

**HCL Technologies Limited and  
Subsidiaries**

**Consolidated Financial Statements**

**Years Ended June 30, 2013, 2012 and 2011**

**With Report of Independent Auditors**

# HCL Technologies Limited and Subsidiaries

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Ernst & Young Associates LLP  
Golf View Corporate Tower-B  
Sector-42, Sector Road  
Gurgaon-122 002, Haryana, India

Tel : +91 124 464 4000  
Fax: +91 124 464 4050  
ey.com

## Report of Independent Auditors

The Board of Directors  
HCL Technologies Limited

We have audited the accompanying consolidated financial statements of HCL Technologies Limited and Subsidiaries, which comprise the consolidated balance sheet as of June 30, 2013 and 2012, and the related consolidated statements of income, consolidated statement of comprehensive income, changes in equity and cash flows for each of the three years in the period ended June 30, 2013, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with US generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the Auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of HCL Technologies Limited and Subsidiaries at June 30, 2013 and 2012, and the consolidated results of their operations and their cash flows for the three years in the period ended June 30, 2013, in conformity with US generally accepted accounting principles.

*Ernst & Young Associates LLP*

Gurgaon, India  
July 31, 2013

# HCL Technologies Limited and Subsidiaries

## Consolidated Balance Sheets

Amount in thousands, except share and per share data

	As of June 30,	
	2012	2013
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$119,933	\$123,262
Term deposits with banks	230,330	482,609
Deposit with corporation	8,987	126,116
Accounts receivable, net	689,438	751,637
Unbilled revenue	271,051	288,377
Investment securities, available for sale	98,172	99,270
Investment securities, held to maturity	-	7,467
Inventories	40,643	38,981
Deferred income taxes	54,327	68,849
Other current assets	178,452	213,277
<b>Total current assets</b>	<b>1,691,333</b>	<b>2,199,845</b>
Deferred income taxes	132,836	137,293
Investment securities, held to maturity	17,010	8,419
Term deposits with banks	19,774	-
Deposit with corporation	8,987	-
Investments in affiliates	7,128	1,397
Property and equipment, net	445,301	459,383
Intangible assets, net	50,023	42,153
Goodwill	837,942	792,694
Other assets	191,613	239,689
<b>Total assets (a)</b>	<b>\$3,401,947</b>	<b>\$3,880,873</b>

See accompanying notes.

# HCL Technologies Limited and Subsidiaries

## Consolidated Balance Sheets

*Amount in thousands, except share and per share data*

	As of June 30,	
	2012	2013
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Current portion of capital lease obligations	\$11,742	\$15,177
Accounts payable	106,199	84,676
Short term borrowings	80,711	21,646
Current portion of long term debt	105,652	4,889
Accrued employee costs	198,485	223,038
Deferred revenue	120,679	103,190
Deferred income taxes	4,454	10,102
Income taxes payable	130,530	124,208
Other current liabilities	315,688	541,189
<b>Total current liabilities</b>	<b>1,074,140</b>	<b>1,128,115</b>
Long term debt	159,121	90,654
Capital lease obligations, net of current portion	34,482	43,501
Deferred income taxes	14,411	13,218
Accrued employee costs	71,376	75,656
Deferred revenue	63,861	77,989
Other liabilities	55,750	44,755
<b>Total liabilities (a)</b>	<b>\$1,473,141</b>	<b>\$1,473,888</b>
<b>Commitments and contingencies (Note 25)</b>		
<b>HCL Technologies Limited Shareholders' Equity</b>		
Equity shares, ₹ 2 par value, authorized 750,000,000 shares		
Issued and outstanding 693,283,476 and 696,869,857 shares as of June 30, 2012 and 2013, respectively	34,329	34,460
Additional paid-in capital	679,865	702,498
Shares application money pending allotment	689	1,068
Retained earnings	1,546,062	2,131,410
Accumulated other comprehensive loss	(332,184)	(462,474)
<b>HCL Technologies Limited Shareholders' Equity</b>	<b>1,928,761</b>	<b>2,406,962</b>
Noncontrolling interest	45	23
<b>Total equity</b>	<b>1,928,806</b>	<b>2,406,985</b>
<b>Total liabilities and equity</b>	<b>\$3,401,947</b>	<b>\$3,880,873</b>

(a) Consolidated assets at June 30, 2012 and 2013 include assets totaling \$7,447 and \$10,564, respectively, of certain variable interest entities (VIE's) that can only be used to settle the liabilities of those VIEs. Consolidated liabilities at June 30, 2012 and 2013, include liabilities of certain VIEs for which the VIEs creditors do not have recourse to HCL Technologies Limited and Subsidiaries (See Note 10).

See accompanying notes.



**HCL Technologies Limited and Subsidiaries**  
**Consolidated Statements of Income**  
*Amount in thousands, except share and per share data*

	Year ended June 30,		
	2011	2012	2013
<b>Revenues</b>	<b>\$3,545,300</b>	<b>\$4,151,531</b>	<b>\$4,686,452</b>
Cost of revenues (exclusive of depreciation and amortization)	2,415,841	2,778,606	3,002,394
<b>Gross profit</b>	<b>1,129,459</b>	<b>1,372,925</b>	<b>1,684,058</b>
Selling, general and administrative expenses	542,998	599,519	636,629
Depreciation and amortization	109,982	111,558	122,556
Impairment of intangibles	26,692	-	-
Other (income) expenses, net	(50,129)	(4,899)	(47,741)
Finance cost	35,544	27,120	19,251
<b>Income before income taxes</b>	<b>464,372</b>	<b>639,627</b>	<b>953,363</b>
Provision for income taxes	105,827	158,228	220,926
<b>Net income</b>	<b>358,545</b>	<b>481,399</b>	<b>732,437</b>
Net income (loss) attributable to noncontrolling interest	29	13	(22)
<b>Net income attributable to HCL Technologies Limited shareholders</b>	<b>\$358,516</b>	<b>\$481,386</b>	<b>\$732,459</b>
<b>Earnings per equity share</b>			
Basic	\$0.52	\$0.70	\$1.05
Diluted	\$0.51	\$0.69	\$1.04
<b>Weighted average number of equity shares used in computing earnings per equity share</b>			
Basic	683,508,571	691,023,929	694,783,323
Diluted	696,437,890	700,658,066	704,840,341

See accompanying notes.

**HCL Technologies Limited and Subsidiaries**  
**Consolidated Statements of Comprehensive Income**  
*Amount in thousands*

	Year ended June 30,		
	2011	2012	2013
<b>Net income</b>	<b>\$358,516</b>	<b>\$481,386</b>	<b>\$732,459</b>
<b>Other comprehensive income (loss) net of taxes:</b>			
Change in unrealized gain (loss) on cash flow hedges, net of taxes (\$2,574), \$17,840 and \$7,152 for the years ended June 30, 2011, 2012 and 2013, respectively.	24,213	(73,633)	(12,929)
Change in unrealized gain (loss) on securities available for sale, net of taxes \$59, nil and (\$377) for the years ended June 30, 2011, 2012 and 2013, respectively.	(513)	-	756
Change in unrealized gain (loss) on defined benefit plan, net of taxes (\$283), \$466 and \$241 for the years ended June 30, 2011, 2012 and 2013, respectively.	1,586	(2,720)	(602)
Change in cumulative translation adjustment	59,343	(231,697)	(117,515)
<b>Other comprehensive income (loss)</b>	<b>84,629</b>	<b>(308,050)</b>	<b>(130,290)</b>
<b>Total Comprehensive income</b>	<b>\$443,145</b>	<b>\$173,336</b>	<b>\$602,169</b>

See accompanying notes.

# HCL Technologies Limited and Subsidiaries

## Consolidated Statements of Equity

Amount in thousands, except share data

	Equity shares		Additional paid-in capital	Ordinary shares subscribed	Retained earnings	Accumulated other comprehensive loss	HCL Technologies Limited Shareholder' Equity	Non Controlling Interest	Total Equity
	Shares	Par Value							
<b>Balances as at June 30, 2010</b>	<b>678,783,812</b>	<b>\$33,705</b>	<b>\$611,320</b>	<b>\$324</b>	<b>\$978,366</b>	<b>(\$108,763)</b>	<b>\$1,514,952</b>	<b>\$296</b>	<b>\$1,515,248</b>
Shares issued for exercised options	9,904,712	441	19,607	(324)	-	-	19,724	-	19,724
Stock options exercised pending allotment of shares	-	-	-	189	-	-	189	-	189
Stock based compensation	-	-	21,596	-	-	-	21,596	-	21,596
Excess tax benefit from stock options	-	-	1,730	-	-	-	1,730	-	1,730
Cash dividend	-	-	-	-	(114,703)	-	(114,703)	-	(114,703)
Change in noncontrolling interest	-	-	-	-	-	-	-	163	163
Net income	-	-	-	-	358,516	-	358,516	29	358,545
Other comprehensive income (loss)	-	-	-	-	-	84,629	84,629	-	84,629
<b>Balances as at June 30, 2011</b>	<b>688,688,524</b>	<b>\$34,146</b>	<b>\$654,253</b>	<b>\$189</b>	<b>\$1,222,179</b>	<b>(\$24,134)</b>	<b>\$1,886,633</b>	<b>\$488</b>	<b>\$1,887,121</b>

See accompanying notes.



# HCL Technologies Limited and Subsidiaries

## Consolidated Statements of Equity

Amount in thousands, except share data

	Equity shares		Additional paid-in capital	Ordinary shares subscribed	Retained earnings	Accumulated other comprehensive loss	HCL Technologies Limited		Total Equity
	Shares	Par Value					Shareholder' Equity	Non Controlling Interest	
<b>Balances as at June 30, 2011</b>	<b>688,688,524</b>	<b>\$34,146</b>	<b>\$654,253</b>	<b>\$189</b>	<b>\$1,222,179</b>	<b>(\$24,134)</b>	<b>\$1,886,633</b>	<b>\$488</b>	<b>\$1,887,121</b>
Shares issued for exercised options	4,594,952	183	7,168	(189)	-	-	7,162	-	7,162
Stock options exercised pending allotment of shares	-	-	-	689	-	-	689	-	689
Stock based compensation	-	-	16,766	-	-	-	16,766	-	16,766
Excess tax benefit from stock options	-	-	1,678	-	-	-	1,678	-	1,678
Cash dividend	-	-	-	-	(157,503)	-	(157,503)	-	(157,503)
Change in noncontrolling interest	-	-	-	-	-	-	-	(380)	(380)
Net income	-	-	-	-	481,386	-	481,386	13	481,399
Other comprehensive income (loss)	-	-	-	-	-	(308,050)	(308,050)	(76)	(308,126)
<b>Balances as at June 30, 2012</b>	<b>693,283,476</b>	<b>\$34,329</b>	<b>\$679,865</b>	<b>\$689</b>	<b>\$1,546,062</b>	<b>(\$332,184)</b>	<b>\$1,928,761</b>	<b>\$45</b>	<b>\$1,928,806</b>

See accompanying notes.

# HCL Technologies Limited and Subsidiaries

## Consolidated Statements of Equity

Amount in thousands, except share data

	Equity shares		Additional paid-in capital	Ordinary shares subscribed	Retained earnings	Accumulated other comprehensive loss	HCL Technologies Limited Shareholder' Equity	Non Controlling Interest	Total Equity
	Shares	Par Value							
<b>Balances as at June 30, 2012</b>	<b>693,283,476</b>	<b>\$34,329</b>	<b>\$679,865</b>	<b>\$689</b>	<b>\$1,546,062</b>	<b>(\$332,184)</b>	<b>\$1,928,761</b>	<b>\$45</b>	<b>\$1,928,806</b>
Shares issued for exercised options	3,576,256	130	5,543	(689)	-	-	4,984	-	4,984
Shares issued other than cash	10,125	1	81	-	-	-	82	-	82
Stock options exercised pending allotment of shares	-	-	-	1,068	-	-	1,068	-	1,068
Stock based compensation	-	-	15,070	-	-	-	15,070	-	15,070
Excess tax benefit from stock options	-	-	1,939	-	-	-	1,939	-	1,939
Cash dividend	-	-	-	-	(147,111)	-	(147,111)	-	(147,111)
Net income	-	-	-	-	732,459	-	732,459	(22)	732,437
Other comprehensive income (loss)	-	-	-	-	-	(130,290)	(130,290)	-	(130,290)
<b>Balances as at June 30, 2013</b>	<b>696,869,857</b>	<b>\$34,460</b>	<b>\$702,498</b>	<b>\$1,068</b>	<b>\$2,131,410</b>	<b>(\$462,474)</b>	<b>\$2,406,962</b>	<b>\$23</b>	<b>\$2,406,985</b>

See accompanying notes.

# HCL Technologies Limited and Subsidiaries

## Consolidated Statements of Cash Flows

Amount in thousands

	Year ended June 30,		
	2011	2012	2013
<b>Cash flows from operating activities</b>			
<b>Net income</b>	<b>\$358,545</b>	<b>\$481,399</b>	<b>\$732,437</b>
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>			
Depreciation and amortization	109,982	111,558	122,556
Deferred income taxes	(22,191)	(44,397)	(15,920)
Gain (loss) on sale of property and equipment	(607)	(337)	28
Stock based compensation expense	21,577	16,843	14,958
Gain on sale of business	-	-	(778)
Gain on divestment of stake in affiliate	-	-	(4,485)
Excess tax benefit related to stock options exercise	(1,740)	(1,669)	(1,935)
Impairment of Intangibles	26,692	-	-
Gain on sale of investment securities	(1,184)	-	(3,013)
Equity in earnings of affiliates	(727)	(1,923)	(2,259)
Others, net	(9,224)	62,123	27,653
<b>Changes in assets and liabilities, net of effects of acquisitions</b>			
Accounts receivable and unbilled revenue	(81,144)	(284,838)	(142,548)
Other assets	(86,433)	(71,115)	(98,244)
Accounts payable	12,735	53,842	(376)
Accrued employee costs	70,288	74,759	40,175
Other liabilities	(16,589)	112,842	165,793
<b>Net cash provided by operating activities</b>	<b>379,980</b>	<b>509,087</b>	<b>834,042</b>
<b>Cash flows from investing activities</b>			
Investment in term deposit with banks	(259,365)	(262,255)	(702,247)
Proceeds from term deposit with banks on maturity	237,806	222,355	433,766
Investment in term deposits with corporation	(11,073)	(9,806)	(127,147)
Proceeds from term deposits with corporation on maturity	22,146	-	9,100
Purchase of property and equipment	(173,415)	(179,440)	(107,824)
Proceeds from sale of property and equipment	1,271	643	1,764
Purchase of investment securities	(1,332,011)	(958,041)	(867,780)
Proceeds from sale of investment securities	1,353,583	976,761	864,243
Payment for deferred consideration on business acquisition	(2,222)	(19,803)	-
Proceeds from business divestiture	3,237	-	35,922
Acquisition of business, net of cash acquired	(13,367)	-	(1,912)
Proceeds from sale of stake in affiliate (net of expenses)	-	-	12,069
<b>Net cash used in investing activities</b>	<b>(173,410)</b>	<b>(229,586)</b>	<b>(450,046)</b>
<b>Cash flows from financing activities</b>			
Payment of principal under capital lease obligations	(3,007)	(1,524)	(1,606)
Proceeds from short term borrowings	170,030	153,771	15,767
Repayment of short term borrowings	(249,967)	(58,104)	(75,000)
Proceeds from issuance of long term debt	7,669	5,614	4,265
Repayment of long term debt	(35,327)	(138,716)	(108,862)
Repayment of redeemable secured non – convertible debentures	-	(33,340)	(60,060)
Proceeds from issuance of equity shares	19,735	7,120	5,049
Proceeds from subscription of shares pending allotment	191	554	1,067
Dividend paid	(114,700)	(157,506)	(147,112)
Excess tax benefit related to stock options exercise	1,740	1,669	1,935
<b>Net cash used in financing activities</b>	<b>(203,636)</b>	<b>(220,462)</b>	<b>(364,557)</b>
Effect of exchange rate changes on cash and cash equivalents	12,463	(55,404)	(16,110)
Net increase in cash and cash equivalents	15,397	3,635	3,329
Cash and cash equivalents at the beginning of the year	100,901	116,298	119,933
<b>Cash and cash equivalents at the end of the year</b>	<b>\$116,298</b>	<b>\$119,933</b>	<b>\$123,262</b>
<b>Supplemental disclosures of cash flow</b>			
Property and equipment acquired under capital lease obligation	\$5,725	\$3,112	\$-
Cash payments for interest expenses	\$31,510	\$20,065	\$13,153
Cash payments for income taxes	\$82,159	\$143,086	\$236,136

See accompanying notes.



# HCL Technologies Limited and Subsidiaries

## Notes to Consolidated Financial Statements

June 30, 2013

(Amount in thousands, except per share data and as stated otherwise)

### 1. ORGANIZATION AND NATURE OF OPERATIONS

HCL Technologies Limited (the "Company" or the "Parent Company") along with its subsidiaries (hereinafter collectively referred to as the "Group") is primarily engaged in providing a range of information technology (IT), business process outsourcing and IT infrastructure services. The Company was incorporated in India in November 1991. The Group leverages its offshore infrastructure and professionals to deliver solutions across select verticals including Financial Services, Manufacturing (Automotive, Aerospace, Hi-tech, Semi Conductor), Telecom, Retail and Consumer Product, Media Publishing and Entertainment, Public Services, Energy and Utility, Healthcare, and Travel, Transport and Logistics.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of preparation and principles of consolidation

The accompanying consolidated financial statements include the accounts of HCL Technologies Limited and its subsidiaries and are prepared on the basis of with U. S. generally accepted accounting principles ("U.S. GAAP").

The Group uses the United States Dollar ('\$' or 'USD') as its reporting currency.

These consolidated financial statements include the accounts of all subsidiaries which are more than 50% owned and controlled by the Company. In addition, relationships with other entities are reviewed to assess if the Company is the primary beneficiary in any variable interest entity. If the determination is made that the Company is the primary beneficiary, then that entity is consolidated. All inter-company accounts and transactions are eliminated on consolidation. Non controlling interest represents the minority shareholders' proportionate share of the net assets and the results of operations of the Company's majority owned subsidiaries.

An issuance of shares by a subsidiary to third parties reduces the proportionate ownership interest of the Company in the subsidiary. A change in the carrying value of the investment in such subsidiary due to a direct sale of un-issued equity shares is accounted for as a capital transaction and is recognized in the equity when the transaction occurs.

The Group accounts for investments by the equity method where its investment in the voting stock gives it the ability to exercise significant influence over the affiliate.

The Group's equity in the profits (losses) of affiliates is included in the consolidated statements of income unless the carrying amount of an investment is reduced to zero and the Group is under no guaranteed obligation or otherwise committed to provide further financial support. The Group's share of net assets of affiliates is included in the carrying amount of the investment in the consolidated balance sheet. A transaction of an affiliate of capital nature, which affects the investor's share of stockholders' equity of the affiliate, is accounted for as if the affiliate was a consolidated subsidiary.

#### (b) Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs, expenses and other comprehensive income that are reported and disclosed in the consolidated financial statements and accompanying notes. These estimates are based on management's best knowledge of current events, historical experience, actions that the Group may undertake in the future and on various other assumptions that are believed to be reasonable under the circumstances. Significant estimates and assumptions are used for, but not limited to accounting for costs expected to be incurred to complete performance under IT service arrangements, allowance for uncollectible accounts receivable and unbilled revenue, accrual of warranty costs, income taxes, valuation of share-based compensation, future obligations under employee benefit plans, the useful lives of property, equipment and intangible assets, impairment of property, equipment, intangibles and goodwill, valuation allowances for deferred tax assets, and other contingencies and commitments. Changes in estimates are reflected in the financial statements in the period in which the changes are made. Actual results could differ from those estimates.

# HCL Technologies Limited and Subsidiaries

## Notes to Consolidated Financial Statements

June 30, 2013

(Amount in thousands, except per share data and as stated otherwise)

### (c) Functional currency and translation

The functional currency of each entity in the Group is its respective local currency except for four subsidiaries outside India which use the Indian Rupee ('INR') as their functional currency. The functional currency of the Parent Company is INR. The translation from functional currency into USD (the reporting currency) for assets and liabilities is performed using the exchange rates in effect at the balance sheet date, and for revenue, expenses and cash flows it is performed using an appropriate monthly weighted average exchange rate for the respective periods. The gains (losses) resulting from such translation are reported as a component of other comprehensive income (loss).

Foreign currency denominated assets and liabilities are re-measured into the functional currency at exchange rates in effect at the balance sheet date. Foreign currency transaction gains and losses are recorded in the consolidated statement of income within other income. Any difference in intercompany balance arises because of elimination of intercompany transaction are recorded in other comprehensive income (loss).

### (d) Revenue recognition

The Group derives revenues primarily from

- Software development services;
- Business process outsourcing services; and
- IT Infrastructure services

Revenue is only recognized when persuasive evidence of an arrangement exists, services have been rendered, the fee is determinable and collectability is reasonably assured.

#### **Software Development Services:**

Revenues from software development services comprise income from time-and-material, fixed price and recurring fixed billing. Revenue with respect to time-and-material contracts typically bill at an agreed upon hourly or daily rate and is recognized as the related services are performed. Revenue related to fixed price and fixed time frame contracts include application maintenance and support services, on which revenue is recognized ratably over the term of maintenance. Revenue related to fixed price contracts that provide non-complex IT development services is recognized in accordance with the proportionate performance method. The input (efforts expended) method has been used to measure progress towards completion, as there is a direct relationship between input and productivity. Costs are recorded as incurred over the contract period. Provisions for estimated losses, if any, on contracts-in-progress are recorded in the period in which such losses become probable based on the current contract estimates. In arrangements involving sharing of customer revenues, revenue is recognized when the amounts are known and the right to receive is established. Incremental revenue from existing contracts arising on future sales to the customers is recognized when it is earned.

#### **Business Process Outsourcing Services:**

Revenues from business process outsourcing services are derived from both time-based and unit-priced contracts. Revenue is recognized as the related services are performed in accordance with the specific terms of the contracts with the customer.

#### **IT Infrastructure Services:**

The Group provides infrastructure services ranging from simple contracts involving sale of equipment and installation with subsequent maintenance to complex network building and outsourcing arrangements.

Revenue from infrastructure management services comprise of income from time-and-material and fixed price contracts. Revenue with respect to time-and-material contracts is recognized as the related services are performed.

Revenue from product sales are shown net of sales tax and applicable discounts and allowances. Revenue from bandwidth and other services is recognized upon actual usage of such services by customers based on either the time for which these services are provided or volume of data transferred or both and excludes service tax. Revenue related to product with installation services that are critical to



# HCL Technologies Limited and Subsidiaries

## Notes to Consolidated Financial Statements

June 30, 2013

(Amount in thousands, except per share data and as stated otherwise)

product is recognized when installation of networking equipment at customer site is completed and accepted by the customer. If the revenue for a delivered item is not recognized until accepted by the customer then the cost of the delivered item is also deferred, Revenue from maintenance services is recognized ratably over the period of the contract.

Revenue from fixed-price complex network building contracts is recognized in accordance with the percentage-of-completion (POC) method. Under the POC method, revenue is recognized based on costs incurred to date as a percentage of the total costs to fulfill the contract. If circumstances arise that change the original estimates of revenues, costs, or extent of progress toward completion, revisions to the estimates are made. These revisions may result in increases or decreases in estimated revenues or costs, and such revisions are reflected in income in the period in which the circumstances that gave rise to the revision become known to management. If at any time these estimates indicate that the contract will be unprofitable, the entire estimated loss for the remainder of the contract is recorded immediately. The output measure based on milestone achieved is used for revenue recognition when reasonable and reliable cost estimate for a project cannot be made.

### Multiple-element arrangements

When a sales arrangement contains multiple elements, such as hardware and software products, licenses and/or services, revenue to each element is based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence ('VSOE') if available, third party evidence ('TPE') if VSOE is not available, or estimated selling price ('ESP') if neither VSOE nor TPE is available. The best estimate of selling price is established consisting internal factors such as margin objectives, pricing practices and customer segment pricing strategies. Consideration is also given to market conditions such as competitor pricing strategies. In multiple element arrangements, revenue is allocated to each separate unit of accounting using the relative selling price of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy. If the arrangement contains more than one software deliverable, the arrangement consideration allocated to the software deliverables as a Group is then allocated to each software deliverable using the guidance for recognizing software revenue, as amended.

Revenue recognition for delivered elements is limited to the amount that is not contingent on the future delivery of products or services, future performance obligations or subject to customer-specified return or refund privileges.

Each deliverable in an arrangement is evaluated to determine whether they represent separate units of accounting. A deliverable constitutes a separate unit of accounting when it has standalone value and there is no customer-negotiated refund or return rights for the delivered elements. If the arrangement includes a customer-negotiated refund or return right relative to the delivered item and the delivery and performance of the undelivered item is considered probable and substantially in the Company's control, the delivered element constitutes a separate unit of accounting. In instances when the aforementioned criteria are not met, the deliverable is combined with the undelivered elements and the allocation of the arrangement consideration and revenue recognition is determined for the combined unit as a single unit. Allocation of the consideration is determined at arrangement inception on the basis of each unit's relative selling price.

### General

Revenue from transition services in outsourcing arrangements is deferred and recognized over the period of the arrangement upon completion of the transition; direct and incremental costs in relation to such an arrangement are also deferred to the extent of revenue. Certain upfront non-recurring contract acquisition costs incurred in the initial phases of outsourcing contracts are deferred and amortized usually on a straight line basis over the term of the contract. The undiscounted cash flows from the arrangement are periodically estimated and compared with the unamortized costs. If the unamortized costs exceed the undiscounted cash flow, a loss is recognized.

In instances when revenue is derived from sales of third-party vendor services, material, licenses, revenue is recorded on a gross basis when the Group is a principal to the transaction and net of costs when the Group is acting as an agent between the customer and the vendor. Several factors are considered to determine whether the Group is a principal or an agent, most notably whether the Group is the primary obligor to the customer, has established its own pricing, and has inventory and credit risks.

# HCL Technologies Limited and Subsidiaries

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Revenue is recognized net of discounts and allowances, value-added and service taxes, and includes reimbursement of out-of-pocket expenses, with the corresponding out-of-pocket expenses included in cost of revenues.

Volume discounts and pricing incentives to customers are accounted for as a reduction of revenue using the guidance in ASC - 605-50, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products). Volume discount earned and due are reclassified to reduce the respective customers receivable balance.

For services accounted for under the percentage of completion method, cost and earnings in excess of billings are classified as unbilled revenue, while billing in excess of cost and earnings are classified as deferred revenue.

Revenue from sales-type leases is recognized when risk of loss has transferred to the client and there are no unfulfilled obligations that affect the client's final acceptance of the arrangement. Interest attributable to sales-type leases and direct financing leases included therein is recognized on the accrual basis using the effective interest method

### *(e) Inventories*

Inventories represent items of finished goods that are specific to execute composite contracts of software services and IT infrastructure management services and also finished goods which are interchangeable and not specific to any project. Inventory is carried at the lower of cost or net realizable value. The net realizable value is determined with reference to selling price of goods less the estimated cost necessary to make the sale. Cost of goods that are procured for specific projects is assigned by specific identification of their individual costs. Cost of goods which are interchangeable and not specific to any project is determined using weighted average cost formula. Inventories also include goods held by customer care organization at customer's site for which risk and rewards have not been transferred.

### *(f) Property and equipment*

Property and equipment are stated at historical cost less accumulated depreciation which is computed using the straight-line method over the estimated useful lives of the assets, which are as follows:

<u>Asset description</u>	<u>Asset life (in years)</u>
Buildings	20
Computer and Networking Equipment	2 to 4
Software	3
Furniture ,fixtures and office equipment	4
Plant and Equipment (including Aircraft)	4 to 17
Vehicles	5

Assets acquired under capital leases are capitalized as assets by the Group at lower of the fair value of the leased property or the present value of the related lease payments. Assets under capital leases are depreciated over the shorter of the lease term or the estimated useful life of the assets. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease period or the estimated useful life of the asset. The cost of software obtained for internal use is capitalized and amortized over the estimated useful life of the software.

Advances paid towards the acquisition of property and equipment and cost of property and equipment not put to use before balance sheet date are classified as capital work-in-progress (See Note 7).

### *(g) Leases*

Property and equipment taken on lease are evaluated to determine whether they are capital or operating leases in accordance with Financial Accounting Standard Board's (FASB) guidance on ASC 840, 'Accounting For Leases'.

When substantially all of the risks and benefits of property ownership have been transferred to the Company, as determined by the test criteria in FASB's guidance on ASC 840, the lease then qualifies as a capital lease. Capital leases are capitalized at the lower of the net present value of the total amount of



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rent payable under the leasing agreement (excluding finance charges) or the fair market value of the leased asset. Capital lease assets are depreciated on a straight-line basis, over a period consistent with the Group's normal depreciation policy for tangible fixed assets, but not exceeding the lease term. Interest charges are expensed over the period of the lease in relation to the carrying value of the capital lease obligation.

Operating lease income and expense is recognized on a straight-line basis over the term of the lease.

The Group also provides networking equipment to its customers in certain infrastructure arrangements. Such arrangements are evaluated under ASC 840-10-15, "Determine Whether an Arrangement Contains a Lease", to determine whether they contain embedded leases and upon the satisfaction of the test, FASB guidance given in ASC 840-10 on Leases is applied for determining the classification of the lease.

*(h) Impairment of long-lived assets and long-lived assets to be disposed off*

In accordance with the provisions of Accounting Standards Codification Topic 360, "Accounting for Impairment or Disposal of Long Lived Assets", long-lived assets, other than goodwill, are tested for impairment based on undiscounted cash flows and, if impaired, written down to fair value based on either discounted cash flows or appraised values.

*(i) Investment securities*

Investment securities consist of available-for-sale debt and equity securities and held-to-maturity debt securities.

Available-for-sale securities having a readily determinable fair value are carried at fair value based on quoted market prices. Temporary unrealized gains and losses, net of the related tax effect are excluded from income and are reported as a separate component of other comprehensive income (loss), until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a first-in-first-out method and are included in earnings.

Held-to-maturity securities are carried at amortized cost adjusted for the amortization or accretion of premiums or discounts. Dividend and interest income are recognized when earned.

For individual securities classified as either available-for-sale or held-to-maturity, the Group determines whether a decline in fair value below the carrying value basis is other than temporary. If it is probable that the Group will be unable to collect all amounts due according to the contractual terms of a debt security, an other-than-temporary impairment is considered to have occurred. If the decline in fair value is judged to be other than temporary, the cost basis of the individual security is written down to its fair value representing the new cost basis and the amount of the write-down is included in earnings (that is, accounted for as a realized loss).

*(j) Research and development*

Expenditure incurred on equipment and facilities acquired or constructed for research and development activities and having alternative future uses is capitalized as property and equipment. All other expenses incurred on research and development is expensed as incurred.

Research and development expenses for the years ended June 30, 2011, June 30, 2012 and June 30, 2013 were \$ 24,490, \$ 32,911 and \$28,743, respectively.

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*(k) Software product development*

The Group expense software development costs, including costs to develop software products or the software component of products to be marketed to external users, before technological feasibility of such products is reached. The Group determines that technological feasibility was reached shortly before the release of those products and as a result, the development costs incurred after the establishment of technological feasibility and before the release of those products were not material, and accordingly, were expensed as incurred. Software development costs also include costs to develop software programs to be used solely to meet internal needs. The costs incurred during the application development stage for these software programs were not material in the years presented.

*(l) Cash equivalents, deposits with banks and restricted cash*

The Group considers all highly liquid investments with an original maturity, at the date of purchase/investment, of three months or less to be cash equivalents. Restricted cash represents margin money deposits against guarantees, letters of credit and bank balance earmarked towards unclaimed dividend. Restrictions on margin money deposits are released on the expiry of the terms of guarantees and letters of credit.

Term deposits with banks and corporation represent term deposits earning fixed rate of interest with maturities ranging from more than three months to thirty six months at the date of purchases/investment. Interest on investments in bank deposits is recognized on an accrual basis.

*(m) Income taxes*

Income taxes are accounted for using the asset and liability method. Under this method, deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each balance sheet date, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. If it is determined that it is more likely than not that future tax benefits associated with a deferred income tax asset will not be realized, a valuation allowance is provided. The effect on deferred income tax assets and liabilities of a change in the tax rates is recognized in income in the period that includes the enactment date. Tax benefits earned on exercise of employee stock options in excess of compensation charged to income are credited to additional paid-in capital. Provision for income taxes also includes the impact of provisions established for uncertain income tax positions, as well as the related interest.

*(n) Earnings per share*

Basic earnings per share are computed using the weighted average number of equity shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of equity and dilutive equity equivalent shares outstanding during the period, using the treasury stock method for options and warrants except where results would be anti-dilutive.

*(o) Stock based compensation*

Stock-based compensation represents the cost related to stock-based awards granted to employees. The Company measures stock-based compensation cost at grant date, based on the estimated fair value of the award and recognizes the cost on a straight-line basis (net of estimated forfeitures) over the employee requisite service period for an award with only service condition and for an award in both service and performance condition on a straightline basis over the requisite service period for each separately vesting portion of the award as if award was in substance, multiple awards. The Company estimates the fair value of stock options using the Black-Scholes valuation model. The cost is recorded in cost of revenue and selling, general and administrative expenses in the consolidated statement of income based on the employees' respective function.

The Company has elected to use the "with and without" method in determining the order in which tax attributes are utilized. As a result, the Company only recognizes tax benefit from share-based awards in additional paid-in capital if an incremental tax benefit is realized after all other tax attributes currently available to the Company have been utilized.



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*(p) Employee benefits*

**Defined contribution plan**

Eligible employees of the Group in the United States participate in a savings plan (the "Plan") under Section 401(k) of the United States Internal Revenue Code (the "Code"). The Plan allows for employees to defer a portion of their annual earnings on a pre-tax basis through voluntary contributions to the Plan. The Plan provides that the Group can make optional contributions up to the maximum allowable limit under the Code.

**Defined benefit plan**

**Provided fund:**

Employees receive benefits from a provident fund. The employee and employer each make monthly contributions to the plan. A portion of the contribution is made to the provident fund trust managed by the Company, while the remainder of the contribution is made to the Government's provident fund. The Group has an obligation to fund any shortfall on the yield of the Trust's investments over the administered interest rates.

**Gratuity:**

Employees in India are entitled to benefits under the Gratuity Act, a defined benefit retirement plan covering eligible employees of the Group. This plan provides for a lump-sum payment to eligible employees at retirement, death, incapacitation or on termination of employment, of an amount based on the respective employee's salary and tenure of employment (subject to a maximum of approximately \$17 per employee in India). The Group have unfunded gratuity obligations.

**Compensated absences:**

The employees of the Group are entitled to compensated absences. The employees can carry forward up to the specified portion of the unutilized accumulating compensated absences and utilize it in future periods or receive cash at retirement or termination of employment. The Company records an obligation for compensated absences in the period in which the employee renders the services that increases this entitlement. The Company measures the expected cost of compensated absences as the additional amount that the Company expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period. The Company recognizes accumulated compensated absences based on actuarial valuation. Non-accumulating compensated absences are recognized in the period in which the absences occur. The Company recognizes actuarial gains and losses immediately in the statement of income.

*(q) Dividend*

Dividends proposed by the Board of Directors are recognized upon approval by the shareholders who have the right to decrease but not increase the amount of dividend recommended by the Board of Directors. Interim dividends are recognized on declaration by the Board of Directors.

*(r) Derivative and hedge accounting*

Foreign exchange forward contracts and options are purchased to mitigate the risk of changes in foreign exchange rates associated with forecasted transactions denominated in certain foreign currencies. In accordance with FASB guidance ASC 815, "Accounting for Derivative Instruments and Hedging Activities", the Group recognizes all derivatives as assets or liabilities measured at their fair value, regardless of the purpose or intent of holding them. Changes in fair value for derivatives not designated in a hedge accounting relationship are marked to market at each reporting date and the related gains (losses) are recognized in the consolidated statement of income as foreign exchange gains (losses).

The foreign exchange forward contracts and options in respect of forecasted transactions which meet the hedging criteria are designated as cash flow hedges. Changes in the derivative fair values that are designated as effective cash flow hedges are deferred and recorded as component of accumulated other comprehensive income (loss) until the hedged transaction occurs and are then recognized as other



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income in the consolidated statement of income. The ineffective portion of hedging derivatives is immediately recognized in the consolidated statement of income as part of other income.

In respect of derivatives designated as hedges, the Group formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also formally assesses both at the inception of the hedge and on an ongoing basis, whether each derivative is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Hedge accounting is discontinued prospectively from the last testing date when (1) it is determined that the derivative financial instrument is no longer effective in offsetting changes in the fair value or cash flows of the underlying exposure being hedged; (2) the derivative financial instrument matures or is sold, terminated or exercised; or (3) it is determined that designating the derivative financial instrument as a hedge is no longer appropriate. When hedge accounting is discontinued, and the derivative financial instrument remains outstanding, the deferred gains or losses on the cash flow hedge remain in other comprehensive income (loss) until the forecasted transaction occurs. Any further change in the fair value of the derivative financial instrument is recognized in current period earnings.

See Note 12 for additional information.

*(s) Goodwill and intangibles*

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Goodwill is not amortized but is reviewed for impairment annually or more frequently if indicators arise. Goodwill is tested annually, in the fourth quarter, for impairment, or sooner when circumstances indicate impairment may exist, using a fair-value approach at the reporting unit level. A reporting unit is the operating segment, or a business, which is one level below that operating segment (the "component" level) if discrete financial information is prepared and regularly reviewed by management at that level. Components are aggregated as a single reporting unit if they have similar economic characteristics. In accordance with ASC topic 350, "Intangibles - Goodwill and Other" (ASC No. 350), all assets and liabilities of the acquired businesses including goodwill are assigned to reporting units. The evaluation is based upon a comparison of the estimated fair value of the reporting unit to which the goodwill has been assigned to the sum of the carrying value of the assets and liabilities for that reporting unit. The fair value used in this evaluation is estimated based upon discounted future cash flow projections for the reporting unit. These cash flow projections are based upon a number of estimates and assumptions.

Intangible assets are initially valued at fair market value using generally accepted valuation methods appropriate for the type of intangible asset. Intangible assets with definite lives are amortized over the estimated useful lives and are reviewed for impairment, if indicators of impairment arise. The evaluation of impairment is based upon a comparison of the carrying amount of the intangible asset to the estimated future undiscounted net cash flows expected to be generated by the asset. If estimated future undiscounted cash flows are less than the carrying amount of the asset, the asset is considered impaired. The impairment expense is determined by comparing the estimated fair value of the intangible asset to its carrying value, with any shortfall from fair value recognized as an expense in the current period. The definite lived intangible assets are amortized over the estimated useful life of the assets:

<u>Asset description</u>	<u>Asset life (in years)</u>
Customer relationships	1 to 10
Customer contracts	0.5 to 10
Technology	2.5 to 10
Non-compete agreements	3 to 5
Intellectual property rights	4
Brand and contractors database and others	2 to 5

*(t) Recently issued accounting pronouncements*

In June 2011, the Financial Accounting Standards Board, or FASB, issued new guidance, which requires that comprehensive income be presented either in a single continuous statement of comprehensive income or in two separate consecutive statements, thus eliminating the option of presenting the

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components of other comprehensive income as part of the statement of changes in stockholders' equity. The Group adopted ASU No. 2011-05-Comprehensive income in the first quarter of 2013 and elected to present comprehensive income in two consecutive statements. The adoption of this standard affects financial statement presentation only and had no effect on our financial condition or consolidated results of operations.

In February 2013, the FASB issued additional guidance related to accumulated other comprehensive income, requiring the presentation of significant amounts reclassified out of accumulated other comprehensive income to the respective line items in the statement of operations. For those amounts required by U.S. GAAP to be reclassified to earnings in their entirety in the same reporting period, this presentation is required either on the statement of operations or in a single footnote. For items that are not required to be reclassified in their entirety to earnings, the presentation requirement can be met by cross-referencing disclosures elsewhere in the footnotes. The pronouncement is effective on a prospective basis effective for interim and annual reporting periods that start after December 15, 2012. The adoption of this standard affects financial statement presentation only and will have no effect on our financial condition or consolidated results of operations.

In December 2011, the FASB issued an ASU No. 2011-11-Disclosure about Offsetting Assets and Liabilities, which requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The scope would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The standard requires disclosure of collateral received and posted in connection with master netting agreements or similar arrangements. The ASU is effective for annual periods beginning on or after January 1, 2013 and interim periods within those annual period.

### **3. FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISK**

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash equivalents, short term deposits with banks and corporation, accounts receivables, unbilled revenue, investment securities, and derivative instruments. The cash resources of the Group are invested with mutual funds, banks, financial institutions and corporations after an evaluation of the credit risk. By their nature, all such financial instruments involve risk including the credit risk of non-performance by counter parties. In management's opinion, as of June 30, 2012 and 2013, there was no significant risk of loss in the event of non-performance of the counter parties to these financial instruments, other than the amounts already provided for in the financial statements.

The customers of the Group are primarily corporations based in the United States and Europe and accordingly, trade receivables are concentrated in the respective countries. To reduce the risk, the Group performs ongoing credit evaluation of customers.



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### 4. Acquisitions /divestitures in current year

#### **AXA Business Service Private Limited**

In July 2012, the Group has acquired AXA Business Service Private Limited for a purchase price consideration of \$1,894.

The purchase consideration has been allocated to intangible assets of \$1,986 and assumed net liabilities of \$92. The resultant Intangibles have been allocated to the BPO segment.

#### **Sale of Business**

In March 2013, the Group completed the sale of a division providing product based complete workflow automation solution that streamlines all aspects of lending and leasing operations. The Group received net proceeds of \$35,922 and recognized a net gain of \$778. The gain was net of the fair value of certain contractual terms, transaction costs and the assets and liabilities sold including historical goodwill of \$29,412. The gain was recorded in other (income) and expense in the consolidated statements of income and the net proceeds were reflected in proceeds from sale of business within cash flow from investing activities in the consolidated statement of cash flows.

### 5. CASH AND CASH EQUIVALENTS

The cash and cash equivalent as of June 30, 2012 and 2013 are as follows:

	<u>June 30, 2012</u>	<u>June 30, 2013</u>
Deposit with bank, having maturities less than three months	\$1,841	\$4,877
Other cash and cash equivalent	118,092	118,385
<b>Total</b>	<u>\$119,933</u>	<u>\$123,262</u>

### 6. SALES OF RECEIVABLE

The Group has revolving accounts receivables based facilities permitting it to sell certain accounts receivables to banks on a non-recourse basis in the normal course of business. The aggregate maximum capacity under these programs was \$100,000 as on June 30, 2013 and the maximum capacity utilized by the Group at any point of time during the year was \$35,000. Gains or losses on sale are recorded at the time of transfer of these accounts receivables and was immaterial. The Group has retained servicing obligations, which are limited to collection activities related to the non-recourse sales of accounts receivables. As of June 30, 2013, the Group had the entire limit of \$100,000 available under these programs and there were no outstanding service obligations.

### 7. PROPERTY AND EQUIPMENT

As of June 30, 2012 and 2013, property and equipment comprises the following:

	<u>June 30, 2012</u>	<u>June 30, 2013</u>
Freehold land	\$15,560	\$14,641
Buildings	170,839	213,546
Computer and networking equipment	267,660	253,129
Software	122,667	113,623
Furniture, fixtures and office equipment	105,816	106,693
Plant and equipment	160,009	177,824
Vehicles	13,569	14,993
Capital work-in-progress	102,284	96,314
	<u>958,404</u>	<u>990,763</u>
Accumulated depreciation and amortization	(513,103)	(531,380)
<b>Property and equipment, net</b>	<u>\$445,301</u>	<u>\$459,383</u>

Depreciation expense was \$94,909, \$102,276 and \$113,955 for the years ended June 30, 2011, 2012 and 2013, respectively.

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**8. GOODWILL AND INTANGIBLES**

The changes in the carrying value of goodwill balances by reportable segment, for the year ended June 30, 2012, are as follows:

	Software Services	Infrastructure services	Business process outsourcing services	Total
Opening balance as at July 1, 2011	\$850,834	\$1,356	\$23,941	\$876,131
Effect of exchange rate changes	(37,706)	(266)	(217)	(38,189)
Closing balance as on June 30, 2012	<u>\$813,128</u>	<u>\$1,090</u>	<u>\$23,724</u>	<u>\$837,942</u>

The changes in the carrying value goodwill balances by reportable segment, for the year ended June 30, 2013, are as follows:

	Software Services	Infrastructure services	Business process outsourcing services	Total
Opening balance as at July 1, 2012	\$813,128	\$1,090	\$23,724	\$837,942
Divestitures	(29,412)	-	-	(29,412)
Effect of exchange rate changes	(15,588)	(69)	(179)	(15,836)
Closing balance as on June 30, 2013	<u>\$768,128</u>	<u>\$1,021</u>	<u>\$23,545</u>	<u>\$792,694</u>

The components of intangibles assets are as follows:

	June 30, 2012			June 30, 2013		
	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Intellectual property rights	\$654	(\$527)	\$127	\$600	(\$546)	\$54
Software	12,935	(9,730)	3,205	8,680	(6,790)	1,890
Customer related intangibles	132,353	(90,616)	41,737	128,027	(93,529)	34,498
Non-compete agreements	7,456	(2,502)	4,954	9,035	(3,324)	5,711
Brand and contractors database and others	3,146	(3,146)	-	3,059	(3,059)	-
	<u>\$156,544</u>	<u>(\$106,521)</u>	<u>\$50,023</u>	<u>\$149,401</u>	<u>(\$107,248)</u>	<u>\$42,153</u>

Amortization expense for the years ended June 30, 2011, 2012 and 2013 is \$15,196, \$9,282 and \$8,601, respectively. Amortization expense is included in depreciation and amortization other than \$123, nil and nil which is reported as a reduction of revenue during the years ended June 30, 2011, 2012 and 2013, respectively, in accordance with the EITF 01-09, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)*.

The estimated annual amortization expense schedule for intangible assets based on current balance is as follows:

Year ending June 30,	
2014	\$7,853
2015	7,541
2016	7,477
2017	7,477
2018	7,153
Thereafter	4,652
	<u>\$42,153</u>

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### 9. INVESTMENTS IN AFFILIATES

#### *Equity Method Investments*

#### **NEC HCL System Technologies Ltd.**

In June, 2005, the Company entered into a Joint Venture Agreement with NEC Coporation, Japan ("NEC") and NEC System Technologies Limited ("NECST"), Japan, a subsidiary of NEC, whereby the Company holds a 49% stake in established joint venture entity, NEC HCL System Technologies Limited ("NECH") and NEC and NECST holds a 51% stake.

In March, 2013 Company entered into an agreement with NEC for the sale of its 49% stake in equity affiliate NECH at gross consideration of \$12,000. The sale was completed during the year on April, 26 2013.

Equity method Investments as of June 30, 2012 and 2013 are as follows:

Name of the Affiliate	June 30, 2012		June 30, 2013	
	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
NEC HCL System Technologies Ltd.	\$5,746	49%	\$-	-
	<u>\$5,746</u>		<u>\$-</u>	

The Company accounts for its interest in affiliates under the equity method and the gain for the years ended June 30, 2011, 2012 and 2013 are shown below:

Name of the Affiliate	Year ended June 30,		
	2011	2012	2013
NEC HCL System Technologies Ltd.	\$739	\$1,497	\$2,245
	<u>\$739</u>	<u>\$1,497</u>	<u>\$2,245</u>

As a result of the sale in its holdings in NECH to NEC, the Group has recorded a gain of \$4,485, net of related expenses in the year ended June 30, 2013.

#### **Axon Puerto Rico Inc**

Equity method Investments as of June 30, 2012 and 2013 are as follows:

Name of the Affiliate	June 30, 2012		June 30, 2013	
	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Axon Puerto Rico Inc	\$1,382	49%	\$1,397	49%
	<u>\$1,382</u>		<u>\$ 1,397</u>	

The Group accounts for its interest in affiliates under the equity method and the gain (loss) for the years ended June 30, 2011, 2012 and 2013 are shown below:

Name of the Affiliate	Year ended June 30,		
	2011	2012	2013
Axon Puerto Rico Inc	\$160	(\$12)	\$14
	<u>\$160</u>	<u>(\$12)</u>	<u>\$14</u>



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### 10. VARIABLE INTEREST ENTITIES

In evaluating whether the Group has the power to direct the activities of a VIE that most significantly impact its economic performance, the Company consider the purpose for which the VIE was created, the importance of each of the activities in which it is engaged and decision-making role, if any, in those activities that significantly determine the entity's economic performance as compared to other economic interest holders. This evaluation requires consideration of all facts and circumstances relevant to decision-making that affects the entity's future performance and the exercise of professional judgment in deciding which decision-making rights are most important.

The Group is the primary beneficiary holding 100% dividend rights in VIEs. The Group consolidates VIEs because it has the authority to manage and control the activities that significantly affect the VIEs economic performance.

The table below summarizes the assets and liabilities of consolidated VIEs described above.

	<u>June 30, 2012</u>	<u>June 30, 2013</u>
<b>Current assets</b>		
Cash and cash equivalents	\$7	\$187
Short term deposits with bank	4,493	1,684
Deposit with corporation	-	1,179
Accounts receivables, net	-	29
Unbilled revenue	-	762
Deferred income taxes	-	8
Other current assets	297	1,314
<b>Total Current Assets</b>	<b>4,797</b>	<b>5,163</b>
Deferred income taxes	-	586
Property and Equipment, net	2,108	2,905
Intangible assets, net	-	1,444
Other assets	542	466
<b>Total Assets</b>	<b>\$7,447</b>	<b>\$10,564</b>
<b>Current liabilities</b>		
Accounts payable	\$31	\$157
Short term borrowings	-	5
Accrued employee costs	17	361
Deferred revenue	-	579
Other current liabilities	246	1,240
<b>Total current liabilities</b>	<b>294</b>	<b>2,342</b>
Deferred income taxes	-	35
Accrued employee costs	3	69
Deferred revenue	-	1,073
<b>Total liabilities</b>	<b>\$297</b>	<b>\$3,519</b>

- a) Assets and liabilities exclude all Intercompany accounts and transactions, which are eliminated in consolidation.
- b) For the year ended June 30, 2012 and 2013, total revenues from VIE's was nil and \$8,490, respectively.

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**11. INVESTMENT SECURITIES**

Available for sale investment securities consist of the following:

As of June 30, 2012:

	<u>Carrying value</u>	<u>Gross unrealized holding gains</u>	<u>Fair value</u>
Mutual fund units	\$98,172	\$-	\$98,172
<b>Total</b>	<b>\$98,172</b>	<b>\$-</b>	<b>\$98,172</b>

As of June 30, 2013:

	<u>Carrying value</u>	<u>Gross unrealized holding gains</u>	<u>Fair value</u>
Mutual fund units	\$98,137	\$1,133	\$99,270
<b>Total</b>	<b>\$98,137</b>	<b>\$1,133</b>	<b>\$99,270</b>

The gross unrealized holding gains have been recorded as part of other comprehensive income (loss).

The maturity profile of the investments classified as available for sale as of June 30, 2013 is set out below:

	<u>Carrying value</u>
Less than one year	\$99,270
One to five years	-
	<u>\$99,270</u>

Proceeds from the sale of available for sale securities during the years ended June 30, 2011, 2012 and 2013 were \$1,353,583, \$976,761 and \$864,243, respectively. Dividend income earned from these investments during the years ended June 30, 2011, 2012 and 2013 was \$5,719, \$6,798 and \$4,353, respectively.

The cost of a security sold or the amount reclassified out of accumulated other comprehensive income (loss) into earnings was determined on basis of FIFO.

The table summarizes the transactions for available for sale securities:

	<u>Year ended June 30,</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
Net realised gain due to change in fair value	\$1,184	\$-	\$3,013
Net unrealized gain included in statements of other comprehensive income.	\$-	\$-	\$1,133
Reclassification in to earnings on maturity out of other comprehensive income	\$470	\$-	\$-

Investments in held-to-maturity consist of the following:

As of June 30, 2012:

	<u>Carrying value</u>	<u>Fair value</u>
Bonds	\$17,010	\$17,010
<b>Total</b>	<b>\$17,010</b>	<b>\$17,010</b>

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As of June 30, 2013:

	<u>Carrying value</u>	<u>Fair value</u>
Bonds	\$15,886	\$15,886
<b>Total</b>	<b>\$15,886</b>	<b>\$15,886</b>

The maturity profile of the investments held-to-maturity as of June 30, 2013 is set out below:

	<u>Carrying value</u>
Less than one year	\$7,467
One to five years	8,419
	<b>\$15,886</b>

Interest income earned from these investments during the years ended June 30, 2011, 2012 and 2013 was \$1,307, \$1,182 and \$1,097, respectively.

## 12. DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Group uses derivative financial instruments to manage foreign currency exchange rate risk. Derivative transactions are governed by a uniform set of policies and procedures covering areas such as authorization, counterparty exposure and hedging practices. The Group does not enter into derivative transactions for trading or speculative purposes.

As a result of the use of derivative instruments, the Group is exposed to the risk that counterparties to derivative contracts will fail to meet their contractual obligations. To mitigate the counterparty credit risk, the Group has a policy of only entering into contracts with carefully selected nationally recognized financial institutions based upon their credit ratings and other factors.

The following table presents the aggregate notional principal amounts of the Group's outstanding derivative forward covers together with the related balance sheet exposure:

	<u>Notional principal amounts</u>		<u>Balance sheet exposure</u>		
	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>Asset (Liability)</u>	<u>June 30, 2012</u>	<u>June 30, 2013</u>
Foreign exchange forward denominated in:					
USD / INR	\$857,800 (Sell)	\$1,400,853 (Sell)	(\$73,087)		(\$107,503)
GBP / INR	£ 7,000 (Sell)	£50,000 (Sell)	(411)		(870)
EUR / USD	€ 7,000 (Sell)	€ 22,500 (Sell)	(51)		127
EUR / INR	€ 8,000 (Sell)	€ 145,500 (Sell)	169		(3,418)
AUD / INR	-	AUD 3,000 (Sell)	-		206
AUD / USD	AUD 22,000 (Sell)	AUD 8,750 (Sell)	(605)		227
ZAR / USD	ZAR 76,860 (Sell)	ZAR 109,000 (Sell)	188		602
JPY / USD	JPY 375,000 (Sell)	-	(15)		-
MYR / USD	MYR 21,000 (Sell)	-	(12)		-
SEK / USD	SEK 25,500 (Sell)	SEK 95,500 (Sell)	51		383
SGD / USD	-	SGD 4,500 (Sell)	-		38
SGD / USD	SGD 4,500 (Buy)	SGD 11,250 (Buy)	(1)		(34)
JPY / USD	-	JPY 700,000 (Buy)	-		36
GBP / USD	-	£23,000 (Buy)	-		(457)
MYR / USD	-	MYR 8,500 (Buy)	-		(45)
CAD / USD	CAD 12,000 (Sell)	CAD 11,000 (Sell)	(82)		210
			<b>(\$73,856)</b>		<b>(\$110,498)</b>



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The following table presents the aggregate notional principal amounts of the Group's outstanding forward options together with the related balance sheet exposure:

	Notional principal amounts		Balance sheet exposure Asset (Liability)	
	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013
<b>Range Forward</b>				
USD/INR	\$ 274,850	\$91,850	(11,724)	(\$2,769)
EUR/INR	€ 6,800	-	51	-
GBP/INR	£11,400	-	( 580)	-
<b>Seagull</b>				
EUR/USD	€ 33,500	-	(288)	-
USD/INR	\$ 71,000	-	466	-
GBP/USD	£ 2,500	-	(19)	-
EUR/INR	€ 16,600	-	145	-
			<u>(\$11,949)</u>	<u>(\$2,769)</u>

The notional amount is a key element of derivative financial instrument agreements. However, notional amounts do not represent the amount exchanged by counter parties and do not measure the Group's exposure to credit risk as these contracts are settled at their fair values at the maturity date.

The balance sheet exposure denotes the fair value of these contracts at the reporting date and is presented in United States Dollars.

Group presents its foreign exchange derivative instruments on a net basis in the consolidated statements of financials due to the right of offset by its individual counterparties under master netting arrangements. The fair value of those derivative instruments presented on a gross basis as of each date indicated below is as follows:

June 30, 2012

	Other Current Assets	Other Non - Current Assets	Other Current Liabilities	Other Non - Current Liabilities	Total Fair Value
<b>Derivatives designated as hedging instruments:</b>					
Foreign exchange contracts in an asset position	\$-	\$-	\$81	\$209	\$290
Foreign exchange contracts in an liability position	-	-	(37,792)	(48,325)	(86,117)
<b>Net asset (liability)</b>	<u>\$-</u>	<u>\$-</u>	<u>(\$37,711)</u>	<u>(\$48,116)</u>	<u>(\$85,827)</u>
<b>Derivatives not designated as hedging instruments:</b>					
Foreign exchange contracts in an asset position	\$1,070	\$-	\$197	\$-	\$1,267
Foreign exchange contracts in an liability position	(1)	-	(1,244)	-	(1,245)
<b>Net asset (liability)</b>	<u>\$1,069</u>	<u>\$-</u>	<u>(\$1,047)</u>	<u>\$-</u>	<u>\$22</u>
<b>Total Derivatives at fair value</b>	<u>\$1,069</u>	<u>\$-</u>	<u>(\$38,758)</u>	<u>(\$48,116)</u>	<u>(\$85,805)</u>

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June 30, 2013

	Other Current Assets	Other Non - Current Assets	Other Current Liabilities	Other Non - Current Liabilities	Total Fair Value
<b>Derivatives designated as hedging instruments:</b>					
Foreign exchange contracts in an asset position	\$-	\$338	\$550	\$1,772	\$2,660
Foreign exchange contracts in an liability position	-	(328)	(65,225)	(42,991)	(108,544)
<b>Net asset (liability)</b>	<b>\$-</b>	<b>\$10</b>	<b>(\$64,675)</b>	<b>(\$41,219)</b>	<b>(\$105,884)</b>
<b>Derivatives not designated as hedging instruments:</b>					
Foreign exchange contracts in an asset position	\$2,411	\$-	\$733	\$-	\$3,144
Foreign exchange contracts in an liability position	(734)	-	(9,793)	-	(10,527)
<b>Net asset (liability)</b>	<b>\$1,677</b>	<b>\$-</b>	<b>(\$9,060)</b>	<b>\$-</b>	<b>(\$7,383)</b>
<b>Total Derivatives at fair value</b>	<b>\$1,677</b>	<b>\$10</b>	<b>(\$73,735)</b>	<b>(\$41,219)</b>	<b>(\$113,267)</b>

The following tables set forth the fair value of derivative instruments included in the consolidated balance sheets as on June 30, 2012 and 2013:

### Derivatives designated as hedging instruments:

	June 30, 2012	June 30, 2013
Unrealized (loss) gain on financial instruments classified under non current assets	\$-	\$10
Unrealized (loss) gain on financial instruments classified under current liabilities	(37,711)	(64,675)
Unrealized (loss) gain on financial instruments classified under non-current liabilities	(48,116)	(41,219)
	<b>(\$85,827)</b>	<b>(\$105,884)</b>

### Derivatives not designated as hedging instruments:

	June 30, 2012	June 30, 2013
Unrealized (loss) gain on financial instruments classified under current liabilities	(\$1,047)	(\$9,060)
Unrealized (loss) gain on financial instruments classified under current assets	1,069	1,677
	<b>\$22</b>	<b>(\$7,383)</b>

The following tables summarizes activities in the consolidated statement of income during the year ended June 30, 2012

Derivatives in Cash flow Hedging Relationships	Amount of Gain or (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion) and Amount Excluded from Effectiveness Testing	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Foreign Exchange Contracts	(\$120,506)	Other Income (Expense),net	(\$27,998)	Other Income (Expense),net	Nil
	<b>(\$120,506)</b>		<b>(\$27,998)</b>		<b>Nil</b>



# HCL Technologies Limited and Subsidiaries

## Notes to Consolidated Financial Statements

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Derivatives not Designated as Hedging	Location of Gain or (Loss) recognized in Income on Derivatives	Amount of Gain or (Loss) recognized in Income on Derivatives
Foreign exchange contracts	Other Income (Expense),net	(\$4,681)

The following tables summarizes activities in the consolidated statement of income during the year ended June 30, 2013

Derivatives in Cash flow Hedging Relationships	Amount of Gain or (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion) and Amount Excluded from Effectiveness Testing	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Foreign Exchange Contracts	(\$37,647)	Other Income (Expense),net	(\$12,119)	Other Income (Expense),net	Nil
	<u>(\$37,647)</u>		<u>(\$12,119)</u>		<u>Nil</u>

Derivatives not Designated as Hedging	Location of Gain or (Loss) recognized in Income on Derivatives	Amount of Gain or (Loss) recognized in Income on Derivatives
Foreign exchange contracts	Other Income (Expense),net	(\$11,019)

The following table summarizes activity in the accumulated other comprehensive (loss) gain within equity related to all derivatives classified as cash flow hedges during the years ended June 30, 2011, 2012 and 2013:

	Year ended June 30,		
	2011	2012	2013
Balance as at the beginning of the year	(\$21,525)	\$5,260	(\$86,212)
Unrealized gain (losses) on cash flow hedging derivatives during the year	10,476	(120,506)	(37,647)
Net loss reclassified into net income on occurrence of hedged transactions	15,471	27,998	12,119
Effect of exchange rate fluctuations	839	1,036	5,447
Balance as at the end of the year	<u>5,261</u>	<u>(86,212)</u>	<u>(106,293)</u>
Deferred tax	(956)	16,884	24,036
	<u>\$4,305</u>	<u>(\$69,328)</u>	<u>(\$82,257)</u>

As at June 30, 2013, the estimated net amount of existing gain (loss) that is expected to be reclassified into the income statement from AOCI with in the next twelve months is (\$65,084).

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**13. OTHER CURRENT ASSETS**

As of June 30, 2012 and 2013, other current assets comprise of the following:

	<u>June 30, 2012</u>	<u>June 30, 2013</u>
Prepaid expenses	\$35,659	\$37,718
Interest receivable	2,074	12,252
Prepaid/advance taxes	8,357	10,557
Deposits	2,912	3,079
Restricted cash	1,212	440
Deferred cost	48,995	47,809
Employee receivables	7,913	12,464
Derivative financial instruments	1,069	1,678
Advance to suppliers	12,809	8,953
Finance lease receivable*	29,630	36,102
Others	27,822	42,225
	<u>\$178,452</u>	<u>\$213,277</u>

\*Includes unearned finance income of \$198 and \$56 as on June 30, 2012 and 2013, respectively.

**14. OTHER ASSETS**

As of June 30, 2012 and 2013, other assets comprise the following:

	<u>June 30, 2012</u>	<u>June 30, 2013</u>
Deposits	\$34,337	\$34,310
Deferred cost	50,968	70,252
Employee receivables	197	55
Prepaid expenses	32,756	39,740
Restricted cash	1,561	31
Advance to suppliers	15,413	14,439
Finance lease receivable*	52,331	80,804
Others	4,050	58
	<u>\$191,613</u>	<u>\$239,689</u>

\*Includes unearned finance income of \$56 and nil as on June 30, 2012 and 2013, respectively.

**15. ALLOWANCES FOR ACCOUNTS RECEIVABLE**

The Group maintains an allowance for uncollectible receivables based on the trade receivables at the end of the year. Factors considered by management in determining the adequacy of the allowance include the present and prospective financial condition of the debtor and the ageing of the trade receivables.

The movement in allowance for accounts receivable is given below:

	<u>June 30, 2012</u>	<u>June 30, 2013</u>
Balance at the beginning of the year	\$27,640	\$38,485
Additional provision during the year	29,756	38,090
Deductions on account of write offs and collections	(15,748)	(14,614)
Effect of exchange rates changes	(3,163)	(2,344)
Balance at the end of the year	<u>\$38,485</u>	<u>\$59,617</u>

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**16. DEBTS**

**SHORT TERM LOANS**

During the year ended June 30, 2012, the Group has availed short term loans from a bank of \$75,000 at effective interest rates ranging from 1.18% to 2.0%. The same has been repaid during the year ended June 30, 2013.

The Group has obtained bank line of credit from its bankers amounting to \$5,711 and \$21,646 as of June 30, 2012 and 2013, respectively, at effective interest rates ranging from 0.18% to 14.50%.

**LONG TERM DEBT**

**Term Loans**

The Group availed a term loan of \$300,000 from a bank in December 2009 at effective interest rates ranging from 2% to 3% and repaid \$39,000, \$32,625, \$127,750 and \$100,625 during the years ended June 30, 2010, 2011, 2012 and 2013 respectively. The balance outstanding as of June 30, 2013 is nil.

**Other long term debts include:**

- (a) \$5,669 and \$2,332 at June 30, 2012 and 2013, respectively represents credit received from a vendor at an effective rate of 6.79% for purchases of fixed assets that is secured against hypothecation of such assets,
- (b) Unsecured long term loans of \$3,766 and \$1,832 as of June 30, 2012 and 2013, respectively, at an effective interest rate of 6.79%, and
- (c) A term loan of \$5,533 and \$7,190, as of June 30, 2012 and 2013, respectively, at interest rate ranging from 8% to 11% and secured by hypothecation of vehicles with a net book value of \$8,186 and \$11,722 as of June 30, 2012 and 2013, respectively.

**Secured Redeemable Non Convertible Debentures**

The Company allotted 10,000 secured redeemable non convertible debentures of face value of ₹ 1million (\$16,838) each aggregating to \$168,379, carrying a quarterly coupon rate varying from 7.55% to 8.80% per annum. The debentures have a maturity period ranging from two years to five years and are secured against specified movable assets, receivables from subsidiaries and specified land and building of the Company. The Company has repaid \$28,624 (7.55% Redeemable non convertible debentures) in June 30, 2012 and \$55,565 (8.20% Redeemable non convertible debentures) in June 30, 2013.

The scheduled principal repayments are as follows:

<b>Debenture Series</b>	<b>Maturity Date</b>	<b>June 30, 2013</b>
8.80% Redeemable non convertible debentures	September 10, 2014	\$84,189
		<b>\$84,189</b>
	<b>June 30, 2012</b>	<b>June 30, 2013</b>
From banks	\$ 106,158	\$7,190
Secured redeemable non convertible debentures	149,180	84,189
Other	9,435	4,164
Less: Current portion	(105,652)	(4,889)
	<b>\$159,121</b>	<b>\$90,654</b>



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The scheduled principal repayments are as follows:

	<b>June 30, 2013</b>
Within one year	\$4,889
One to two years	86,926
Two to three years	1,911
Three to five years	1,817
	<b>\$95,543</b>

The Group's borrowings are subject to certain financial and non financial covenants. At June 30, 2013, the Group was in compliance with all such covenants.

**17. OTHER CURRENT LIABILITIES**

As of June 30, 2012 and 2013, other current liabilities comprise of the following:

	<b>June 30, 2012</b>	<b>June 30, 2013</b>
Advances from customers	\$11,128	\$13,334
Sales tax and other taxes payable	40,958	39,016
Unclaimed dividend	426	398
Accrued liabilities and expenses	179,320	267,328
Supplier's credit	-	110,051
Warranty obligations / provision	293	282
Due to related parties	2,856	1,167
Derivative financial instruments	38,759	73,735
Others	41,948	35,878
	<b>\$315,688</b>	<b>\$541,189</b>

**18. EQUITY SHARES**

The Company has only one class of capital stock referred to herein as equity shares. Par value of each equity share outstanding as of June 30, 2013 is \$0.04 ( ₹ 2.00 ).

*Voting*

Each holder of equity shares is entitled to one vote per share.

*Dividends*

Dividends declared and paid by the Company are in Indian Rupees. Dividends payable to equity stockholders are based on the net income available for distribution as reported in the stand alone financial statements of the Company prepared in accordance with Indian GAAP. Indian law mandates that any dividend, exceeding 10% of the common stock, can be declared out of distributable profits only after the transfer of up to 10% of net income computed in accordance with current regulations, to general reserve. Further, Indian law on foreign exchange governs the remittance of dividends outside India. Such dividend payments are also subject to applicable taxes.

*Liquidation*

In the event of liquidation of the Company, the holders of equity shares shall be entitled to receive all of the remaining assets of the Company, after distribution of all preferential amounts, if any. Such amounts will be in proportion to the number of equity shares held by the stockholders.

*Stock options*

There are no voting, dividends or liquidation rights to the option holders under the Company's stock option plans.

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### 19. OTHER INCOME (EXPENSES), NET

For the years ended June 30, 2011, 2012 and 2013, other income/ (expenses), net consist of:

	Year ended June 30,		
	2011	2012	2013
Interest income	\$31,629	\$27,687	\$38,768
Dividend income from investments	5,719	6,798	4,353
Gain on divestment of stake in affiliates	-	-	4,485
Gain on sale of investment securities and other investments, net	1,595	-	3,013
Foreign exchange losses, net	(17,804)	(36,408)	(3,771)
Settlement of pre-acquisition claims	22,548	-	-
Equity in earning of affiliates	727	1,923	2,259
Miscellaneous income (expenses)	5,715	4,899	(1,366)
<b>Other income, net</b>	<b>\$50,129</b>	<b>\$4,899</b>	<b>\$47,741</b>

### 20. INCOME TAXES

Entities in the Group file tax returns in their respective tax jurisdictions.

The Group's provisions (benefit) for income taxes consist of the followings:

	Year ended June 30,		
	2011	2012	2013
<b>Current taxes</b>			
Indian taxes	\$57,979	\$116,404	\$166,734
Foreign taxes	70,039	86,220	70,112
	<b>128,018</b>	<b>\$202,624</b>	<b>\$236,846</b>
<b>Deferred taxes</b>			
Indian taxes	(21,797)	(14,052)	(17,266)
Foreign taxes	(394)	(30,344)	1,346
	<b>(22,191)</b>	<b>(44,396)</b>	<b>(\$15,920)</b>
<b>Total taxes</b>	<b>\$105,827</b>	<b>\$158,228</b>	<b>\$220,926</b>

The reconciliation between the Group's provision for income tax and amount computed by applying the India statutory income tax rate is as follows:

	Year ended June 30,		
	2011	2012	2013
Income before taxes, equity in earnings of affiliates and noncontrolling interest	\$464,372	\$639,627	\$953,363
Average enacted tax rate in India	33.22%	32.45%	32.95%
Expected tax expense	154,253	207,527	314,133
Non-taxable export income	(88,727)	(81,370)	(128,781)
Non-taxable other income	(20,234)	(5,593)	(3,866)
Income taxed at a lower / higher rate	21,466	1,664	6,637
Capital gain on sale of business	-	-	10,775
Re-estimation of MAT credit	-	-	12,804
Differences between Indian and foreign tax rates	11,032	37,211	6,952
Employee stock compensation cost	4,951	2,411	3,908
Increase (decrease) in valuation allowance including losses of subsidiaries	5,225	(5,225)	(4,472)
Provision for deemed branch taxes	3,177	1,751	1,132
Others	14,684	(148)	1,704
<b>Total taxes</b>	<b>\$105,827</b>	<b>\$158,228</b>	<b>\$220,926</b>

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Profits from the Group's operations in India attributable to the export operations from units situated in Software Technology Parks ("STP") were exempt from income tax for a period of any ten consecutive years (tax holiday period) beginning from the financial year of the unit commencing operations. The tax holiday for all of the units expired on the earlier of March 2011 or ten years after the commencement of a tax holiday for an individual unit. In respect of units situated in Special Economic Zones (SEZs) under the Special Economic Zone Act, 2005, units in designated special economic zones which began providing services on or after April 1, 2005 are eligible for a deduction of 100 percent of profits or gains derived from the export of services for the first five years from commencement of provision of services and 50 percent of such profits and gains for a further five years. Certain tax benefits are also available for a further five years subject to the unit meeting defined conditions.

Income tax charged to equity for the years ended June 30, 2011, 2012 and 2013 are as follows:

	Year ended June 30,		
	2011	2012	2013
Income tax from continuing operations	\$105,827	\$158,228	\$220,926
Stockholder's equity for:-			
Tax benefits received on exercise of employee stock options reflected as part of additional paid in capital	(1,730)	(1,678)	(1,939)
Unrealized holding (loss) gain on available for sale investment securities	(59)	-	377
Unrealized (loss) gain on cash flow hedge	2,574	(17,840)	(7,152)
Unrealized actuarial (loss) gain	283	(466)	(241)
Effect of exchange rate fluctuations	796	24,200	10,350
	<u>\$107,691</u>	<u>\$162,444</u>	<u>\$222,321</u>

Effective April 2007, the Finance Act 2007 has introduced Minimum Alternate Tax (MAT) on the exempt income attributable to export operations of units situated in STPs. Effective April, 2011, Finance Act, 2011 has extended MAT on export operation of units situated in Special Economic Zones (SEZ). Any MAT paid for a year is available for set-off against the normal tax liability within ten subsequent years.

The tax returns are subject to examination by the tax authorities in the jurisdictions where the Group conducts business. The examination may result in assessments of additional taxes that are resolved with the authorities or through legal proceedings. Resolution of these matters involves some degree of uncertainty; accordingly, the Group recognizes income tax liability that it believes will ultimately result from the proceedings.

A reconciliation of the beginning and ending balance of unrecognized tax benefits is as follows:

	June 30, 2012	June 30, 2013
Balance at the beginning of the year	\$93,289	\$87,889
Increase due to tax position taken during the current year	6,521	2,230
Increase due to tax position taken during the prior year	5,561	1,967
Effect of exchange rate fluctuations	(17,482)	(3,536)
Balance at the end of the year	<u>\$87,889</u>	<u>\$88,550</u>

The unrecognized tax benefits, if recognized, would affect the Group's effective tax rate. Significant changes in the amount of unrecognized tax benefits within the next 12 months cannot be reasonably estimated as the changes would depend upon the progress of tax proceedings with various tax authorities.

Income tax expense includes penalties and interest related to income tax. For the years ended June 30, 2011, 2012 and 2013, the Group recognized \$20,024, \$24,214 and \$28,019, respectively, on account of accrued interest and penalties related to uncertain tax positions which are included in income taxes payables.



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The Group's two major tax jurisdictions are India and the U.S. The tax examination is open in India for fiscal year beginning from April 1, 2008 onwards and in US for fiscal year beginning from July 1, 2007 onwards.

The components of the deferred tax balances as of June 30, 2012 and 2013 are as follows:

	<b>June 30, 2012</b>	<b>June 30, 2013</b>
<b>Deferred tax assets:</b>		
Business losses	\$32,986	\$37,500
Allowance for accounts receivable	12,098	16,348
Accrued employee costs	40,500	48,133
Property and equipment	15,860	15,959
Minimum Alternate Tax	59,495	69,688
Employee stock compensation	6,729	7,254
Unrealized loss on derivative financial instruments	16,884	24,036
Other temporary differences	27,656	18,540
	<b>212,208</b>	<b>237,458</b>
Less: valuation allowance	(25,045)	(31,316)
<b>Total deferred tax assets</b>	<b>\$187,163</b>	<b>\$206,142</b>
<b>Deferred tax liabilities:</b>		
Unrealized gains on investment securities	-	377
Intangibles	11,327	9,652
Others	7,538	13,291
	<b>\$18,865</b>	<b>\$23,320</b>
<b>Net deferred tax assets</b>	<b>\$168,298</b>	<b>\$182,822</b>

The components of valuation allowance as of June 30, 2012 and 2013 are as follows:

	<b>June 30, 2012</b>	<b>June 30, 2013</b>
Business losses	(\$25,045)	(\$31,316)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not, that some portion, or all, of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the projected future taxable income and tax planning strategies in making this assessment. Based on the level of historical taxable income and its tax planning strategies including projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes that it is more likely than not that the Company will realize the benefits of those deductible differences, net of existing valuation allowances. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced.

Business loss carry forwards of certain subsidiaries of the Group for tax purposes amount to approximately \$105,206 and \$128,883 as of June 30, 2012 and 2013, respectively, and are available as an offset against future taxable income expiring at various dates through 2021.

Management is of the opinion that it is less likely that all of these subsidiaries would be in a position to realize the tax benefit associated with business loss carry forward. Given the uncertainties, a valuation allowance has been created against such business losses.

During the years ended June 30, 2011, 2012 and 2013, the US based subsidiary of the Group received excess tax benefit aggregating to \$1,730, \$1,678 and \$1,939, respectively, upon exercise of employee stock options which was recognized in equity. As of June 30, 2013, the Company recognized a deferred tax asset amounting to \$7,254 on the stock compensation expense expected to be realized on exercise of stock options in future periods.

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Undistributed earnings of the subsidiaries aggregate approximately \$414,085 and \$511,634 as of June 30, 2012 and 2013, respectively. The Group has the intent to reinvest the undistributed foreign earning indefinitely in its significant overseas operations and consequently did not record a deferred tax liability on the undistributed earnings.

**21. EARNINGS PER EQUITY SHARE**

The following is the reconciliation of the weighted average number of equity shares used in the computation of basic and diluted EPS:

	Year ended June 30,		
	2011	2012	2013
Weighted average number of equity shares outstanding used in computing basic EPS	683,508,571	691,023,929	694,783,323
Dilutive effect of stock options	12,929,319	9,634,137	10,057,018
Weighted average number of equity and equity equivalent shares outstanding used in computing diluted EPS	<u>696,437,890</u>	<u>700,658,066</u>	<u>704,840,341</u>

Options to purchase Nil, 284 and Nil equity shares during the years ended June 30, 2011, 2012 and 2013, respectively, were not included in the computation of diluted EPS as these options were anti-dilutive.

**22. STOCK BASED COMPENSATION**

**STOCK OPTION PLANS**

**ESOP 1999 (the "1999 Plan"):** In September 1999, the Company instituted the 1999 Stock Option Plan to provide equity-based incentives to all eligible employees of the Company and its subsidiaries. The 1999 Plan is administered by a Committee with a majority of independent directors of the Company (Compensation Committee) and provides for the issuance of a maximum of 40,000,000 underlying shares at the option price determined by the Compensation Committee on the date the option is granted.

**ESOP 2000 (the "2000 Plan"):** In October 2000, the Company instituted the 2000 Stock Option Plan to provide equity-based incentives to all eligible employees of the Company and its subsidiaries. The 2000 Plan is administered by the Compensation Committee of the Company. The 2000 Plan provides for the issuance of a maximum of 30,000,000 underlying shares at the option price determined by the Compensation Committee on the date the option is granted.

**ESOP 2004 (the "2004 Plan"):** In December 2004, the Company instituted the 2004 Stock Option Plan to provide equity-based incentives to all eligible employees and directors of the Company and its subsidiaries. The 2004 plan is administered by the Compensation Committee of the Company. The 2004 Plan provides for the issuance of a maximum of 40,000,000 underlying shares.

Each option granted under the 1999 Plan, the 2000 Plan and the 2004 Plan, entitles the holder to four equity shares of the Company. The equity shares covered by the 1999 Plan, the 2000 Plan and the 2004 Plan vest over a maximum period of 110 months, 104 months and 96 months, respectively. The options are to be exercised within a maximum period of five years from their date of vesting or expiry of the respective plans whichever is earlier.

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Changes in number of shares representing the outstanding stock options during the years ended June 30, 2013 are given below:

	Shares arising out of option		Weighted average exercise price			Weighted average remaining contractual term (In year)			Aggregate Intrinsic Value			
	1999	Plan 2000	2004	1999	2000	2004	1999	2000	2004	1999	2000	2004
Outstanding at beginning of the year	2,146,520	4,096,120	14,421,952	\$2.95	\$2.84	\$0.06	1.46	1.29	6.43	\$12,059	\$23,441	\$122,620
Granted	-	-	84,880	\$0.00	\$0.00	\$0.04	-	-	-	-	-	-
Forfeited	-	-	(3,848,720)	\$0.00	\$0.00	\$0.04	-	-	-	-	-	-
Expired	(142,480)	(509,424)	(89,080)	\$2.92	\$2.85	\$0.40	-	-	-	-	-	-
Exercised	(706,352)	(1,253,676)	(1,616,228)	\$2.91	\$2.82	\$0.08	-	-	-	-	-	-
Outstanding at the end of the year	1,297,688	2,333,020	8,952,804	\$2.81	\$2.70	\$0.06	0.68	0.63	5.57	\$13,316	\$24,187	\$116,433
Exercisable at the end of the year	1,297,688	2,333,020	1,180,404	\$2.81	\$2.70	\$0.24	0.68	0.63	1.93	\$13,316	\$24,187	\$15,139
Weighted-average grant date fair value of grants during the year	-	-	\$741	-	-	-	-	-	-	-	-	-
Estimated fair value of option vested during the year	-	-	\$7,695	-	-	-	-	-	-	-	-	-
Vested and exercisable as of June 30, 2013	1,297,688	2,333,020	1,180,404	\$2.81	\$2.70	\$0.24	0.68	0.63	1.93	\$13,316	\$24,187	\$15,139
Vested and exercisable as of June 30, 2013 and expected to vest thereafter	1,297,688	2,333,020	8,100,508	\$2.81	\$2.70	\$0.06	0.68	0.63	5.57	\$13,316	\$24,187	\$105,326

Total number of outstanding options for the 2004 plan includes 1,549,700 performance based options as on June 30, 2013 (1,732,660 as on June 30, 2012). These options will vest to the employees of the Company based on the achievement of certain targets by the Company.



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As of June 30, 2012 and 2013, options for 47,608 shares and 99,508 shares, respectively, under the 1999 Plan, options for 127,644 shares and 200,820 shares, respectively, under the 2000 Plan and options for 36,080 shares and 55,680 shares, respectively, under the 2004 Plan, were pending allotment.

The following table summarizes information about stock options outstanding and exercisable as of June 30, 2012:

Range of exercise price	Outstanding			Exercisable	
	Number of shares arising out of options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of shares arising out of Options	Weighted average exercise price
<b>1999 Plan</b>					
(\$1.08-\$3.37)	2,146,520	1.46	\$2.95	2,146,520	\$2.95
<b>2000 Plan</b>					
(\$1.17-\$2.11)	83,140	0.26	\$1.77	83,140	\$1.77
(\$2.17-\$3.70)	4,012,980	1.31	\$2.86	4,012,980	\$2.86
<b>2004 Plan</b>					
(\$0.04-\$0.04)	14,303,744	6.47	\$0.04	1,741,104	\$0.04
(\$2.88-\$3.33)	118,208	1.45	\$3.11	118,208	\$3.11

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The following table summarizes information about stock options outstanding and exercisable as of June 30, 2013:

Range of exercise price	Outstanding			Exercisable	
	Number of shares arising out of options	Weighted average remaining contractual life(years)	Weighted average exercise price	Number of shares arising out of Options	Weighted average exercise price
<b>1999 Plan</b> (\$1.01-\$3.16)	1,297,688	0.68	\$2.81	1,297,688	\$2.81
<b>2000 Plan</b> (\$1.09-\$1.98) (\$2.03-\$3.46)	- 2,333,020	- 0.63	- \$2.70	- 2,333,020	- \$2.70
<b>2004 Plan</b> (\$0.00-\$0.03) (\$2.70-\$3.12)	8,867,364 85,440	5.61 0.64	\$0.03 \$2.89	1,094,964 85,440	\$0.03 \$2.89

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The following table summarizes information concerning stock options issued that are vested or are expected to vest and stock options exercisable as of June 30, 2013:

Range of exercise price	Option vested or expected to vest		
	Number of shares arising out of options	Weighted average remaining contractual life (years)	Weighted average exercise price
<b>1999 Plan</b>			
(\$1.01-\$3.16)	1,297,688	0.68	\$2.81
<b>2000 Plan</b>			
(\$1.09-\$1.98)	-	-	-
(\$2.03-\$3.46)	2,333,020	0.63	\$2.70
<b>2004 Plan</b>			
(\$0.00-\$0.03)	8,015,068	5.61	\$0.03
(\$2.70-\$3.12)	85,440	0.64	\$2.89

The aggregate intrinsic value of shares for the 1999 Plan, the 2000 Plan and the 2004 Plan is \$13,316, \$24,187 and \$105,326, respectively. These values represent the total pre-tax intrinsic value calculated as the difference between the Company's closing stock price on the last trading day of the year ended June 30, 2013 and the exercise price.



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The fair value of each option is estimated on the date of grant using the Black-Scholes model with the following assumptions:

	June 30, 2012	June 30, 2013
Dividend yield %	1.90%	2.11%
Expected term	up to 47 months	up to 45 months
Risk free interest rates	7.78%	7.78%
Volatility	39.38%	37.15%

As of June 30, 2013, \$17,804 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 1.8 years.

Cash received from option exercises under the stock option plan for the years ended June 30, 2011, 2012 and 2013 was \$19,735, \$7,326 and \$5,708, respectively.

The tax benefit on account of compensation cost of stock options exercised in United States of America, Great Britain, Netherlands and Germany aggregated to \$2,567, \$2,596 and \$2,488 for the years ended June 30, 2011, 2012 and 2013, respectively.

For the year ended June 30, 2011, 2012 and 2013, stock-based compensation expense related to the stock option plans was allocated as follows:

	Year ended June 30,		
	2011	2012	2013
Cost of sales	\$2,736	\$709	\$1,218
Selling, general and administrative	18,841	16,134	13,740
<b>Stock compensation cost before income tax benefit</b>	<b>21,577</b>	<b>16,843</b>	<b>14,958</b>
Deferred tax benefit	(1,716)	(2,794)	(1,582)
<b>Stock compensation cost (net)</b>	<b>\$19,861</b>	<b>\$14,049</b>	<b>\$13,376</b>

### 23. EMPLOYEE BENEFIT PLANS

#### India operations

The Group has employee benefit plans in the form of certain statutory and welfare schemes covering substantially all of its employees.

#### *Defined benefit Plan*

##### *Gratuity*

In accordance with Indian law, the Group provides for gratuity, a defined benefit retirement plan (the "Gratuity Plan") covering all employees in India. The Gratuity Plan provides a lump sum payment to vested employees at retirement or termination of employment of an amount based on the respective employee's salary and the years of employment with the Group.

The reconciliation of the beginning and ending balance of the projected benefit obligation and the paid value of plan assets for the years ended June 30, 2012 and 2013, and the accumulated benefit obligation at June 30, 2012 and 2013 is as follows:

	June 30, 2012	June 30, 2013
Change in benefit obligation		
Obligation at the beginning of the year	\$23,289	\$26,336
Service cost	5,256	6,550
Interest cost	2,197	2,752
Benefits paid	(2,595)	(2,775)
Actuarial loss	3,436	940
Foreign currency translation	(5,247)	(2,247)
Obligation at the end of the year	<b>\$26,336</b>	<b>\$31,556</b>

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	<u>June 30, 2012</u>	<u>June 30, 2013</u>
Benefit obligation current	\$5,516	\$6,070
Benefit obligation Non-current	20,820	25,486
Accumulated benefit obligation	<u>\$26,336</u>	<u>\$31,556</u>
<b>Changes in plan assets</b>		
Fair value of plan assets at the beginning of the year	\$-	\$-
Employer contributions	2,595	2,775
Benefits paid	(2,595)	(2,775)
Plan assets at the end of the year	<u>\$-</u>	<u>\$-</u>
<b>Funded status</b>		
Net amount recognized	(\$26,336)	(\$31,556)
Amounts recognized in the statement of financial position consist of:		
Accrued benefit cost	<u>(\$26,336)</u>	<u>(\$31,556)</u>
<b>Net actuarial loss</b>		
Net actuarial loss	<u>\$3,504</u>	<u>\$4,335</u>
Net prior service cost	171	247
Total accumulated other comprehensive loss	<u>\$3,675</u>	<u>\$4,582</u>

Net gratuity cost for the years ended June 30, 2011, 2012 and 2013 comprise the following components:

	<u>Year ended June 30,</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
Service cost	\$4,863	\$5,256	\$6,550
Interest cost	1,807	2,197	2,752
Amortization of unrecognized actuarial loss (gain)	287	17	(20)
<b>Net gratuity cost</b>	<u>\$6,957</u>	<u>\$7,470</u>	<u>\$9,282</u>

The weighted average actuarial assumptions used in accounting for the benefit obligations and net gratuity cost under the Gratuity Plan as of June 30, 2011, 2012 and 2013 are given below:

	<u>Year ended June 30,</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
Discount rate	10.0%	9.3%	8.35%
Expected rate of increase in salaries			
-for next year	6.0%	7.0%	7.0%
-thereafter	6.0%	7.0%	7.0%

Discount rates are based on the current market yield on government securities adjusted for a suitable risk premium to reflect the additional risk for high quality bonds. The Group assesses these assumptions with its projected long-term plans of growth and prevalent industry standards. The mortality rates used are as published by one of the leading life insurance companies in India.

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The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid during:

Year ending June 30,	
- 2014	\$5,882
- 2015	6,906
- 2016	7,984
- 2017	8,959
- 2018	9,343
Thereafter	42,435
<b>Total</b>	<b>\$81,509</b>

The expected benefits are based on the same assumptions as are used to measure the Group's benefit obligations as of June 30, 2013.

### Superannuation

The superannuation plan is a defined contribution pension plan for senior employees of the Group. The Group contributes to an employees' superannuation fund with an insurance company at 15% of the employee's base compensation. The Group has no further obligations to the superannuation plan beyond its monthly contributions. The contributions made are recorded in the statement of income on an accrual basis. Total contributions made in respect of this plan for years ended June 30, 2011, 2012 and 2013 are \$543, \$471 and \$401, respectively.

### Provident fund

In accordance with Indian law, all employees receive benefits from a provident fund, which is a defined benefits plan. Under this plan, the employer and employee make monthly contributions to a fund managed by certain employees of the Group ("Trust"). The employees contribute 12% of their base compensation, which is matched by an equal contribution by the employer. The Group contributes two-third of the contribution to the Trust. The remaining portion is contributed to the Government administered pension fund. The rate at which the annual interest is payable to the beneficiaries by the Trust is being administered by the government. The Group has an obligation to fund any shortfall on the yield of the Trust's investments over the administered interest rates. The funds contributed to the Trust are invested in specific securities as mandated by law and generally consist of federal and state government bonds, debt instruments of government-owned corporations and other eligible market securities.

The actuary has provided a valuation and based on the assumption mentioned below there is no shortfall as at 30 June 2012 and 2013.

The detail of the fund and plan asset position are given below:-

	June 30 ,2012	June 30, 2013
Plan assets at the period end	\$186,036	\$219,520
Present Value of benefit obligation at period end	186,036	219,520
Asset recognized in balance sheet	\$-	\$-

Assumptions used in determining the present value obligation of the interest rate guarantee under the deterministic approach:

	June 30 ,2012	June 30, 2013
Government of India (GOI) bond yield	8.1%	7.5%
Remaining term of maturity	8.03 years	9.29 Years
Expected guaranteed interest rate	9.4%	8.5%

Total contributions made by the Group in respect of this plan for the years ended June 30, 2011, 2012 and 2013 are \$16,143, \$16,225 and \$16,203, respectively.



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**Subsidiaries in the US**

The Group has a Savings and Investment Plan under Section 401 (k) of the Internal Revenue Code. This is a defined contribution plan where employees above the age of 21 years, having completed one year of service may choose to contribute up to 100% of their compensation. The Group makes a matching contribution for employee contribution up to 4%.

Total contributions made by the Group in respect of this plan for the years ended June 30, 2011, 2012 and 2013 are \$5,205, \$7,371 and \$7,940, respectively.

**Subsidiary in Australia**

As per local laws of Australia, employers must provide either a minimum level of superannuation for most employees or incur a non-tax deductible superannuation guarantee charge including interest and penalties. The required level of employer superannuation contribution is a percentage of the employee's earnings base. The Group contributes to a fund approved by the Government of Australia. Total contributions made by the Group in respect of this plan for the years ended June 30, 2011, 2012 and 2013 are \$3,749, \$4,258 and \$6,192, respectively.

**Subsidiaries in Europe**

The Group has pension plans for the employees of its subsidiaries in Europe. The plans operating in Europe provide for contributions of up to 5% of the basic salary by the employer and the employee. Total contributions made by the Group in respect of this plan for the years ended June 30, 2011, 2012 and 2013 are \$7,499, \$7,272 and \$12,045, respectively.

**Subsidiaries in Asia**

As per local laws of Malaysia, Singapore and Japan, employers are required to contribute notified percentage of the basic salary for the eligible employee to the fund set up by the Government of the respective Country. Total contributions made by the Group in respect of these plans for the years ended June 30, 2011, 2012 and 2013 are \$6,740, \$7,459 and \$7,032, respectively.

**24. RELATED PARTY TRANSACTIONS**

The Company has entered into transactions with the following related parties:

- a. Companies in which Mr. Shiv Nadar, the principal shareholder, has controlling interest over which he exercises significant influence (significant interest entities);
- b. Affiliates of the Company and their subsidiaries (affiliates); and
- c. Employees of the Group.

The related party transactions are categorized as follows:

*Revenues*

The Group provides software development and other services to related parties. The related parties to whom these services were provided and the corresponding amounts of revenue earned are as follows:

	Year ended June 30,		
	2011	2012	2013
Significant interest entities	\$2,797	\$1,245	\$1,565
Affiliates	3,710	5,648	8,823
<b>Total</b>	<b>\$6,507</b>	<b>\$6,893</b>	<b>\$10,388</b>

*Cost of revenues and Selling, General and Administrative expenses*

The Group outsources certain contracts to related parties and also procures personnel from them for software development. These costs are recorded as consulting charges and included as part of cost of revenues, selling, general and administrative expenses.

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The related parties to whom such charges were paid and the corresponding amounts are as follows:

	Year ended June 30,		
	2011	2012	2013
Significant interest entities	\$16,395	\$19,708	\$15,907
Affiliates	3,577	1,700	1,073
Total	<b>\$19,972</b>	<b>\$21,408</b>	<b>\$16,980</b>

### Computer equipment, software purchases and others

The Group purchases computer equipment, software and other items from certain significant interest entities. These purchases during the years ended June 30, 2012 and 2013 amounted to \$16,986 and \$3,957, respectively.

### Subleasing of facilities

Significant interest entities have subleased a portion of their facilities to the Group. The total amount charged for the year ended June 30, 2011, 2012 and 2013 were \$328, \$410 and \$427, respectively.

### Loans to employees

The Group has advanced general purpose and housing loans to its employees at rates of interest not more than 11% per annum. The repayment periods for these loans are fixed with the tenure of these loans extending up to five years. Employee loan balances outstanding as of June 30, 2012 and 2013 are \$860 and \$803, respectively.

The balances receivable from and payable to related parties other than employees are summarized as follows:

	Significant interest entities	Affiliates	Total
<b>As of June 30, 2012</b>			
<i>Due from related parties</i>			
Accounts receivable	\$591	\$1,238	\$1,828
Unbilled receivable	2,590	224	2,815
Other receivables	236	-	236
	<b>\$3,417</b>	<b>\$1,462</b>	<b>\$4,879</b>
<i>Dues to related parties</i>			
Accounts payable	\$543	\$-	\$543
Deferred revenue	-	123	123
Other payables	2,856	-	2,856
	<b>\$3,399</b>	<b>\$123</b>	<b>\$3,522</b>
<b>As of June 30, 2013</b>			
<i>Due from related parties</i>			
Accounts receivable	\$437	\$101	\$538
Unbilled receivable	2,773	2	2,775
Other receivables	2,765	-	2,765
	<b>\$5,975</b>	<b>\$103</b>	<b>\$6,078</b>
<i>Dues to related parties</i>			
Accounts payable	\$284	\$154	\$438
Other payables	10,567	-	10,567
	<b>\$10,851</b>	<b>\$154</b>	<b>\$11,005</b>

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**25. COMMITMENTS AND CONTINGENCIES**

*Capital commitments*

As of June 30, 2013, the Group had committed to spend \$195,549 under agreements to purchase property and equipment. This amount is net of capital advances paid in respect of these purchases.

*Other commitments*

Certain of the Group's software development centers in India are 100% Export Oriented Unit (EOU)/STP/SEZ units under the guidelines issued by the Government of India. These units are exempted from customs and central excise duties and levies on imported and indigenous capital goods and stores and spares. The Group has executed legal undertakings to pay customs duty, central excise duty, levies and liquidated damages payable, if any, in respect of imported and indigenous capital goods and stores and spares consumed duty free, in the event that certain terms and conditions are not fulfilled.

*Guarantees*

The Group generally provides guarantees to the Excise and Custom authorities as security for compliance with local regulation and to various parties on behalf of its subsidiaries. The aggregate amount of these guarantees as of June 30, 2013 is \$12,749.

*Letter of Credit*

During the year ended June 30, 2013, the Group has negotiated extended interest bearing credit terms with certain vendors and have issued \$110,051 of letters of credit in this respect for extended payment terms up to 360 days. Interest rate on this arrangement ranges from 1.2% to 10.0%

The Group also has letters of credit amounting to \$213 outstanding as at June 30, 2013 in other normal course of business.

*Other Contingencies*

As of June 30, 2013, other contingencies have arisen in the normal course of business. Management believes that the ultimate outcome of these matters will not have a material adverse effect on its financial position, results of operations and cash flows.

**26. LEASES**

The Company has taken networking and computer equipment, vehicles, office furniture and equipment on capital leases. Future minimum lease payments under capital leases as of June 30, 2013 are as follows:

Year ending June 30,	
2014	\$16,512
2015	16,901
2016	15,177
2017	12,857
2018	262
Total minimum payments	<u>61,709</u>
Less: Amount representing future interest	3,031
Present value of minimum payments	<u>58,678</u>
Less: Current portion	15,177
<b>Long term capital lease obligation</b>	<b><u>\$43,501</u></b>



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The Group has taken on lease office facilities under non-cancellable operating lease agreements. Future minimum lease payments as of June 30, 2013 for such non-cancelable operating leases are as follows:

Year ending June 30,	
2014	
2015	\$45,096
2016	38,560
2017	32,482
2018	26,160
Thereafter	22,930
<b>Total minimum payments</b>	<b>103,055</b>
	<b>\$268,283</b>

Additionally, the Group has taken on lease office facilities under cancellable operating lease agreements that are renewable on a periodic basis at the option of both the lessor and the lessee.

Rental expenses under operating leases are amortized on the straight line method. The expense for the years ended June 30, 2011, 2012 and 2013 amounts to \$50,943, \$59,792 and \$58,290, respectively.

The Group has given networking equipment to its customers on sales type and direct finance leases. The future lease receivables in respect of assets given on such leases are as follows:

Year ending June 30,	Total minimum lease payments receivables	Interest included in minimum lease payments receivables	Present value of minimum lease payments receivables
2014	\$42,013	\$5,911	\$36,102
2015	39,030	5,741	33,289
2016	33,608	4,976	28,632
2017	18,810	2,913	15,897
2018	2,752	545	2,207
Thereafter	850	71	779
	<b>\$137,063</b>	<b>\$20,157</b>	<b>\$116,906</b>

The amounts recoverable on account of such leases within one year have been included under other current assets and the balance under other assets.

### 27. SEGMENT REPORTING

The Group's operations predominantly relate to providing a range of software services targeted at technology vendors, software product companies and medium to large end user organizations. The Group is also engaged in the business of providing infrastructure management services and business process outsourcing services. Infrastructure management services involve the sale of networking equipment and software, installations and provision of access and maintenance services. Business process outsourcing services involve the provision of customer contact center and technical help desk services.

The Chairman of the Group has been identified as the Chief Operating Decision Maker ("CODM") as defined by FASB guidance (ASC 280-10) on, "Segment Reporting". The CODM evaluates the Group's performance by business segment, comprising Software services, Infrastructure management services and Business process outsourcing services. Accordingly, the above stated business segments have been identified as reportable segments for the purpose of segment reporting. Corporate activities such as treasury, legal and accounting, are not considered as operating segments, and have been considered as reconciling items. Segment information for prior periods is provided on a comparative basis.

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Information on reportable segments for the year ended June 30, 2011 is as follows:

	Software Services	Infrastructure management services	Business process outsourcing services	Total
<b>Revenue</b>	<u>\$2,523,349</u>	<u>826,829</u>	<u>195,122</u>	<u>\$3,545,300</u>
Depreciation and amortization	\$70,150	27,984	11,848	\$109,982
<b>Segment earnings</b>	<b>\$392,410</b>	<b>126,610</b>	<b>(20,964)</b>	<b>\$498,056</b>

Information on reportable segments for the year ended June 30, 2012 is as follows:

	Software Services	Infrastructure management services	Business process outsourcing services	Total
<b>Revenue</b>	<u>\$2,956,857</u>	<u>1,004,761</u>	<u>189,913</u>	<u>\$4,151,531</u>
Depreciation and amortization	\$69,421	32,038	10,099	\$111,558
<b>Segment earnings</b>	<b>\$525,180</b>	<b>159,333</b>	<b>(5,822)</b>	<b>\$678,691</b>

Information on reportable segments for the year ended June 30, 2013 is as follows:

	Software Services	Infrastructure management services	Business process outsourcing services	Total
<b>Revenue</b>	<u>\$3,114,450</u>	<u>1,366,647</u>	<u>205,355</u>	<u>\$4,686,452</u>
Depreciation and amortization	\$69,540	40,664	12,352	\$122,556
<b>Segment earnings</b>	<b>\$669,593</b>	<b>260,167</b>	<b>10,072</b>	<b>\$939,832</b>

The CODM assesses the performance of the operating segments based on a measure of segment earnings. This measurement basis adjusts income before income taxes to exclude the effects of stock based compensation, cash flow hedge accounting gains (losses), foreign exchange gains (losses), finance costs and other income.

A reconciliation of segment earnings to income before income taxes is provided as follows:

	Year ended June 30,		
	2011	2012	2013
Segment earnings	\$498,056	\$678,691	\$939,832
Stock compensation cost	(21,577)	(16,843)	(14,958)
Foreign exchange loss	(17,804)	(36,408)	(3,772)
Impairment of intangibles	(26,692)	-	-
Finance cost	(35,544)	(27,120)	(19,251)
Other income, net	67,933	41,307	51,513
<b>Income before income taxes</b>	<u><b>\$464,372</b></u>	<u><b>\$639,627</b></u>	<u><b>\$953,364</b></u>

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The Group operates from four geographies: America, Europe, India and Others. Europe comprises business operations conducted in United Kingdom, Sweden, Germany, Italy, Belgium, Netherlands, Northern Ireland, Finland, Poland and Switzerland. All other customers, mainly in Japan, Australia, New Zealand, Hong Kong, Singapore, Israel, South Korea, China, Czech Republic and Malaysia are included in others.

Revenues from the geographic segments, based on domicile of the customers, are as follows:

	Year ended June 30,		
	2011	2012	2013
America	\$1,946,734	\$2,252,748	\$2,713,433
Europe	951,850	1,098,431	1,243,111
India	187,192	189,611	184,822
Others	459,524	610,741	545,086
	<b>\$3,545,300</b>	<b>\$4,151,531</b>	<b>\$4,686,452</b>

During the year ended June 30, 2011, 2012 and 2013, a single customer accounted for approximately 5.5%, 4.9% and 4.5% and top five customers accounted for 15.4%, 15.1% and 15.2% of the revenue of the Company respectively.

Property and equipment located in geographic segments are as follows:

	Year ended June 30,		
	2011	2012	2013
America	\$33,564	\$36,480	\$34,838
Europe	23,549	25,062	18,496
India	431,867	378,462	402,925
Others	6,947	5,297	3,124
	<b>\$495,927</b>	<b>\$445,301</b>	<b>\$459,383</b>

## 28. FAIR VALUE MEASUREMENT

The Group records certain financial assets and liabilities at fair value on a recurring basis. The Group determines fair values based on the price it would receive to sell an asset or pay transfer a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability.

The Group holds certain fixed income securities, equity securities and derivatives, which must be measured using the FASB's guidance for fair value hierarchy and related valuation methodologies. The guidance specifies a hierarchy of valuation techniques based on whether the inputs to each measurement are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Group's assumptions about current market conditions. The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The prescribed fair value hierarchy and related valuation methodologies are as follows:

Level 1 —Quoted inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 —Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations, in which all significant inputs are directly or indirectly observable in active markets.

Level 3 —Valuations derived from valuation techniques, in which one or more significant inputs are unobservable inputs which are supported by little or no market activity.



# HCL Technologies Limited and Subsidiaries

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In accordance with ASC 820, assets and liabilities are to be measured based on the following valuation techniques:

**Market approach** – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

**Income approach** – Converting the future amounts based on the market expectations to its present value using the discounting methodology.

**Cost approach** – Replacement cost method.

The following table discloses the assets and liabilities measured at fair value on a recurring basis as of June 30, 2012 and the basis for that measurement:

	Fair value	Level 1 inputs	Level 2 inputs	Level 3 inputs
<b>Assets</b>				
Cash and cash equivalents	\$119,933	\$119,933	-	-
Term deposits with banks	\$252,402	-	\$252,402	-
Deposits with corporation	\$18,074	-	\$18,074	-
Investment securities, available for sale	\$98,172	\$98,172	-	-
Derivative contracts	\$1,069	-	\$1,069	-
<b>Liabilities</b>				
Derivative contracts	(\$86,874)	-	(\$86,874)	-

The following table discloses the assets and liabilities measured at fair value on a recurring basis as of June 30, 2013 and the basis for that measurement:

	Fair value	Level 1 inputs	Level 2 inputs	Level 3 inputs
<b>Assets</b>				
Cash and cash equivalents	\$123,262	\$123,262	-	-
Term deposits with banks	\$486,805	-	\$486,805	-
Deposits with corporation	\$127,741	-	\$127,741	-
Investment securities, available for sale	\$99,270	\$99,270	-	-
Derivative contracts	\$1,687	-	\$1,687	-
<b>Liabilities</b>				
Derivative contracts	(\$114,954)	-	(\$114,954)	-

### Valuation Methodologies

Quoted market prices in active markets are available for investments in securities and, as such, these investments are classified within Level 1.

**Investments:** The Company's investments consist primarily of investment in debt linked mutual funds and certificates of deposit with banks. Fair value of debt linked mutual funds are based on prices as stated by the issuers of mutual funds and are classified as Level 1 or 2 after considering whether the fair value is readily determinable. Fair values of investments in certificate of deposits, classified as available for sale, is determined using observable market inputs and are classified as Level 2.

**Derivative Financial Instrument:** The Group's derivative financial instruments consist of foreign currency forward exchange contracts. Fair values for derivative financial instruments are based on broker quotations and are classified as Level 2. See note 12 for further details on Derivative Financial Instruments.

The fair value of the Group's current assets and current liabilities including short term deposits with Banks, Mutual Funds and Short term loans approximate their carrying values because of their short-term maturity. The fair value of held to maturity investment securities is based on the quoted prices and approximates its fair value.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis - certain assets are measured at fair value on a nonrecurring basis and therefore are not included in the recurring fair value table above.

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The assets and liabilities consist primarily of long term debt and other non-financial assets such as goodwill and intangible assets. Goodwill and intangible assets are measured at fair value initially and subsequently when there is an indicator of impairment and the impairment is recognized.

### 29. COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The components of accumulated other comprehensive loss for the years ended June 30, 2012 and 2013 :

	<u>June 30, 2012</u>	<u>June 30, 2013</u>
Unrealized gain on securities available for sale	\$-	\$756
Unrealized loss on cash flow hedges	(69,328)	(82,257)
Unrealized loss on defined benefit plan	(2,790)	(3,392)
Cumulative translation adjustment	(260,066)	(377,581)
	<u>(\$332,184)</u>	<u>(\$462,474)</u>

### 30. SUBSEQUENT EVENT

On July 31, 2013 the Group announced an dividend of ₹6.00 per share amounting to ₹4,181 million (\$70,403).

The Group has evaluated all the subsequent events through July 31, 2013, which is the date on which these financial statements were issued, and no events have occurred from the balance sheet date through that date that would have material impact on the consolidated financial statements.