which is why in the new presentation the margin is 7.4% for Q1 versus the older presentation of 10.3%.

Ashwin Shirvaikar - Citigroup - Analyst

Okay. So, from our modeling perspective, it makes the task a little bit tougher because we don't know what the re-measurement is going to be, right? And how would you -- how would you have -- hedge that I guess?

Vivek Gour - Genpact Limited - SVP and CFO

Yes. The task -- the re-measurement figure historically has been a single million dollar number plus or minus. It is not a number that we can predict. It's a function of a multiple of currency movements versus each other from all our production centers across the world and the currencies in which we live.

So, I can't predict that number, no one in a similar position would be able to do so. But, given the -- we are really guiding you to adjust income from operations and its derivative adjusted income from operation, which is neutral or has been stripped off any plus or minus benefit or loss due to re-measurement.

Aug. 06. 2008 / 9:30AM, G - Q2 2008 GENPACT LIMITED Earnings Conference Call - Reclassification Discussion

Ashwin Shirvaikar - Citigroup - Analyst

Okay. And we did think about it offline just a little bit. But one last question is, can you walk through the cash EBIT, for that -- eventually that -- that's what is most analogous, I guess, to your adjusted number, right?

Vivek Gour - Genpact Limited - SVP and CFO

I think I would like to walk you through cash EBIT in an offline conversation because I will have to go through each line in our adjusted income from operations and EBIT portions of a cash play and to what extent and is there any -- any non-cash impact over there. At a very, very, very generic and conceptual level, adjusted income from operations is a close cousin of cash EBIT but we have to really go through each and every line. We do believe that our adjusted income from operation is the best measure of the health of our business. And that is what we look at, it helps us to focus on our operation rather than any minor variance due to our foreign exchange re-measurement of accounts receivable.

Ashwin Shirvaikar - Citigroup - Analyst

Got it. Okay, thanks. I will follow up and set up a call separately.

Vivek Gour - Genpact Limited - SVP and CFO

I will be happy to spend time with you, Ashwin.

Ashwin Shirvaikar - Citigroup - Analyst

Thank you.

Operator

Our next question comes from the line of Dave Koning of Robert W. Baird. Please proceed.

Dave Koning - Robert W. Baird - Analyst

Yes. Hey guys, just a couple of questions. I guess really, the above the line impacts and it is just -- when you lock in the rates that you are hedging at, you basically lock in and know -- you know what your costs above the line are going to be, so just reflects your assumptions or it reflects the -- the value of the rupee that -- that you hedged at, so that -- that you just know your cost going in. Is that correct?

Vivek Gour - Genpact Limited - SVP and CFO

Yes, that's correct.

Dave Koning - Robert W. Baird - Analyst

Okay. And so that, and in the below the line number, I understand what you are saying about re-measurement, the only question I have there is could we see those \$6.7 million or \$4 million type adjustments that we have seen in previous quarters, could that happen again or -- or should we expect smaller numbers, and maybe what's the sensitivity, if the rupee would strengthen or weaken by 10%, let's say one quarter, would that number swing around a lot more than \$1 million or something like that?

Aug. 06. 2008 / 9:30AM, G - Q2 2008 GENPACT LIMITED Earnings Conference Call - Reclassification Discussion

Vivek Gour - *Genpact Limited - SVP and CFO*

See, it is not alone a function of the rupee movement, it's also a function of the extent to which we can hedge our accounts receivable. That's a much more difficult hedge to write, it's much more short-term. The markets are shallow and in certain currency combinations, it's simply not available. The \$7 million swing is for the first quarter of 2008, which was a \$7 million gain, was actually a bit of an exception.

If you were to go back to the four quarters of 2007 and the two quarters of 2008, in most quarters it has been plus one, minus one type of a number, except in the fourth quarter of 2007, where it was plus four. If you were to move even further back in time to 2006, you will find that -- that has been a movement of about \$2 million, \$4 million, \$2 million, \$0.5 million and that's why I have given you broad indications that it's a single million dollar number for our present balance sheet side.

Dave Koning - *Robert W. Baird - Analyst*

Okay. That's good. And so you would expect, if we did have all of a sudden a big re-measurement swing again, maybe the one out of eight quarter type phenomenon, if we did have that again, you would expect us to kind of almost adjust our numbers for it? You think you have got an extra couple cents out of it --

Vivek Gour - *Genpact Limited - SVP and CFO*

Yes.

Dave Koning - *Robert W. Baird - Analyst*

-- and you expect this.

Vivek Gour - *Genpact Limited - SVP and CFO*

Yes.

Dave Koning - *Robert W. Baird - Analyst*

Okay.

Vivek Gour - *Genpact Limited - SVP and CFO*

Yes. Now, those are great questions you are asking that once again the reason of why we have done this is to make our operations more clearer. In a manner of speaking, we have -- this has been a little bit the voice of the investor and the analyst and we are responding and being proactive to provide you a clearer picture of the way we see our business.

And we really would like you to focus on the adjusted income from operations line, which is our real operating income, shorn of the variability that comes in from foreign exchange re-measurement of assets, which is actually a non-cash re-measurement. It's a non-cash re-measurement which has nothing to do with your operation.

Aug. 06. 2008 / 9:30AM, G - Q2 2008 GENPACT LIMITED Earnings Conference Call - Reclassification Discussion

Dave Koning - Robert W. Baird - Analyst

Yes, that's -- that's great color and I think it's definitely the right move. I appreciate it.

Operator

Next question comes from the line of Ed Caso with Wachovia. Please proceed.

Ed Caso - Wachovia - Analyst

Hi. I had a couple of sort of different questions. Other income -- below the line other income, it is \$3 million, it's sort of a much higher number than usual. Is there anything unusual in that this quarter? And -- and what goes in that number regularly?

Vivek Gour - Genpact Limited - SVP and CFO

Other income below the line is primarily -- there are many small things, but 90% of that number is interest income or interest paid. We have very large cash reserve, as I mentioned on the earlier call, of over \$320 million -- \$320 million range. And the interest we earn on that, net of the interest we see on our debt, comes and sits in that line, and that's what it primarily is.

Ed Caso - Wachovia - Analyst

Now, I am asking about the other income or expense line that -- that's above the line that -- that swung from a -- it changed sort of signs, I think it's a -- went from a benefit to a cost in this quarter's -- can you help me with that?

Vivek Gour - Genpact Limited - SVP and CFO

Yes. We provide BPO support services to some arms of GE in Philippines and India. And this is a part of our historical relationship when we were hived off from GE, certain parts of our business stayed back with them and certain support services we continued to provide to them as part of our separation agreement. Those amounts sit in that line.

And also, in this quarter of -- second quarter of June 2008, we wrote off -- we wrote off certain software and in Mexico and certain buildings which we owned, which we did not want to continue using, there were small losses on the sale of those facilities. The cost of maintaining them going forward was not in line with the quality of facility we would like to maintain and that's part of the reason for that swing from a gain of \$1 million to a loss of \$1 million.

Ed Caso - Wachovia - Analyst

But next quarter, do we go back to the roughly \$1 million the other way -- \$1 million and expenses the other way?

Vivek Gour - Genpact Limited - SVP and CFO

I hope so. But -- I certainly hope it will.

Aug. 06. 2008 / 9:30AM, G - Q2 2008 GENPACT LIMITED Earnings Conference Call - Reclassification Discussion

Ed Caso - Wachovia - Analyst

The other question is I am just trying to understand, you mentioned I think a 12% tax rate and I think to get that, you have to sort of put back in minority interest. But my understanding was minority interest is historically a net of tax number. Is your minority interest number not a sort of a pretax number then?

Vivek Gour - Genpact Limited - SVP and CFO

Yes.

Ed Caso - Wachovia - Analyst

And the -- I guess the last question is we compared your March 2008 pre-reclass with the post-reclass and your adjusted operating margin declines 290 basis points. But you -- you increased your guidance meaningfully even though you decreased what you reported in Q1. So, in addition to the 80 to 100 basis points, it's actually more than that because you pushed down the Q1 number? Do I have that right?

Vivek Gour - Genpact Limited - SVP and CFO

Yes, you have that right.

Ed Caso - Wachovia - Analyst

Thank you.

Operator

Our next question comes from the line of Julio Quinteros with Goldman Sachs. Please proceed.

Julio Quinteros - Goldman Sachs - Analyst

Just in terms of the -- the starting point here, just -- what we are looking at now are what used to be cash flow hedging under FAS 133. Are we still operating under the same FAS statement at this point?

Vivek Gour - Genpact Limited - SVP and CFO

Yes.

Julio Quinteros - Goldman Sachs - Analyst

Okay. So, the P&L presentation from a cash flow hedging perspective is under FAS 133, got it. And then, from the perspective of balance sheet and cash flow items, it sounded like you said that there will be no -- no impact to the -- to either the assets or liabilities or the cash flow statement as we think about the reclassifications of how that would flow through both balance sheet and cash flow statements. Can you just help me understand how that -- how that would be the case that there would be no -- no impact on that side?

Aug. 06. 2008 / 9:30AM, G - Q2 2008 GENPACT LIMITED Earnings Conference Call - Reclassification Discussion

Vivek Gour - *Genpact Limited - SVP and CFO*

Yes. The reclassification of our hedging is merely a reclassification in the way the hedge gain or loss is being shown with the SG&A and cost of revenue. It has absolutely no impact on the balance sheet or the -- or on the cash flows of the balance sheet because it is the same hedges, it is the same mark-to-market and the same gain or loss flowing through.

Julio Quinteros - *Goldman Sachs - Analyst*

Okay.

Vivek Gour - *Genpact Limited - SVP and CFO*

The re-measurements -- the re-measurement of the accounts receivable, which now sits below the income from operations line, has always been reflected in the balance sheet, in the old way as well the new way and that doesn't change at all, then it's a non-cash charge or gain.

Julio Quinteros - *Goldman Sachs - Analyst*

Okay, that makes sense. And then, maybe just in terms of what we are talking about here now and just in terms of the -- the current period of time under the current hedging efforts. I think previously we had -- you guys had a program that was 20 to 24 months. Maybe you can give us some sense on both the sides of the coverage is from view on average rates, whether the rupee rates or anything that might be helpful to get a sense for -- for both the duration and size of what you guys are hedging at and the effective rates.

Vivek Gour - *Genpact Limited - SVP and CFO*

I would not be discussing the effective rates we hedge at and that number changes constantly depending upon the market and the size of hedging we are doing in any given month. But very broadly, for the rupee, we try and hedge out three years to the extent the best of the market permits us to do so. For the Chinese Renminbi, the hedging is limited to three to six to nine to twelve months based on various regulatory requirements.

And in Europe, we hedge the Hungarian Forint and the Romanian Leu to the extent we can, but it is typically 12 months to 18 months. And this hedging is not opportunistic, it is a very systematic hedging program we have had in place for many years. And at this point in time, we have just started our hedging for 2012 for the Indian rupee versus the US dollar, if that's an example.

Julio Quinteros - *Goldman Sachs - Analyst*

Okay. Can you give us the rate for that?

Vivek Gour - *Genpact Limited - SVP and CFO*

I would not be discussing the rate.

Julio Quinteros - *Goldman Sachs - Analyst*

Okay.

Aug. 06. 2008 / 9:30AM, G - Q2 2008 GENPACT LIMITED Earnings Conference Call - Reclassification Discussion

Vivek Gour - *Genpact Limited - SVP and CFO*

But you could get it from -- Bloomberg and from a few banks.

Julio Quinteros - *Goldman Sachs - Analyst*

Got it, okay. Okay, well, thank you.

Vivek Gour - *Genpact Limited - SVP and CFO*

Thank you, Julio.

Operator

Our next question comes from the line of Karl Keirstead. Please proceed.

Karl Keirstead - *Kaufman Brothers - Analyst*

Hi, thank you for taking my call. Could we go to the Table D please?

Vivek Gour - *Genpact Limited - SVP and CFO*

One minute. Okay, I have Table D in front of me.

Karl Keirstead - *Kaufman Brothers - Analyst*

That's D, as in David. And I want to ask a similar --

Vivek Gour - *Genpact Limited - SVP and CFO*

(inaudible) okay.

Karl Keirstead - *Kaufman Brothers - Analyst*

-- a similar question that Ed asked. Your -- it sounds you are changing your definition of adjusted income from operations by taking the residual FX gains and losses, which used to be part of adjusted operating income and you are now taking them out and putting them below the margin line, which has the effect that we are seeing on Table D.

So, my question is - if you look at Q1, your -- your new adjusted income from operations is \$28.423 million, which is on a percentage basis 12.1% and for the June quarter at \$41.81 million, the percentage is 16.5%.

So, for the first six months of 2008 on a revised basis, your adjusted income from operations is 14.4% and your new full year guidance is 17.1% to 17.3%. So, in effect you are telling us that your income from operations will exceed 20% in the second half of 2008 in order to meet that full year guidance. Am I understanding this correctly?

Aug. 06. 2008 / 9:30AM, G - Q2 2008 GENPACT LIMITED Earnings Conference Call - Reclassification Discussion

Vivek Gour - *Genpact Limited - SVP and CFO*

Your mathematics is absolutely correct, Karl, the 14.9% going to 17% odd. And however, I am not in a position to comment on what's the exact adjusted operating income will be for Q3 or Q4, but your understanding of the concept is bang on. And I cannot disagree with the mathematics you have just walked us through.

Karl Keirstead - *Kaufman Brothers - Analyst*

Okay. But without being specific, you are telling us that your -- your income from operations will be high-teens or 20% in the second half and that's a material jump. Could you tell us where that margin gain is coming from?

Vivek Gour - *Genpact Limited - SVP and CFO*

Two things. One is we have a seasonality in our business, which you have seen in 2007 as well in the old numbers of 2006, wherein Q1 is typically our lowest quarter and Q4 is typically our highest quarter. So, there is some of that flowing through over here, but in terms of Q3 and Q4 this year versus Q1 and Q2 this year. Other than that, as we have discussed in the earlier call, we have seen improvements in pricing.

We have seen our contract -- contracted inflation pricing flowing through successfully. We have been driving our sales of reengineering services, which are high impact, high margin services. And we have actually worked very strongly on getting leverage as we grow by holding flat our support cost, functional cost, our management cost and many other such lines. And that's -- that's what's flowing through over here.

Karl Keirstead - *Kaufman Brothers - Analyst*

Okay, and then building on this, I know you -- you don't want to comment on 2009, but when we model what your adjusted operating income should be in 2009, should we use the second half of 2008 as our baseline and because obviously, your full year 2008 is depressed significantly in Q1, maybe help us with that.

Vivek Gour - *Genpact Limited - SVP and CFO*

You should do our 2009 modeling on the average of it and not just on what Q4 2008 will be, because the seasonality we have seen in our business, we will see in 2009.

Karl Keirstead - *Kaufman Brothers - Analyst*

Okay, then, I am just curious on -- on the main call that people were on. I am just curious why -- why didn't you indicate more clearly that you are expecting a significant second half 2008 ramp in adjusted operating margins? That would have been a very relevant point on the call, I think, just curious.

Vivek Gour - *Genpact Limited - SVP and CFO*

We -- we have provided the full year guidance, and we expect that most of the stakeholders interested in our company understand that Q3 and Q4 are strongest quarters of the year as compared to Q1 and Q2. And if you were to go back to 2007, the second half of 2007 also the adjusted operating income was in an 18% range and viewed on that historical basis-- sorry, on the new basis, I think it was about 18.6%, so our higher margin, if they were to come through in Q3 and Q4 would not be unexpected.

Aug. 06. 2008 / 9:30AM, G - Q2 2008 GENPACT LIMITED Earnings Conference Call - Reclassification Discussion

Karl Keirstead - Kaufman Brothers - Analyst

Okay. And then lastly, I don't mean to be tough on you, but when I asked on the main call if -- if the reclassification was contributing at all to your revised margin guidance, the answer was emphatically no. But it seems as if in this discussion it actually is quite a bit. Any comment on that?

Vivek Gour - Genpact Limited - SVP and CFO

I just want to clarify, Karl, our revised guidance of 80 basis points to 100 basis points applies equally to the historical numbers relative to where they were as they move to the reclassified number relative to what those numbers are.

Karl Keirstead - Kaufman Brothers - Analyst

Okay. That's very helpful, thank you.

Vivek Gour - Genpact Limited - SVP and CFO

Yes, thank you very much, Karl.

Operator

Our next question comes from the line of Tien-Tsin Huang with JPMorgan. Please proceed.

Tien-Tsin Huang - JPMorgan - Analyst

Hi. I just had a couple of quick ones on, first I know I asked this before, how do you go about modeling the notional amount of the hedges and how effectively how you have been in forecasting this in, I guess in relation to your build-out of costs in different currencies? I only asked because I wonder if there is any risk of over or under-hedging.

Vivek Gour - Genpact Limited - SVP and CFO

We have our internal projections going out a few years on our costs, we break that down into cost by currencies. It's a long-term strategy. It's not opportunistic and we are very, very conservative in the way we hedge to make sure that at no point, are we running the risk of over-hedging. I think that would be the kiss of death and we have done this very successfully, through a very tight discipline for as many years as I have been CFO here and I don't see the risk of -- of ending up in an over-hedged position. Unless God forbid, our revenues were to crash 50% in any given year.

Tien-Tsin Huang - JPMorgan - Analyst

Right.

Vivek Gour - Genpact Limited - SVP and CFO

We hedge in bits and pieces. We hedge in very small amounts to capture rates as they move up and down. And we typically, for example at this point in time, we would hedge at least 20% of 2012. At the time we reach 2010, we would have hedged out 60% of the projected cost of 2012 with our costs becoming more clearer. And by the time we get to the first quarter of 2011,

Aug. 06. 2008 / 9:30AM, G - Q2 2008 GENPACT LIMITED Earnings Conference Call - Reclassification Discussion

we would have hedged out approximately 80% of our projected cost of 2012, by which time we have a pretty good idea what those costs will be, give or take 10%.

Tien-Tsin Huang - JPMorgan - Analyst

Okay, great. That's good to hear, that's -- that's very helpful, the rolling hedges. All right, just last one. And I guess the transaction costs of the hedge, I am not sure if I heard this, where does that show up in the income statement and where does it typically run out? How volatile is it?

Vivek Gour - Genpact Limited - SVP and CFO

The transaction cost for these hedges, because, A, they are non-speculative, B, they are long-term is de minimis. Our transaction cost is south of \$0.5 million.

Tien-Tsin Huang - JPMorgan - Analyst

Right, okay. Is that in other income or where do you actually allocate that? I know it's small, but I am just curious.

Vivek Gour - Genpact Limited - SVP and CFO

It would be lying proportionately in cost of revenues and SG&A.

Tien-Tsin Huang - JPMorgan - Analyst

Got it, got it. Okay, thank you. I appreciate it.

Vivek Gour - Genpact Limited - SVP and CFO

Yes, thanks.

Operator

There are no further questions. I would like to thank you all for your participation in today's conference. This concludes the presentation. Everyone have a great day.

Aug. 06. 2008 / 9:30AM, G - Q2 2008 GENPACT LIMITED Earnings Conference Call - Reclassification Discussion

DISCLAIMER

Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2008, Thomson Financial. All Rights Reserved.