HCL TECHNOLOGIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Thousands of US Dollars, except share data and as stated otherwise)

1. ORGANIZATION AND NATURE OF OPERATIONS

Company Overview

HCL Technologies Limited and its consolidated subsidiaries and associates, (hereinafter collectively referred to as 'HCL' or 'the Company') are primarily engaged in providing a range of information technology, business process outsourcing and infrastructure product and management services. The Company was incorporated in India in November 1991 and focuses on technology and R&D outsourcing, working with clients in areas at the core of their business. The Company leverages an extensive offshore infrastructure and its global network of offices in various countries and professionals to deliver solutions across select verticals including Retail, Telecom, Financial Services, Hitech , Media and Entertainment, Life Sciences.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation and Principles of consolidation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") to reflect the financial position and results of operations of the Company along with its subsidiaries.

The consolidated financial statements present the accounts of the Company and all of its subsidiaries, which are more than 50% owned and controlled. All material inter-company accounts and transactions are eliminated on consolidation. Minority interest represents the minority shareholders' proportionate share of the net assets and the results of operations of the Company's majority owned subsidiaries.

The Company 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. In the case of investments in Limited Liability Partnerships (LLPs), significant influence is presumed to exist where the Company has more than a 5% partnership interest. The excess of the cost over the underlying net equity of investments in affiliates is allocated to identifiable assets based on the fair value at the date of acquisition. The unassigned residual value of the excess of the cost over the underlying net equity is recognized as goodwill.

The Company'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 Company is under no guaranteed obligation or otherwise committed to provide further financial support. The Company's share of net assets of affiliates is included in the carrying amount of the investment in the consolidated balance sheets. A transaction of an affiliate of a 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.

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 stockholders' equity when the transaction occurs.

(b) Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amount of revenues and expenses

during the reporting periods. Significant estimates and assumptions are used for, but not limited to accounting for costs expected to be incurred to complete performance under software development arrangements, allowance for uncollectible accounts receivable, accrual of warranty costs, income taxes, future obligations under employee benefit plans, the useful lives of property, equipment and intangible assets, impairment of goodwill and valuation allowances for deferred tax assets. Actual results could differ from those estimates. Appropriate changes in estimates are made as management become aware of changes in circumstances surrounding the estimates. Changes in estimates are reflected in the financial statements in the period in which changes are made.

(c) Functional currency and translation

The consolidated financial statements are reported in United States Dollars (US Dollars). The functional currency of each entity in the Company is its respective local currency except the subsidiary in Austria where the functional currency is US Dollar. The translation of the functional currency into US Dollars is performed for balance sheet accounts using the exchange rates in effect at the balance sheet date and for revenue, expense and cash flow items using an appropriate monthly weighted average exchange rate for the respective periods. The gains or losses resulting from such translation are reported as a component of other comprehensive income/(loss), within stockholders' equity.

Transactions in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the balance sheet date. The resultant exchange gains or losses are included in the consolidated statements of income.

(d) Revenue recognition

Revenues from software development services comprise income from time-and-material, fixed price contracts and fixed time frame contracts. Revenue with respect to time-and-material contracts is recognized as related services are performed. Revenue with respect to fixed price contracts and fixed time frame contracts is recognized in accordance with the percentage of completion method. Guidance has been drawn from the Accounting Standards Executive Committee's conclusion in paragraph 95 of Statement of Position (SOP) 97-2, *Software Revenue Recognition*, to account for revenue from fixed price arrangements for software development and related services. The input (cost expended) method has been used to measure progress towards completion, as there is a direct relationship between input and productivity. Provisions for estimated losses 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 right to receive is established. Incremental revenue from existing contracts arising on future sales of products of the customers will be recognized when it is earned.

Revenue from sale of products is recognized when persuasive evidence of an arrangement exists, risk and reward of ownership has been transferred to the customer, the sales price is fixed or determinable and collectibility is reasonably assured. 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 from installation services is recognized when installation of networking equipment at customer site is completed and accepted by the customer. Revenue from maintenance services is recognized ratably over the period of the contract.

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

in accordance with the percentage of completion method.

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.

Consistent with the guidance in EITF Issue No. 06-03, How taxes collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation), which became applicable to the company on July 1,2007, the company continues to present revenues net of sales, value-added taxes and service tax in its consolidated statements of income. Revenue is recognized net of discounts and allowances.

The Company accounts for volume discounts and pricing incentives to customers using the guidance in EITF Issue 01-09, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products).

The Company follows the guidance in EITF Issue No. 00-21, Revenue Arrangements with Multiple Deliverables, for all revenue arrangements with multiple deliverables, according to which, the arrangement consideration is allocated to the units of accounting based on their fair values. The revenue recognized for the delivered items is limited to the amount that is not contingent upon the delivery or performance of the undelivered items.

After the arrangement consideration has been allocated to each separate unit of accounting, the revenue is recognized for each unit of accounting based on the nature of services included in each unit of accounting. The revenue allocable to a delivered item(s) that does not qualify as a separate unit of accounting within the arrangement is combined with the revenue allocable to the other applicable undelivered item(s) within the arrangement. The appropriate recognition of revenue is then determined for those combined deliverables as a single unit of accounting.

In certain cases, the application of the contingent revenue provisions of EITF Issue No. 00-21 could result in recognizing a loss on the delivered element. In such cases, the cost recognized is limited to the amount of non-contingent revenues recognized and the balance costs are recorded as an asset and are reviewed for impairment based on the estimated net cash flows to be received for future deliverables under the contract. These costs are subsequently recognized on recognition of the revenue allocable to the balance deliverables.

Revenue from transition services in outsourcing arrangements is deferred and recognized over the period of the arrangement; direct and incremental costs in relation to such an arrangement are also deferred. 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 Company periodically estimates the undiscounted cash flows from the arrangement and compares it with the unamortized costs. If the unamortized costs exceed the undiscounted cash flow, a loss is recognized.

In accordance with EITF Issue No. 01-14, *Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred*, the Company has accounted for reimbursements received for out-of-pocket expenses incurred as revenues in the statement of operations.

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.

When the Company receives advance payments from customers for sale of products or provision of services, such payments are reported as advances from customers until all conditions for revenue recognition are met.

Warranty costs on sale of goods and services are accrued based on management estimates and historical data at the time those related revenues are recognized.

(e) Inventory

Inventory consists of goods that are held for sale in the normal course of business and are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average method and comprises the purchase price and attributable direct costs.

(f) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Assets under capital leases are stated at the present value of minimum lease payments. The Company depreciates property and equipment over the estimated useful life using the straight-line method. Leasehold land is amortized over the period of the lease. Leasehold improvements are amortized on a straight-line basis over the shorter of the primary lease period or estimated useful life of the asset. Assets under capital leases are amortized over their estimated useful life or the lease term, as appropriate. The cost of software obtained for internal use is capitalized and amortized over the estimated useful life of the software. The estimated useful lives of assets are as follows:

Buildings	20 years
Computer and Networking Equipment	2 to 4 years
Software	3 years
Office Furniture and Equipment	4 years
Plant & Equipments	4 years
Vehicles	5 years

The cost and related accumulated depreciation are removed from the consolidated financial statements upon sale or disposition of an asset and resulting gain or losses recognized in the income statements.

Advances paid towards the acquisition of property and equipment outstanding at each balance sheet date and the cost of property and equipment not put to use before such date are disclosed under capital work-in-progress.

Assets given under finance lease are recognized as receivables at an amount equal to the net investment in the leased assets. The finance income is recognized based on the periodic rate of return on the net investment of the lessor, outstanding in respect of the finance lease.

(g) Impairment of long-lived assets and long-lived assets to be disposed of

In accordance with the requirements of Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, long-lived assets are reviewed for impairment whenever events or changes in business circumstances indicate that the carrying amount of assets may not be fully recoverable. Each impairment test is based on a comparison of the undiscounted cash flows expected to be generated from the use of the asset to its recorded value. If impairment is indicated, the asset is written down to its fair value. Long-lived assets to be disposed off are reported at the lower of the carrying value or fair value less cost to sell.

(h) Start-up-costs

Cost of start-up activities including organization costs are expensed as incurred.

(i) Investment securities

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

Available-for-sale securities 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, 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. A decline in the fair value below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value and the resultant impairment loss is recorded in the consolidated statement of income.

Held-to-maturity securities are carried at amortized cost. Dividend and interest income are recognized when earned.

(j) Other investments

Equity and preferred securities, which do not have a readily determinable fair value, are reported at cost, subject to an impairment charge for any other than temporary decline in value. The impairment is charged to income. In order to determine whether a decline in value is other than temporary, the Company evaluates, among other factors, the duration and extent to which the value has been less than the carrying value, the financial condition of and business outlook for the investee, including key operational and cash flow indicators, current market conditions and future trends in the industry and the intent and ability of the Company to retain the investment for a period of time sufficient to allow for any anticipated recovery in value.

(k) Research and development

Revenue expenditure on research and development is expensed as incurred. Capital 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.

Research and development expenses for the year ended June 30, 2006, June 30, 2007 and June 30, 2008 were $918, $2,763 and $5,686 respectively.

(l) Software product development

In accordance with the requirements of SFAS No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed*, software product development costs are expensed as incurred until technological feasibility is achieved. Software product development costs incurred subsequent to the achievement of technological feasibility are capitalized and amortized on a product-by-product basis at the higher of straight-line method over the remaining estimated useful lives or the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for the product.

(m) Cash equivalents, deposit with banks and restricted cash

The Company considers all highly liquid investments with remaining maturities, 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.
Investments in bank deposits represent term deposits placed with banks earning fixed rate of interest with maturities ranging from more than three months to one year. Interest on investments in bank deposits is recognized on accrual basis.

(n) Income taxes

Income taxes are accounted for using the asset and liability method. The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to each entity. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance of any tax benefits of which future realization is uncertain.

The Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109 (FIN 48) effective July 1, 2007. FIN 48 clarifies the accounting and reporting for uncertainties in income tax by prescribing a minimum recognition threshold for a tax position taken or expected to be taken in a tax return that is required to be met before being recognized in the financial statements. Upon adoption of FIN 48, the company continued the policy to include interest and penalties within the provision for income tax.

(o) Earnings per share

In accordance with SFAS No. 128, *Earnings Per Share* (EPS), 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.

(p) Stock based compensation (Refer note 23)

Effective July 1, 2005, the Company has adopted the fair value recognition provisions of SFAS 123(R), which is a revision of FAS 123. The Company has adopted the modified prospective transition method, and therefore has not restated prior periods' results. Under this method the Company recognizes compensation expense only for the unvested options outstanding as at July 1, 2005 and for all share-based payments granted after July 1, 2005, in accordance with SFAS 123(R).

In March 2005, the Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin No. 107 ("SAB 107") regarding the SEC's interpretation of SFAS 123(R) and the valuation of share-based payments for public companies. HCL has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

In conjunction with the adoption of SFAS 123(R), the Company changed its method of attributing the value of stock

based compensation to expense from the accelerated multiple options approach to the straight line single option approach. Compensation expense for all share based payment awards granted on or prior to June 30, 2005 will continue to be recognized using the accelerated multiple option approach while compensation expense for all share based payment award granted subsequent to June 30, 2005 is recognized using straight line single option method.

For earlier years, the Company accounted for forfeiture as they occurred. Upon adoption of SFAS 123(R), the Company recognizes stock-based compensation cost based on options ultimately expected to vest and accordingly cost has been reduced for estimated forfeitures. SFAS 123(R) requires forfeiture to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeiture differs from those estimates. Deferred stock based compensation on the adoption has been eliminated against additional paid in capital.

Determining the appropriate fair value model and calculating the fair value of stock options require the input of highly subjective assumptions, including but not limited to the expected life of the stock options and stock price volatility. Management determined that trend based historical volatility based on actively traded stock of the Company represents a better indicator of expected volatility than implied volatility. All stock options have been accounted as a fixed stock option plan.

The Company has elected to adopt the alternative transition method provided in the FASB Staff position No.FAS123(R)-3 ' *Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards'*, to establish the beginning balance of additional paid in capital ("APIC Pool") relating to tax effects of employee stock based compensation, and to determine the impact on APIC pool and Consolidated Statements of Cash Flows of the tax effects of options outstanding upon adoption of SFAS123(R).

(q) Employee benefits

Contributions to defined contribution plans are charged to statements of income in the period in which they accrue. The liability in respect of defined benefit plans is calculated annually by independent actuaries using the projected unit credit method in accordance with SFAS No. 87, *Employers' accounting for pensions*. Actuarial gains and losses arising from experience, adjustments, change in actuarial assumptions and amendments to defined benefit plans are charged or credited to statements of income over the average remaining service lives of the employees.

Effective June 30, 2007, the Company adopted the provisions of SFAS No. 158, "Employer's accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)". The provisions of SFAS No. 158 were adopted pursuant to the transition provisions therein. Accordingly, the Company has recognized unrecognized actuarial losses as a liability with corresponding adjustment to accumulated other comprehensive income (net of tax), a separate component of shareholders' equity.

(r) Dividend

Final 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.

(s) Derivative and hedge accounting

The Company purchases foreign exchange forward contracts and options to mitigate the risk of changes in foreign exchange rates associated with forecasted transactions denominated in certain foreign currencies.

In accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS No. 133, the Company 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 hedge accounting relationship are marked to market at each reporting date and the related gains/losses are recognized in consolidated statements of income as foreign exchange gain/ (losses).

The foreign exchange forward contracts 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 under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities are deferred and recorded as component of accumulated other comprehensive income until the hedged transaction occurs and are then recognized in the consolidated statement of Income under the same category as of the hedged item. The ineffective portion of hedging derivative is immediately recognized in consolidated statement of income.

In respect of derivatives designated as hedges, the Company 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 Company 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 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) 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 will remain in other comprehensive income until the forecasted transaction occurs. Any further changes in the fair value of the derivative financial instrument will be recognized in current period earnings.

(t) Business combinations, goodwill and intangibles

In accordance with the requirements of SFAS No. 141, *Business Combinations,* purchase method of accounting has been used for all business combinations. Intangible assets acquired in a purchase method business combination are recognized and reported apart from goodwill in accordance with SFAS No. 141. Any purchase price allocated to an assembled workforce is not accounted separately.

Goodwill and Other Intangible Assets have been accounted for as per SFAS No. 142*, Goodwill and Other Intangible Assets*. The Company does not amortize goodwill but instead tests goodwill for impairment at least on an annual basis.

Intangible assets acquired individually, with a group of other assets or in a business combination are carried at cost less accumulated amortization. The intangible assets are amortized over their estimated useful lives in proportion to the economic benefits consumed in each period. The estimated useful lives of the intangible assets are as follows:

Employee workforce, in an asset acquisition	5 years
Customer relationships	1 to 10 years
Existing customer contracts	0.5 to 5 years
Technology	5 years
Non-compete agreements	3 to 5 years
Intellectual property rights	4 years

(u) Recent accounting pronouncements

In September 2006, the FASB issued SFAS 157, Fair Value Measurements, which establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements. SFAS 157 was effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position No SFAS 157-2 (FSP FAS 157-2) which delays the effective date of SFAS157 for all non financial assets and non financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This is applicable for the company from fiscal year commencing July 1, 2008. The Company is currently evaluating the requirements of SFAS 157 and has not yet determined the impact on the consolidated financial statements

In February 2007, the FASB issued FASB Statement 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159"). SFAS 159 allows the Company to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007, which is fiscal year commencing July 1, 2008 for the Company. The company is currently evaluating the requirements of SFAS 159 and impact of same on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141R), which is a revision of SFAS No. 141, Business Combinations. This statement establishes principles and requirements for how an acquirer: recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Company will be required to apply this new standard prospectively to business combinations which are consummated in fiscal period beginning after December 15, 2008. Early adoption is prohibited.

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements (SFAS No. 160 (an amendment of ARB No. 51)). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the non-controlling interest, changes in a parent's ownership interest and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. The Company will be required to adopt this new standard for fiscal years,

and interim periods within those fiscal years, beginning on or after December 15, 2008 which is fiscal year commencing July 1, 2009 for the Company. The Company is currently evaluating the impact of the adoption of SFAS No. 160 on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities — An Amendment of FASB Statement No. 133 (SFAS No. 161). SFAS No. 161 requires enhanced disclosures on derivative and hedging activities by requiring objectives to be disclosed for using derivative instruments in terms of underlying risk and accounting designation. This statement requires disclosures on the need of using derivative instruments, accounting of derivative instruments and related hedged items, if any, under SFAS No. 133 and the effect of such instruments and related hedge items, if any, on the financial position, financial performance and cash flows. The Company will be required to adopt this new statement for fiscal years beginning after November 15, 2008, which is fiscal year commencing July 1, 2009 for the Company. The Company is currently evaluating the impact of the adoption of SFAS No. 161 on its consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. The new standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP) for non-governmental entities. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board ("PCAOB") amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. The Company is currently evaluating the impact of the adoption of SFAS No. 162 on its consolidated financial statements.

(v) Reclassifications

Certain reclassifications have been made to conform prior period data to current presentation. The reclassifications had no impact on the reported net income or stockholders' equity.

3. FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents, trade receivables, investment securities, short-term loans and derivative instruments. The cash resources of the Company 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, 2007 and 2008, 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 Company are primarily corporations based in the United States and United Kingdom and accordingly, trade receivables are concentrated in the respective countries. To reduce the risk, the Company performs ongoing credit evaluation of customers.

Further a single customer accounted for 13% and 10.9% and top five customers accounted for 24% and 21% of the receivable balance of the Company as of June 30, 2007 and 2008 respectively.

4. CASH AND CASH EQUIVALENTS

The cash and cash equivalents as of June 30, 2007 and 2008 are as follows:

	2007	2008
Deposits with banks	$7,678	$18,926
Other cash and bank balances	$80,371	$89,228
Cash and cash equivalents	**$88,049**	**$108,154**

5. PROPERTY AND EQUIPMENT

As of June 30, 2007 and 2008, property and equipment comprise the following:

	2007	2008
Freehold Land	$18,698	$18,638
Lease hold Land	27,409	25,976
Buildings	39,948	45,144
Computer and networking equipment	126,386	147,765
Plant and Equipment	84,485	96,670
Software	51,071	71,638
Office furniture and equipment	80,762	87,831
Vehicles	8,849	12,812
Capital work-in-progress	53,607	99,575
	491,215	**606,049**
Accumulated depreciation and amortization	(233,609)	(296,596)
Property and equipment, net	**$257,606**	**$309,453**

Depreciation expense was $37,715, $49,809 and $62,318 for the years ended June 30, 2006, 2007 and 2008 respectively. Accumulated depreciation and amortization includes accumulated amortization for software of $25,597, $35,794 and $47,133 as of June 30, 2006, 2007 and 2008 respectively. Amortization expense for software for the years ended June 30, 2006, 2007 and 2008 was $4,542, $7,678 and $11,259 respectively.

Computer and networking equipment as of June 30, 2006, 2007 and 2008 includes certain equipment given on operating lease costing $692 , $396 and $345 respectively. The accumulated depreciation on these equipment as of June 30, 2006, 2007 and 2008 amounts to $593, $271 and $316 respectively.

As of June 30, 2007 and 2008 property and equipment includes assets, held under capital leases, which comprise:

	2007	2008
Computer and networking equipment	$5	$232
Land	1,578	-
Building	6,099	-
Vehicles	7,505	11,305
Office furniture and equipment	-	39
	15,187	11,576
Accumulated depreciation	(3,071)	(4,054)
	$12,116	**$7,522**

During the year ended June 30 2006, the Company had entered into a lease agreement for acquisition of certain land and building, wherein on expiry of five years, the lessor was bound to sell and the Company was required to purchase at the rates mentioned in the agreement and during the five year period, if the lessor desires to sell the property, the Company has the first right to purchase these assets at the rates mentioned in the agreement. As of June 30, 2007 this transaction had been treated as a capital lease and the amount appropriated to freehold land and building on a fair value basis.

During the current year the Company has purchased the said land and building at a value of $5,291 which has resulted in an adjustment to the values of land and building capitalized earlier on the basis of fair values.
Also refer note 16 for assets secured by charge for credit facilities taken by the company.

6. LEASES

The Company has taken on lease computer equipment, vehicles and office furniture and equipment under capital leases. Future minimum lease payments under capital leases as of June 30, 2008 are as follows:

Year ending June 30,	
2009	$3,177
2010	2,415
2011	1,664
2012	924
2013	-
Total minimum payments	**$8,180**
Less: Amount representing future interest	1,747
Present value of minimum payments	**$6,433**
Less: Current portion	2,393
Long term capital lease obligation	**$4,040**

The Company has taken on lease office facilities under non-cancellable operating lease agreements. Future minimum lease payments as of June 30, 2008 for such non-cancelable operating leases are as follows:

Year ending June 30,	
2009	$38,021
2010	29,267
2011	24,501
2012	20,326
2013	17,533
Thereafter	97,472
Total minimum payments	**$227,120**

Additionally, the Company 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 year ended June 30, 2006, 2007 and 2008 amounts to $20,222, $28,080 and $45,693 respectively.

The Company has given networking equipment to its customers on finance leases. The future lease receivables in respect of assets given on finance lease are as follows:

	Total minimum lease payments receivables as on 30 June 2008	Interest included in minimum lease payments receivables	Present value of minimum lease payments receivables
Not later than one year	471	176	295
Later than one year but not later than five years	242	54	188
	$713	**$230**	**$483**

The Company has given networking equipment to its customers on non-cancellable operating lease for a maximum period of three years. The lease rental income recognized in the profit and loss account for the year ended June 30, 2006, 2007 and 2008 are $186, $266 and $119 respectively. The future minimum lease receivables and maturity profile of non-cancellable operating leases are as follows:

	2007	**2008**
Not later than one year	$182	$-
Later than one year but not later than five years	19	-
	$201	**$-**

7. GOODWILL

The following table presents the changes in goodwill during the year ended June 30, 2007 and 2008:

	2007	**2008**
Opening Balance	$171,944	$189,857
Goodwill relating to business consideration consummated during the year		32,481
Effect of exchange rate changes	17,913	(8,092)
Closing Balance	**$189,857**	**$214,246**

Goodwill has been allocated to the following operating segments:

	2007	**2008**
Software services	$179,157	$203,650
Networking services	1,488	1,409
Business process outsourcing services	9,212	9,187
	$189,857	**$214,246**

8. INTANGIBLE ASSETS

Information regarding the Company's other intangible assets acquired either individually or with a group of other assets or in a business combination is as follows:

	June 30, 2007			June 30, 2008		
	Gross carrying amount*	Accumulated amortization*	Net	Gross carrying amount*	Accumulated amortization*	Net
Intellectual property rights	$350	($350)	$-	$350	($350)	$-
Technology	$-	$-	$-	$4,133	($310)	$3,823
Amortizable employee workforce	$235	($235)	$-	$235	($235)	$-
Customer related intangibles	$18,940	($10,966)	$7,974	$18,673	($14,061)	$4,612
Non-compete agreements	$169	($132)	$37	$169	($132)	$37
	$19,694	**($11,683)**	**$8,011**	**$23,560**	**($15,088)**	**$8,472**

* includes effect of exchange rate changes

Amortization expense for other intangible assets for the year ended June 30, 2006, 2007 and 2008 is $3,078, $3487 and $4,174 respectively. Amortization expense is included in depreciation and amortization other than $2,711 , $2,658 and $3,139 which is reported as a reduction of revenue during the year ended June 30, 2006, 2007 and 2008 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).* As of June 30, 2008 the Company has unamortized Customer related intangibles of $3,351 which will be amortized in future periods and reported as a reduction from revenue. The estimated amortization schedule for the intangible assets on a straight-line basis is set out below:

Year ending June 30,	
2009	$ 4,728
2010	1,090
2011	1,090
2012	960
2013	604
	$8,472

9. BUSINESS COMBINATIONS

During the previous years, the Company has consummated several business combinations. The consolidated financial statements include the operating results of each business from the dates of the respective acquisitions.

Capital Stream Inc.

On February 15 2008, the Company through its wholly owned subsidiary HCL America Inc acquired Capital Stream Inc, US for a cash consideration of $ 39,032. Capital Stream Inc. provides software and related services to the commercial finance industry.

This transaction has been accounted for by following the purchase method and resulted in intangibles and goodwill aggregating to $ 4,801 and $29,412 respectively. The intangibles are represented by technology and customer contracts valuing to $ 4,133 and $ 668 respectively. These are being amortized over a period of 5 years.

The acquisition will enhance HCL's ability to provide end-to-end solutions through product and multi-service delivery capability to commercial and retail financial institutions.

The purchase consideration has been allocated to the acquired assets and liabilities as follows:

Particulars	Amount
Net tangible assets/ (liabilities)	$ (1,573)
Technology	4,133
Customer contracts	668
Deferred tax assets, net	6,392
Goodwill	29,412
Total purchase consideration	**$ 39,032**

The goodwill as been allocated to software segment.

HCL EAI Services Inc. ("HCL EAI") **[***formerly "Aalayance Inc."***]**

In January 2003, the Company acquired a 19.03% equity interest in HCL EAI for a cash consideration of $450. During January 2005, the Company acquired an additional stake by way of subscription of 9,081,268 equity shares of HCL EAI for a cash consideration of $1,976. Consequent to the acquisition, the Company's stake had increased to 58.09% (51% on a fully diluted basis) which made HCL EAI, and its subsidiaries, HCL EAI Services Private Limited, India and Aalayance UK Limited, UK the subsidiaries of the Company. This had resulted in goodwill aggregating $827.

During the current year, pursuant to shareholder's agreement, the Company acquired the balance equity interest in HCL EAI for a purchase consideration amounting to $ 2,951. HCL EAI had granted options for 2,112,868 equity shares to its employees and employees of its subsidiaries, prior to HCL EAI becoming the subsidiary of the Company. As a part of the transaction, these options have also been acquired by the Company at a cash consideration of $460. This transaction was accounted for by following the purchase method and resulted in goodwill amounting to $ 3,069. The goodwill has been allocated to the software services reporting segment.

Jones Apparel Group Inc.

In June 2002, the Company entered into an agreement with Jones Apparel Group Inc. ("Jones"), under which two new companies were established in Bermuda and Delaware. The Company contributed $1,006 towards a 51% equity interest in the new companies. Jones contributed cash amounting to $256 and other intangible assets. As a part of this transaction, the Company has obtained binding commitments for the provision of IT enabled services to Jones, with an aggregate contract value of $21,000 up to June 30, 2005 and $5,250 in each of the two succeeding years. During the previous years, the Company and Jones have made additional equity contribution of $714 and $686 respectively.

During December 2007, the Company and Jones have entered into an agreement ("Termination Agreement ") to terminate the joint venture agreement entered in June 2002. As a part of the termination agreement, a subsidiary of the Company has obtained binding commitments for the provision of IT services to Jones, with an aggregate contract value of $22,500 unto 2012. The Joint venture entities continue to exist at the year end.

10. INVESTMENTS IN AFFILIATES

The following interests have been accounted for under the equity method:

- *49% interest in NEC HCL System Technologies Limited*

In June 2005, the Company entered into a Joint Venture Agreement with NEC Corporation, Japan ("NEC") and NEC System Technologies Limited ("NECST"), Japan, a subsidiary of NEC, whereby the Company holds 49% stake in newly established joint venture entity, NEC HCL System Technologies Limited (“NECH”) and NEC and NECST jointly hold 51% stake. The Company has contributed $2,342 to the share capital of the NECH during the year ending 30 June 2006.

The Company accounts for its interest in NECH by equity method and for the year ended June 30, 2006 and June 30, 2007 and June 30, 2008 the equity in the gain/ (loss) of NECH is ($60), ($229) and $130 respectively. The carrying value of investment as of June 30, 2007 and June 30, 2008 is $2,356 and $2,354 respectively.

- *11.1% interest in Diamondhead Ventures LLP*

The Company held 11.1% interest in Diamondhead Ventures LLP, a technology venture fund till February 2006 which was accounted for using the equity method. Subsequently in the accounting year ended June 30, 2006, the Company sold its entire holding at a gross consideration of $11,319. The carrying value of investment as on the date of sale amounted to $8,793. The difference between the sales proceeds and carrying value of the investment amounting to $2,186, net of related expense has been accounted for as a gain in the income statement in the accounts for the year ending June 30, 2006.
Share of Income/(loss) from affiliate during the year ended June 30,2006 is $118.

- *50% interest in HCL Answerthink Inc.*

In February 2002, the Company formed a joint venture, HCL Answerthink Inc. with Answerthink Inc., USA to provide offshore implementation and maintenance services and invested $810. The Company held 50% interest in this joint venture as of June 30, 2006 and accounted for its interest in this joint venture by the equity method.

The carrying values of the investment in HCL Answerthink Inc. as of June 30, 2006 and immediately before the process of winding up amounted to $155 and Nil respectively. During the financial year ended June 30, 2007, HCL Answerthink went into winding up process and the company received $143 for its share of interest in the joint venture and consequently recorded a loss of $12 in the accounts for the year ended June 30, 2007.

11. INVESTMENT SECURITIES

Investment securities, available for sale consist of the following:

As of June 30, 2007:

	Carrying value	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Equity securities	$107	$133	$-	$240
Mutual fund units	376,845	19,526	(1)	396,370
Total	$376,952	$19,659	($1)	$396,610

As of June 30, 2008:

	Carrying value	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Equity securities	107	4	-	111
Mutual fund units	316,011	19,442	-	335,453
Total	$316,118	19,446	$-	$335,564

Proceeds from the sale of securities, available for sale, during the years ended June 30, 2006, June 30, 2007 and June 30, 2008 were $772,744 $1,002,664 and $1,373,718. Interest and dividend income earned from these investments during the years ended June 30, 2006, 2007 and 2008 was $1,820, $2,918 and $2,747 respectively.

The table summarizes the transactions for available for sale securities: -

	2006	2007	2008
Gross realized gains	$15,436	$18,036	$28,276
Gross realized loss	(70)	(7)	(91)
The amount of the net unrealized holding gain or loss on available-for-sale securities for the period that has been included in accumulated other comprehensive income. (including effect of exchange rate changes)	10,088	17,214	15,468
The amount of gains and losses reclassified out of accumulated other comprehensive income into earnings for the period.	8,746	9,025	15,680

In connection with the strategic alliance agreement with Zamba Corporation Inc ("Zamba") to jointly pursue, facilitate and maintain business opportunities in the area of provision of CRM services, the Company for a composite cash consideration of $1,000 acquired 2,460,025 shares of Zamba's common stock in a private transaction and warrants to purchase 615,006 shares of Zamba's common stock. During the year ended June 30, 2003 and 2004, the Company sold 100,000 and 1,337,886 shares of Zamba realizing $0.19, and $0.26 per share.

On December 31, 2004, as per the agreement between Zamba and Technology Solution Company Inc. ("TSC"), Zamba was acquired by TSC and 0.15 equity shares of TSC were allotted for every share of Zamba held by the

Company. Accordingly, TSC issued 149,571 equity shares and warrants to purchase 92,250 equity shares of TSC at $4.07 to the Company. The warrants were exercisable at any time till February 21, 2007. During the previous years TSC went for reverse stock split and issued 7478 equity shares and equivalent warrants to purchase 4,613 equity shares. The warrants have expired unexercised. As quoted market prices are available for the common stock of TSC, the common stock is classified as available-for-sale. The Company has sold 2000 shares during the previous year, realizing $21 and making a gain/ (loss) of ($7).

The current voting equity interest of the Company does not give it the ability to exercise significant influence over the operating and financial policies of TSC.

In relation to a settlement agreement with the customer, American Commercial Lines Inc., the Company has received 883 equity shares and an additional 6,907 equity shares due to equity share splits from time to time till June 30, 2007. The Company holds 7,790 equity shares as of June 30’2007 and June 30’ 2008.

Investments held-to-maturity as on June 30, 2007 and June 30, 2008 are $2,946 and $2,788. The maturity profile of the investments held-to-maturity as of June 30, 2008 is set out below:

	Carrying value	Fair value
Less than one year	$2,788	$2,788
One to five years	-	-
Total	**$2,788**	**$2,788**

12. OTHER INVESTMENTS

The Company had investments in LLP Technology Venture Funds and its interest in these funds ranged from 0.6% to 4.7%. During February 2006, the Company sold its entire holdings in LLP technology venture funds for a gross consideration of $9,058 The carrying value of the investment aggregated $9,547 and $12,258 immediately prior to the sale of the investments and on June 30, 2005 respectively. Consequent to the sale of the investments, the Company has recorded a loss of $761 including other related expenses during year ending June 30, 2006.

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13. DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into foreign exchange forward contracts and options, where the counterparty is a bank. The Company considers the risks of non-performance by the counterparty as non-material. The use of derivatives to hedge foreign currency forecasted cash flows is governed by the Company's strategy which provide principles on the use of such forward contracts and currency options consistent with the Company's Risk Management Policy. The forward foreign exchange contracts mature between one to thirty two months.

The following table presents the aggregate notional principal amounts of the Company's outstanding derivative financial instruments together with the related balance sheet exposure:

	Notional principal amounts (Note 1)		Balance sheet exposure Asset/ (Liability) (Note 2)	
As of June 30,	2007	2008	2007	2008
Foreign exchange forward and options contracts denominated in:				
United States Dollars	$1,176,410 (Sell)	$1,853,620 (Sell)	$73,383	($152,526)
United States Dollars	$1,000 (Buy)	-	(79)	-
Great Britain Pounds	£76,381(Sell)	£41,233(Sell)	(2,673)	(5,809)
Euros	€ 81,051(Sell)	€ 41,659(Sell)	(1,086)	(197)
Australian Dollars	$32,139(Sell)	$6,400(Sell)	(1,419)	(659)
Swiss Francs	CHF 600(Buy)	-	8	-
			$68,134	**($159,191)**

1. 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 Company's exposure to credit risk as these contracts are settled at their fair values at the maturity date.
2. The balance sheet exposure denotes the fair value of foreign exchange forward and option contracts at the reporting date and is presented in United States Dollars.

In connection with cash flow hedges, the Company has recorded USD 114,006 of net losses (Net of tax USD 95,700) as a component of accumulated other comprehensive income within stockholders' equity as at June 30, 2008.

The following table summarizes activity in the accumulated other comprehensive loss within stockholders' equity related to all derivatives classified as cash flow hedges during the years ended June 30, 2008:

	2008
Balance as at the beginning of the year	$-
Unrealized gain/ (losses) on cash flow hedging derivatives during the year	(96,014)
Net gains reclassified into net income on occurrence of hedged transactions	17,992
Balance as at the end of the year	**(114,006)**
Deferred tax	18,306
	($95,700)

As at June 30, 2008, the estimated net amount of existing loss that is expected to be reclassified into earnings within the next twelve months is USD 18,293.

No significant amounts of gains or losses were reclassified from OCI into earnings as a result of forecasted transactions that failed to occur for the year ended June 30, 2008.

14. OTHER CURRENT ASSETS

As of June 30, 2007 and 2008, other current assets comprise the following:

	2007	2008
Prepaid expenses	$16,253	$22,586
Interest receivable	2,114	5,714
Prepaid/advance taxes	46,428	96,724
Deposits	2,786	2,259
Fair value of derivative financial instruments	68,134	-
Deferred Cost	3,984	20,116
Others	6,576	9,121
Other current assets	**$146,275**	**$156,520**

15. ALLOWANCES FOR ACCOUNTS RECEIVABLE

The Company 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:

	2007	2008
Balance at the beginning of the year	$4,903	$7,425
Additional provision during the year	2,793	4,646
Deductions on account of write offs and collections	(271)	(647)
Balance at the end of the year	**$7,425**	**11,424**

16. SHORT TERM LOANS

The Company has line of credit facilities in India from its bankers aggregating $73, 726 for financing its fund based and non-fund based working capital requirements. These facilities bear interest which averaged 0.4% to 12.75% per annum. As of June 30, 2007 and June 30, 2008, there were no outstanding balances against fund-based facilities and an outstanding of $4,472 and $8,560 against non-fund based facilities respectively. These facilities are secured by certain current and non current assets of the Company.

COMNET, a subsidiary based in India, has fund-based facilities of $4,182 and non-fund based facilities of $55,420. These facilities bear interest which averaged 12.25% to 15.6% per annum. As of June 30, 2007 and 2008, outstanding balances against the fund-based facilities were $6,906 and $ 4,519, and outstanding balances against the non fund-based facilities were $3,124 and $20,750 respectively. These facilities are secured by certain current and non current assets of the subsidiary

HCL America, a subsidiary based in the US, has obtained a revolving line of credit facility from its bankers subject to an overall ceiling of $7,750 for financing its fund and non-fund based working capital requirements. These facilities bear interest which averaged 0.4% to 12.75% per annum. As of June 30, 2007 and 2008, there were nil and $1,979 outstanding balances against this line of credit. The facilities are issued against a corporate guarantee furnished by the Company.

HCL Great Britain, a subsidiary based in the UK has obtained a revolving line of credit facility from a bank subject to an overall ceiling of $10,559. As of June 30, 2007 and 2008, outstanding balances against the fund-based facilities were nil. The facilities are issued against corporate guarantee furnished by the Company and contain financial covenants and restrictions on indebtedness.

Non fund based facilities include guarantees and letters of credit

17. LONG TERM DEBTS

HCL Comnet Ltd, a subsidiary has an unsecured loan of $1,833 as of June 30, 2008. This long is repayable with in a period of next five years:

	2007	2008
Other Secured loan	$1,775	$-
Other Loan		1,833
Less : Current portion of long term debts	(1,775)	(443)
	$-	**$1,390**

	2007	2008
Within one year	$-	$443
One to two years	-	389
Two to three years	-	422
Thereafter	-	579
	$-	**$1,833**

18. OTHER LIABILITIES

As of June 30, 2007 and 2008, other current liabilities comprise the following:

	2007	2008
Advances from customers	$2,027	$14,232
Sales tax and Other taxes payable	17,636	18,978
Unclaimed dividend	376	446
Accrued liabilities and expenses	66,662	94,995
Warranty obligations / provision	324	339
Fair value of derivative financial instruments	-	61,759
Others*	17,182	$31,569
Other current liabilities	**$104,207**	**$222,318**

*include book overdraft.

The movement in warranty obligations is given below:

	2007	2008
Balance at the beginning of the year	$659	$324
Additional provision during the year	-	215
Reduction due to utilizations	(335)	(200)
Balance at the end of the year	**$324**	**$339**

As of June 30, 2007 and 2008, other non current liabilities comprise the following:

	2007	2008
Accrued Employee Costs	$21,005	$26,106
Fair Value of derivative financial Instruments	-	97,432
Others	2,539	7,600
Balance at the end of the year	**$23,544**	**$131,138**

19. 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, 2008 is $0.05 (Rs. 2).

Voting

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

Dividends

Dividends declared and paid by the Company will be in Indian Rupees. Dividends payable to equity stockholders are based on the net income available for distribution as reported in HCL Technologies Limited unconsolidated financial statements 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 a general reserve. Further, Indian law on foreign exchange governs the remittance of dividends outside India. Such dividend payments are also subject to applicable taxes. The Company declared a cash dividend (including dividend tax, if any) of $131,380, $134,833 and $156,820 during the years ended June 30, 2006, 2007 and 2008 respectively. The dividend per share was $0.18, $0.18 and $0.18 during the years ended June 30, 2006, 2007 and 2008 respectively.

Stock Split (in the form of stock dividend)
On February 12, 2007, the shareholders of the Company approved a one-for-one stock split (in the form of stock dividend) which was effective on March 16, 2007. Consequently during the previous year, the Company capitalized an amount of $14,957 from its retained earnings to common stock. All references in the financial statements to number of shares, per share amounts, stock option data, and market prices of the Company's equity shares have been retroactively restated to reflect the stock split unless otherwise noted.

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 plan.

20. OTHER INCOME, NET

For the years ended June 30, 2006, 2007 and 2008 interest and other income comprises the following:

	2006	2007	2008
Interest income	$785	$3,016	$14,656
Dividend income from investments	1,208	2,078	2,525
Profit/ (loss) on sale of investment securities and other investments, net	15,746	18,029	28,185
Profit/ (loss) on divestment of stake in affiliates	2,186	(12)	
Foreign exchange gains/(losses), net	(21,086)	79,181	(71,327)
Miscellaneous income	1,748	1,410	1,023
Interest and other finance costs	(1,232)	(1,832)	(4,385)
Other income, net	**($645)**	**$101,870**	**($29,323)**

21. INCOME TAXES

The individual entities within the Company file individual tax returns as per regulations existing in their respective countries of domicile.
Total income taxes for the years ended June 30, 2006, 2007 and 2008 were allocated as follows:

	2006	2007	2008
Income from continuing operations	$13,403	$32,939	$29,453
Stockholders' equity for-			
▪ Tax benefits received on exercise of employee stock options reflected as part of additional paid in capital	(1,850)	(2,763)	(371)
▪ Unrealized holding gains/(losses) on available for sale investment securities	401	(1,593)	(17)
▪ Unrealized gain/(loss) on cash flow hedge	-	-	(18,306)
▪ Unrealized actuarial gain/(loss)	-	-	(713)
▪ Effect of exchange rate fluctuations	(179)	360	2,446
Total taxes	**$11,775**	**$28,943**	**$12,492**

Income tax expense attributable to income from continuing operations consists of:

	2006	2007	2008
Current -			
Indian taxes	$9,584	$19,068	$34,540
Foreign taxes	7,023	28,820	23,547
Total	**$16,607**	**$47,888**	**$58,087**
Deferred -			
Indian taxes	($1,975)	(13,411)	(21,791)
Foreign taxes	(1,229)	(1,538)	(6,843)
Total	**($3,204)**	**($14,949)**	**($28,634)**
Total taxes	**$13,403**	**$32,939**	**$29,453**

The reconciliation between the income tax expense of the Company and amounts computed by applying the Indian statutory income tax rate is as follows:

	2006	2007	2008
Income before taxes, share of income from affiliates and minority interest	$158,009	$327,951	$288,213
Average enacted tax rate in India	33.66%	33.74%	33.99%
Expected tax expense	53,200	110,659	97,964
Non-taxable export income	(41,941)	(96,703)	(75,877)
Non-taxable other income	(6,060)	(5,858)	(8,408)
Income taxed at a lower / higher rate	3,740	6,793	1,068
Differences between Indian and Foreign tax rates	(74)	(342)	(881)
Employee stock compensation cost	4,472	7,164	7,084
Increase (decrease) in valuation allowance including losses of subsidiaries	386	95	(790)
Provision for deemed branch taxes	-	9,002	8,429
Others (net)	(320)	2,129	864
Total taxes	**$13,403**	**$32,939**	**$29,453**

A substantial portion of the profits of the Company's India operations is exempt from income tax being profits attributable to export operations of undertakings situated in Software Technology Parks (STP). Under the tax holiday, the taxpayer can utilize an exemption from income tax for a period of any ten consecutive years beginning from the financial year when the unit started operations. The tax holiday on all facilities under STPs was scheduled to expire in stages by 2009. However, on May 10, 2008, the Finance Act, 2008 extended the availability of the tax holiday by a period of one year such that the tax holiday will now be available until the earlier of fiscal year 2010 or ten years after the commencement of a tax holiday for an individual undertaking. During the current year, company has set up units in Special Economic Zone (SEZ). Under the Special Economic Zone Act, 2005 scheme, units in designated special economic zones which begin providing services on or after April 1, 2005 will be 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.

The STP exemption periods for certain undertakings have expired in the years 2006, 2007 and 2008.

The aggregate dollar and per share effects of the tax holiday are $45,444 and $0.07 for the year ended June 30, 2006, $96,703 and $0.15 for the year ended June 30, 2007 and $75,877 and $0.11 for the year ended June 30, 2008.

Effective April 2007, the Finance Act 2007 has introduced Minimum Alternate Tax (MAT) on the exempt income attributable to export operations of undertakings situated in Software Technology Parks (STP). Such taxes paid will be available as a credit to the Company in the coming five years, as the Company foresees that an additional tax burden will arise due to the expiry of a STP benefits by 2010. Accordingly, the Company has created deferred tax assets for such tax credit amounting to $8,412 and $21,177 in the year ended June 30, 2007 and 2008 respectively.

The tax filings are subject to review by the tax authorities in the jurisdictions where the Company conducts business. These reviews may result in assessments of additional taxes that are resolved with the authorities or

potentially through the courts. Resolution of these matters involves some degree of uncertainty; accordingly, the Company provides income taxes for the liabilities it believes will ultimately result from the proceedings.

Effective July 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation 48, Accounting for Uncertainty in Income Taxes — An Interpretation of Statement of Financial Accounting Standards No. 109 (FIN 48). The adoption of FIN 48 did not have any material impact on the retained earnings or provision for taxation as of July 1, 2007.

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

Particulars	**Amount**
Balance as of July 1, 2007	$ 14,507
Increases due to tax position taken during the current year.	26,118
Increases due to tax position taken during the prior year.	9,848
Decreases related to prior years tax positions	(9,648)
Impact of foreign currency translation	(990)
Balance as of June 30, 2008	**$39,835**

The Companies' total unrecognized tax benefits, if recognized, would reduce the tax provisions by $ 14,507 and $ 39,835 as of July 1, 2007 and June 30, 2008, respectively, and thereby would effect the company'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.

It is a Company policy to include in tax expense any penalties and interest related to income tax. As of July 1, 2007 and as of June 30, 2008, the Company had provisions of $ 3,624 and $ 8,964 respectively on account of accrued interest and penalties related to uncertain tax positions which are included in provision for income taxes .

The company's two major tax jurisdictions are India and the U.S., though the company also files tax returns in other foreign jurisdictions. In India, the assessment is not yet completed for fiscal year ending March 31, 2005 and onwards. Further, U.S. federal returns pertaining to fiscal year ending June 30, 2005 onwards are open to examination in accordance with the statute of limitation prescribed by the relevant authorities.

HCL TECHNOLOGIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Thousands of US Dollars, except share data and as stated otherwise)

The components of the deferred tax balances as of June 30, 2007 and 2008 are as follows:

	2007	2008
Deferred tax assets:		
Business losses	$3,329	$17,683
Capital losses	$392	-
Allowance for accounts receivable	1,109	1,914
Accrued employee costs	5,373	12,857
Property and equipment	10,153	15,191
Minimum Alternate Tax	8,412	21,177
Employee Stock Compensation	1,916	1,734
Unrealized loss on derivative financial instruments	-	18,306
Other temporary differences	2,283	4,708
	32,967	**93,570**
Less: Valuation allowance	(3,329)	($10,159)
Total deferred tax assets	**$29,638**	**$83,411**
Deferred tax liabilities:		
Unrealized gains on investment securities	$2,208	$2,190
Intangibles	-	1,510
Others	54	827
Total deferred tax liabilities	**$2,262**	**$4,527**
Net deferred tax assets	**$27,376**	**$78,884**

The components of Valuation Allowance as of June 30, 2007 and 2008 are as follows:

	2007	2008
Business losses	($3,329)	($10,159)
Total	**($3,329)**	**($10,159)**

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 projections for future taxable incomes 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 the Company's subsidiaries for tax purposes amount to approximately $10,199 and $52,075 as of June 30, 2007 and 2008 respectively and are available as an offset against future taxable income.

Management does not believe that it is more likely than not that such subsidiaries would be in a position to realize the tax benefit associated with business loss carry forward. Given the uncertainties, valuation allowance has been created against such business losses.

During the years ended June 30, 2006, 2007 and 2008, the US based subsidiary of the Company has received excess tax benefit aggregating $1,850, $2,763 and $371 respectively upon exercise of employee stock options which have been credited to stockholders equity. As of June 30, 2008 the Company has created a deferred tax asset amounting to $1,734 on the stock compensation expense expected to be realized on exercise of stock options in future periods.

Undistributed earnings of the domestic subsidiaries amounted to approximately $56,653 and $87,046 as of June 30, 2007 and 2008 respectively. Due to the intent and the ability of the Company to receive dividends and/or to liquidate investments in a tax-free manner, the Company has not recorded a deferred tax liability on the undistributed earnings.

Due to the intent and the ability of the Company to liquidate investments in a tax-free manner, the Company has not recorded deferred tax on the difference between the tax basis and the financial reporting basis of investments in overseas subsidiaries.

22. 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 for the years ended June 30, 2006, 2007 and 2008:

	2006	2007	2008
Weighted average number of equity shares outstanding used in computing basic EPS	642,788,960	652,626,782	664,424,330
Dilutive effect of stock options and other contingently issuable shares	41,522,754	22,663,606	18,324,266
Weighted average number of equity and equity equivalent shares outstanding used in computing diluted EPS	684,311,714	675,290,388	682,748,596

Options to purchase 7,778,914, 3,601,632 and 943,919 equity shares during the years ended June 30, 2006, 2007 and 2008 respectively were not included in the computation of diluted EPS as these options were anti-dilutive.

23. STOCK BASED COMPENSATION AND PLANS

STOCK OPTION PLANS

ESOP 1999 (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 consisting 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 (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 with a majority consisting of independent directors 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 (2004 Plan): In December 2004, the Company instituted the 2004 Stock Option Plan (2004 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 with a majority consisting of independent directors 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, 2000 and 2004 Plan, entitles the holder to four equity shares of the Company. The equity shares covered by these 1999, 2000 and 2004 stock option plans vest over a maximum period of 110 months, 104 months and 84 months respectively. The options are to be exercised within a maximum period of five years from their date of vesting or expiry of the plan whichever is earlier.

The movements in the options granted to employees during the years ended June 30, 2006, 2007 and 2008 are given below:

1999 Plan	**Shares arising out of option**			**Weighted average exercise price**		
	Year ended June 30,			**Year ended June 30,**		
	2006	**2007**	**2008**	**2006**	**2007**	**2008**
Outstanding at beginning of the year	33,299,188	23,657,444	13,769,156	$3.79	$3.87	$4.71
Granted	-	-	-	-	-	-
Forfeited	(3,286,464)	(2,079,980)	(982,752)	$3.95	$4.25	$3.95
Expired	(1,442,300)	(1,549,988)	(761,200)	$3.77	$4.39	$5.38
Exercised	(4,912,980)	(6,258,320)	(735,484)	$2.05	$3.66	$3.69
Outstanding at the end of the year	23,657,444	13,769,156	11,289,720	$3.87	$4.71	$4.50
Exercisable at the end of the year	8,097,336	3,629,972	4,645,620	$4.01	$5.85	$5.21
Weighted-average grant date fair value of grants during the year	-	-	-	-	-	-
Estimated fair value of option vested during the year	$651	$689	$491	-	-	-

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2000 Plan	**Shares arising out of option**			**Weighted average exercise price**		
	Year ended June 30,			**Year ended June 30,**		
	2006	**2007**	**2008**	**2006**	**2007**	**2008**
Outstanding at beginning of the year	43,467,636	33,814,104	20,164,528	$3.69	$3.55	$4.04
Granted	-	-	-	-	-	-
Forfeited	(5,158,420)	(3,592,548)	(1,435,184)	$3.50	$3.90	$3.57
Expired	(1,042,920)	(1,315,832)	(1,294,480)	$4.32	$6.03	$4.83
Exercised	(3,452,192)	(8,741,196)	(1,069,100)	$2.77	$3.69	$3.81
Outstanding at the end of the year	33,814,104	20,164,528	16,365,764	$3.55	$4.04	$3.76
Exercisable at the end of the year	8,605,304	3,793,612	4,012,404	$3.92	$4.82	$4.24
Weighted-average grant date fair value of grants during the year	-	-		-	-	-
Estimated fair value of option vested during the year	$863	$1,734	$806	-	-	-

2004 Plan	Shares arising out of option			Weighted average exercise price		
	Year ended June 30,			Year ended June 30,		
	2006	2007	2008	2006	2007	2008
Outstanding at beginning of the year	1,493,888	10,677,600	15,011,544	$2.97	$0.32	$0.23
Granted	9,530,000	6,880,800	-	$0.02	$0.05	-
Forfeited	(346,288)	(858,880)	(843,120)	$2.79	$0.39	$0.32
Expired	-	-	(13,680)	-	-	$3.14
Exercised	-	(1,687,976)	(852,572)	-	$0.38	$0.14
Outstanding at the end of the year	10,677,600	15,011,544	13,302,172	$0.32	$0.23	$0.21
Exercisable at the end of the year	-	4,800	1,204,344	-	$0.05	$0.35
Weighted-average grant date fair value of grants during the year	-	-		$4.83	$7.26	
Weighted-average grant date fair value of grants during the year, at less than market price	-	-		$4.83	$7.26	
Estimated fair value of option vested during the year	-	$2,350	$2,711	-	-	

As of June 30, 2007 and 2008, out of the total options exercised, options for nil shares & 43,356 shares under Plan 1999, option for nil shares and 73,080 shares under Plan 2000 and option for nil shares and 73,800 shares under Plan 2004 were pending allotment.

Intrinsic value of options exercised, being the difference between market price at exercise date and exercise price for the year ended June 30, 2006, 2007 and 2008 are $29,746, $66,009 and $$10,422 respectively.

The following table summarizes information about stock options outstanding and exercisable as of June 30, 2007:

	Outstanding			Exercisable	
Range of exercise price	**Number of shares arising out of options**	**Weighted average remaining contractual life**	**Weighted average exercise Price**	**Number of shares arising out of options**	**Weighted average exercise price**
1999 Plan					
($1.47-$4.6)	9,107,656	5.77 Years	$3.87	759,300	$3.39
($6.04-$15)	4,661,500	2.58 Years	$6.37	2,870,672	$6.50
2000 Plan					
($1.6-$2.88)	1,972,176	2.71 Years	$2.63	1,232,444	$2.74
($2.96-$5.05)	16,095,300	6.08 Years	$3.84	751,660	$3.32
($6.23-$8.05)	2,097,052	2.09 Years	$6.91	1,809,508	$6.86
2004 Plan					
($0.05-$0.05)	14,371,000	7.29 Years	$0.05	4,800	$0.05
($3.94-$4.55)	640,544	6.28 Years	$4.22	-	-

The following table summarizes information about stock options outstanding and exercisable as of June 30, 2008:

	Outstanding			Exercisable	
Range of exercise price	**Number of shares arising out of options**	**Weighted average remaining contractual life**	**Weighted average exercise Price**	**Number of shares arising out of options**	**Weighted average exercise price**
1999 Plan					
($1.39-$4.36)	7,441,004	5.08	$3.71	1,676,604	$3.65
($5.72-$14.2)	3,848,716	1.76	$6.01	2,969,016	$6.09
2000 Plan					
($1.51-$2.73)	1,157,504	2.46	$2.45	678,804	$2.51
($2.81-$4.78)	14,120,800	5.17	$3.64	2,260,940	$3.55
($5.9-$7.62)	1,087,460	2.07	$6.79	1,072,660	$6.79
2004 Plan					
($0.05-$0)	12,749,200	6.39	$0.05	1,113,932	$0.05
($3.73-$4.3)	552,972	5.33	$3.98	90,412	$4.09

During the year ended June 30, 2007 and 2008 options having 6,880,800 and nil underlying shares respectively have been granted at prices less than the market price as at the date of grant of options under 2004 Plan.

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, 2008:

Range of exercise price	Option vested or expected to vest		
	Number of shares arising out of options	Weighted average remaining contractual life	Weighted average exercise price
1999 Plan			
($1.39-$4.36)	7,111,876	5.08	$3.71
($5.72-$14.2)	3,808,508	1.76	$6.01
2000 Plan			
($1.51-$2.73)	1,128,932	2.46	$2.46
($2.81-$4.78)	13,440,600	5.17	$3.64
($5.9-$7.62)	1,086,820	2.07	$6.79
2004 Plan			
($0.05-$0.05)	11,755,916	6.39	$0.05
($3.73-$4.3)	526,696	5.33	$3.98

The aggregate intrinsic value of shares for 1999, 2000 and 2004 plans are $14,794, $32,820 and $69,436 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, 2008 and the exercise price.

	1999 Plan		2000 Plan		2004 Plan	
	Number of shares	Weighted Average Grant Date Fair Value	Number of shares	Weighted Average Grant Date Fair Value	Number of shares	Weighted Average Grant Date Fair Value
Non-vested at June 30, 2007	10,139,184	$1.66	16,370,916	$1.11	15,006,744	$4.71
Granted	-	$-	-	$-	-	-
Vested	(2,512,332)	$1.68	(2,582,372)	$0.44	(2,065,796)	$0.81
Forfeited	(982,752)	$1.51	(1,435,184)	$1.38	(843,120)	$4.27
Non-vested at June 30, 2008	6,644,100	$1.53	12,353,360	$1.14	12,097,828	$5.10

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

	2007
Dividend yield %	3.65%
Expected term	up to 35 months
Risk free interest rates	8.10%
Volatility	26.67%

No options have been granted in the current year.

As of June 30, 2008, $39,973 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 1.31 years.

Cash received from option exercises under the stock option plan for the years ended June 30, 2006, June 30, 2007 and June 30, 2008 was $19,897, $52,206 and $7,461 respectively.

The actual tax benefit realized for the tax deduction in respect of stock options exercised in United States of America, Great Britain, Netherlands and Germany totaled $1,850, $3,066 and $743 for the years ended June 30, 2006, 2007 and 2008 respectively.

In the year ended June 30, 2007 and June 30, 2008 the Company recorded $9,713 and $17,548 of stock-based compensation expense, net of tax, relating to options granted at less than fair market value.

For the year ended June 30, 2007 and June 30, 2008, stock-based compensation expense related to the stock option plans under SFAS 123(R) was allocated as follows:

	Year ended June 30, 2007	**Year ended June 30, 2008**
Cost of sales	$9,280	$9,459
Selling, general and administrative	14,171	14,445
Stock compensation cost before income tax benefit	**23,451**	**23,904**
Tax benefit	(2,057)	(2,233)
Stock compensation cost (net)	**$21,394**	**$21,671**

Effective April 1, 2007 the Finance Act, 2007 has introduced Fringe Benefit Tax ("FBT") on Employees' Stock Options. FBT liability crystallizes on the date of exercise of stock option. The Company recorded FBT as an operating expenses.

24. EMPLOYEE BENEFIT PLANS

India operations

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

Gratuity

In accordance with Indian law, the Company provides for gratuity, a defined benefit retirement plan (the Gratuity Plan) covering all employees. 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 Company.
The following table sets forth the funded status of the plan and the amounts recognized in the Company's balance sheet as of June 30, 2007 and 2008. The measurement date used is June 30 of the relevant fiscal year.

	2007	2008
Change in benefit obligation		
Projected Benefit Obligation (PBO) at the beginning of the year	$5,922	$9,292
Service cost	1,870	2,355
Interest cost	527	816
Benefits paid	(475)	(761)
Actuarial (gain) loss	498	1,500
Effect of exchange rates changes	952	(737)
PBO at the end of the year	**$9,294**	**$12,465**
Changes in plan assets		
Fair value of plan assets at the beginning of the year	$231	$-
Actual return on plan assets	-	-
Employer contributions	475	761
Adjustments to plan assets	(231)	
Benefits paid	(475)	(761)
Effect of exchange rates changes	-	-
Plan assets at the end of the year	**$-**	**$-**
Funded status	($9,294)	($12,465)
Net amount recognized	($9,294)	(12,465)
Amounts recognized in the statement of financial position consist of:		
Accrued benefit cost	**($9,294)**	**($12,465)**

On termination of a fund in relation to the defined benefit plan, the plan assets have been reclassified as recoverable from the insurance company.

Net gratuity cost for the years ended June 30, 2006, 2007 and 2008 comprise the following components:

	2006	2007	2008
Service cost	$1,366	$1,870	$2,355
Interest cost	304	527	816
Expected return on assets	(14)	-	-
Amortization of unrecognized transition obligation	8	-	-
Amortization of unrecognized actuarial loss	75	120	162
Net gratuity cost	**$1,739**	**$2,517**	**$3,333**

The weighted average actuarial assumptions used in accounting for the benefit obligations and net gratuity cost under the Gratuity Plan as of June 30, 2006, 2007 and 2008 are given below:

	2006	2007	2008
Discount rate	7.5%	9.75%	9.10%
Expected rate of increase in salaries			
-for next year	7.5%	7.5%	8.9%
-thereafter	5.0%	6.0%	7.0%

The Company 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.

Accumulated benefits obligation as of June 30, 2007 and 2008 was $8,323 and $11,743 respectively.

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

Year ending June 30,	
- 2009	$3,037
- 2010	3,233
- 2011	3,904
- 2012	4,342
Thereafter	$18,847
Total	**$33,363**

The expected benefits are based on the same assumptions as are used to measure the Company's benefit obligations as of June 30, 2008. The Company does not expect to contribute to the gratuity trust during fiscal 2009.

During the previous year ended June 2007, the Company adopted the provisions of SFAS No. 158. The following table presents the incremental effect of applying SFAS No. 158 on the Consolidated Statement of Financial Position:

	Before application of SFAS 158	Adjustments	After application of SFAS 158
Current Liabilities – Accrued employee costs	$1,807	$161	$1,968
Long-term Liabilities – Other Liabilities	5,508	1,818	7,326
Total Liabilities	**$7,315**	**$1,979**	**$9,294**
Accumulated Other Comprehensive Income, Net of Tax	-	1,979	1,979
Total Shareholders Equity	**$-**	**$1,979**	**$1,979**

As at June 30, 2007 and June 30, 2008, the Company recorded unrecognized net losses amounting to $1,979 and $2,451 respectively in the Stockholders' equity section as part of Accumulated Other Comprehensive Income, net of tax.

Superannuation

The superannuation plan is a defined contribution pension plan for senior employees of the Company. The Company contributes to an employees' superannuation fund with an insurance company at 15% of the employee's base compensation The Company 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, 2006, 2007 and 2008 are $656, $322 and $231respectively.

Provident fund

In accordance with Indian law, all employees receive benefits from a provident fund, which is a defined contribution retirement plan. Under this plan, the employer and employee make monthly contributions to a fund managed by certain employees of the Company ("Trust"). The employees contribute 12% of their base compensation, which is matched by an equal contribution by the employer. The Company 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 Company 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.

Total contributions made by the Company in respect of this plan for the years ended June 30, 2006, 2007 and 2008 are $7,713, $9,584 and $10,884 respectively.

Subsidiaries in the US

The Company 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 Company makes a matching contribution for employee contribution till 3% and 67 cents to a dollar for contribution between 4% to 6%.

Total contributions made to the plan by the Company, for the years ended June 30, 2006, 2007 and 2008 are $1,030, $1,221 and $2557 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 Company contributes to a fund approved by the Government of Australia. Total contributions made to the plan by the Company, for the years ended June 30, 2006, 2007 and 2008 are $424, $774 and $1,279 respectively.

Subsidiaries in Europe

The Company has pension plans for the employees of its subsidiaries in Europe. The plans operating in Europe provide for contributions upto 5% of the basic salary by the employer and the employee. Total contributions made to the plan by the Company for the years ended June 30, 2006, 2007 and 2008 are $1,415, $2,152 and $1,017 respectively.

Subsidiaries in Asia.

As per local laws of Malaysia, Singapore and Japan, employers are required to contribute up to 13% of the basic salary of the employee of the Company. The Company contributed to a fund approved by the Government of the Country. Total contributions made to the plan by the Company, for the years ended June 30, 2006, 2007 and 2008 are $114, $326 and $639 respectively.

Compensated absences:

The employees of the Company are entitled to compensated absences. The employees can carry forward a portion of unutilized accrued compensated absence and utilize it in future periods or receive cash compensation as per company policy for the unutilized accrued compensated absences. The Company records an obligation for compensated absences in the period in which the employee renders the service that increase this entitlement. The Company measures the expected cost of compensated absence as the additional amount that the Company expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date.

25. 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 a significant ownership interest, controlling interest or over which he exercises significant influence (significant interest entities);
b. Affiliates of the Company, and their subsidiaries (affiliates); and
c. Employees of the Company.

The related party transactions are categorized as follows:

Revenues

The Company 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,		
	2006	**2007**	**2008**
Significant interest entities	$1,042	$1,555	$1,811
Affiliates	206	2,394	4,858
Total	**$1,248**	**$3,949**	**$6,669**

Cost of revenues

The Company 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.

The Company also procures other services from related parties. These costs are recorded as direct cost and included as part of cost of revenues.

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

	Year ended June 30,		
	2006	**2007**	**2008**
Significant interest entities	$5,645	$6,401	$5,935
Affiliates	-	(359)	(352)
Total	**$5,645**	**$6,042**	**$5,583**

Computer equipment, software purchases and others

The Company purchases computer equipment, software and other items from certain significant interest entities. These purchases during the years ended June 30, 2006, 2007 and 2008 amount to $11,111, $13,345 and $9,450 respectively.

Subleasing of facilities

Significant interest entities have subleased a portion of their facilities to the Company. The total amount charged for the year ended June 30, 2006, 2007 and 2008 were $300, $337 and $447 respectively.

Loans to employees

The Company has advanced general purpose and housing loans to its employees at rates of interest ranging from 2% to 16% per annum. The repayment periods for these loans are fixed with the tenure of these loans extending up to six years. Employee loan balances outstanding as of June 30, 2007 and 2008 are $1,915 and $2,040 respectively.

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

As of June 30, 2007	Significant interest entities	Affiliates	Total
Due from related parties			
Accounts receivable	$449	$935	$1,384
Unbilled receivable	568	-	568
Other receivables	51	-	51
	$1,068	**$935**	**$2,003**
Dues to related parties			
Accounts payable	$365	$-	365
Deferred revenue	280	-	280
Other payables	2,299	-	2,299
	$2,944	**$-**	**$2,944**

As of June 30, 2008	Significant interest entities	Affiliates	Total
Due from related parties			
Accounts receivable	$735	$899	$1,634
Unbilled receivable	628	-	628
Other receivables	552	-	552
	$1,915	$899	$2,814
Dues to related parties			
Accounts payable	$282	$-	$282
Deferred revenue	203	-	203
Other payables	961	-	961
	$1,446	**$-**	**$1446**

26. COMMITMENTS AND CONTIGENCIES

Capital commitments

As of June 30, 2008, the Company had committed to spend $72,277 under agreements to purchase property and equipment. This amount is net of capital advances paid in respect of these purchases.

Other commitments

The Company's software development centers in India are 100% Export Oriented Unit (EOU)/STP units under the STP 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 Company 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 Company 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, 2008 is $19,621.

Letter of Credit

As of June 30, 2008, unused letters of credit is $3,954.

Other Contingencies

As of June 30, 2008, contingencies relating to income tax, sales tax and others amounts to $10,029.

27. SEGMENT REPORTING

The Company's operations predominantly relate to providing a range of information technology services targeted at technology vendors, software product companies and medium to large end user organizations. The Company is also engaged in the business of providing networking services and business process outsourcing services.

Networking 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 Company has been identified as the Chief Operating Decision Maker (CODM) as defined by SFAS No. 131.The CODM evaluates the Company's performance by business segment, comprising IT services, Networking services and Business process outsourcing services. Accordingly, the Company provides segment information by the operating performance of each business segment. Corporate activities such as treasury, legal and accounting, which do not qualify as operating segments under SFAS No. 131, have been considered as reconciling items. Stock Option charge under SFAS 123(R) and taxes has also been included as reconciling item. Segment information for prior periods is provided on a comparative basis.

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Information on reportable segments for year ended June 30, 2006 is as follows:

	IT services	Networking services	Business process outsourcing services	Inter segment transactions	Reconciling items	Entity total
Revenue						
External revenue	$733,595	$111,589	$130,846	$-	$-	$976,030
Internal revenue	-	474	-	(474)	-	-
Total	**$733,595**	**$112,063**	**$130,846**	**($474)**	**-**	**$976,030**
Identifiable operating expenses (net)	558,295	94,729	98,870	(474)	23,332	774,752
Depreciation and amortization	22,540	7,898	11,122	-	1,064	42,624
Segment income from operations	**$152,760**	**$9,436**	**$20,854**	**-**	**$(24,396)**	**$158,654**
Total assets of segment	$508,605	$98,145	$95,538	($4,649)	$398,286	$1,095,925
Total liabilities of segment	72,152	39,760	47,599	(4,649)	57,634	212,496
Capital employed	**$436,453**	**$58,385**	**$47,939**	**$-**	**$340,652**	**$883,429**
Equity in earnings/(losses) of affiliates	**($60)**	**$-**	**$-**	**$-**	**($79)**	**($139)**
Capital expenditure during the year (including capital work in progress)	**$49,254**	**$17,505**	**$14,719**	**$-**	**$3,674**	**$85,152**

HCL TECHNOLOGIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Thousands of US Dollars, except share data and as stated otherwise)

Information on reportable segments for year ended June 30, 2007 is as follows:

	IT services	Networking services	Business process outsourcing services	Inter segment transactions	Reconciling items	Entity total
Revenue						
External revenue	$1,009,756	$195,721	$184,100	$-	$-	$1,389,577
Internal revenue						
Total	**$1,009,756**	**$195,721**	**$184,100**	**$-**	**$-**	**$1,389,577**
Identifiable operating expenses (net)	773,841	160,804	137,764	-	32,771	**1,105,180**
Depreciation and amortization	31,925	10,973	13,403	-	2,015	**58,316**
Segment income from operations	**$203,990**	**$23,944**	**$32,933**	**$-**	**$ (34,786)**	**$226,081**
Total assets of segment	738,574	110,598	88,047	(3,290)	618,430	1,552,359
Total liabilities of segment	167,931	47,171	23,501	(3,290)	86,067	321,380
Capital employed	**$570,643**	**$63,427**	**$64,546**	**$-**	**$532,363**	**$1,230,979**
Equity in earnings/(losses) of affiliates	**(229)**	**$-**	**$-**	**$-**	**$-**	**$ (229)**
Capital expenditure during the year (including capital work in progress)	**$66,223**	**$9,906**	**$10,004**	**$-**	**$2,752**	**$88,885**

Information on reportable segments for year ended June 30, 2008 is as follows:

	IT services	Networking services	Business process outsourcing services	Inter segment transactions	Reconciling items	Entity total
Revenue						
External revenue	1,372,107	283,249	223,509			**1,878,865**
Internal revenue						
Total	**1,372,107**	**283,249**	**223,509**			**1,878,865**
Identifiable operating expenses (net)	1,054,450	231,422	162,901		37,944	**1,486,717**
Depreciation and amortization	42,239	13,941	12,828		5,604	**74,612**
Segment income from operations	**275,418**	**37,886**	**47,780**		**(43,548)**	**317,536**
Total assets of segment	903,779	176,540	99,903		686,546	**1,866,768**
Total liabilities of segment	242,292	85,709	27,444		298,903	**654,348**
Capital employed	**661,487**	**90,831**	**72,459**		**387,643**	**1,212,420**
Equity in earnings/(losses) of affiliates						
Capital expenditure during the year (including capital work in progress)	**90,566**	**12,091**	**5,425**		**28,804**	**136,886**

The Company operates from four geographies: America, Europe, India and Others. Europe comprises business operations conducted by the Company 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. A substantial portion of the total assets of the Company is in the Indian geography. Assets used in the business of the Company have not been identified to any of the geographic segments, as the assets are used interchangeably between the segments. Hence, the Company believes it is not practicable to provide segments disclosure relating to assets for geographic segments.

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

	2006	2007	2008
America	$564,767	$762,558	1,016,316
Europe	258,737	415,532	569,855
India	67,279	96,748	121,881
Others	85,247	114,739	170,813
	$976,030	**$1,389,577**	**1,878,865**

During the year ended June 30, 2006, 2007 and 2008, a single customer accounted for approximately 11%, 10% and 10% and top five customers accounted for 30%, 28% and 27% of the revenue of the Company respectively.

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of the Company's current assets and current liabilities approximate their carrying values because of their short-term maturity. Such financial instruments are classified as current and are expected to be liquidated within the next twelve months