

# **HCL Technologies Limited and Subsidiaries**

## **Condensed Consolidated Financial Statements**

**For The Three and Six Months Period ended December 31, 2015 and 2014**

**With Review Report of Independent Auditors**

# HCL Technologies Limited and Subsidiaries

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

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

## **Review Report of Independent Auditors**

The Board of Directors  
HCL Technologies Limited

We have reviewed the condensed consolidated financial information of HCL Technologies Limited and subsidiaries, which comprise the condensed consolidated balance sheet as of December 31, 2015, and the related condensed consolidated statements of income, comprehensive income for the three and six month periods ended December 31, 2014 and 2015 and cash flows for the six month periods ended December 31, 2014 and 2015.

### **Management's Responsibility for the Financial Information**

Management is responsible for the preparation and fair presentation of the condensed financial information in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in conformity with U.S. generally accepted accounting principles.

### **Auditor's Responsibility**

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

### **Conclusion**

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial information referred to above for it to be in conformity with U.S. generally accepted accounting principles.

### **Report on Condensed Balance Sheet as of June 30, 2015**

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of HCL Technologies Limited and subsidiaries as of June 30, 2015, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated August 3, 2015. In our opinion, the accompanying condensed consolidated balance sheet of HCL Technologies Limited and subsidiaries as of June 30, 2015, is consistent, in all material respects, with the consolidated balance sheet from which it has been derived.

*Ernst & Young Associates LLP*

Gurgaon, India  
January 19, 2016

**HCL Technologies Limited and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
*Amount in thousands, except share and per share data*

	As of	
	June 30, 2015	December 31, 2015 (unaudited)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$212,342	\$124,324
Term deposits with banks	1,331,758	1,256,941
Deposit with corporation	187,431	288,351
Accounts receivable, net	1,031,163	1,082,328
Unbilled revenue, net	459,198	418,569
Investment securities, available for sale	120,575	92,733
Inventories	24,763	33,708
Deferred income taxes	74,159	78,438
Other current assets	268,422	308,808
<b>Total current assets</b>	<b>3,709,811</b>	<b>3,684,200</b>
Deferred income taxes	178,118	184,987
Investments in affiliates	1,551	24,979
Property and equipment, net	600,119	601,346
Intangible assets, net	27,230	55,645
Goodwill	790,387	813,054
Other assets	303,607	305,792
<b>Total assets (a)</b>	<b>\$5,610,823</b>	<b>\$5,670,003</b>

See accompanying notes.

**HCL Technologies Limited and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
*Amount in thousands, except share and per share data*

	As of	
	June 30, 2015	December 31, 2015 (Unaudited)
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Current portion of capital lease obligations	\$15,572	\$15,470
Accounts payable	146,395	112,243
Short term borrowings	55,851	11,218
Current portion of long term debt	3,970	7,006
Accrued employee costs	286,854	243,963
Deferred revenue	150,433	143,112
Deferred income taxes	4,039	3,060
Income taxes payable	158,648	132,166
Other current liabilities	688,575	738,190
<b>Total current liabilities</b>	<b>1,510,337</b>	<b>1,406,428</b>
Long term debt	13,799	5,934
Capital lease obligations, net of current portion	12,579	5,116
Deferred income taxes	8,552	9,082
Accrued employee costs	79,753	83,370
Deferred revenue	86,439	60,536
Other liabilities	10,481	14,300
<b>Total liabilities (a)</b>	<b>\$1,721,940</b>	<b>\$1,584,766</b>
<b>Commitments and contingencies (Note 22)</b>		
<b>HCL Technologies Limited Shareholders' Equity</b>		
Equity shares, ₹ 2 par value, authorized 1,500,000,000 shares		
Issued and outstanding 1,405,978,418 and 1,409,317,394 shares as of June 30, 2015 and December 31, 2015, respectively	57,154	57,254
Additional paid-in capital	703,224	710,136
Shares application money pending allotment	325	17
Retained earnings	3,666,121	3,964,014
Accumulated other comprehensive loss	(538,035)	(677,980)
<b>HCL Technologies Limited Shareholders' Equity</b>	<b>3,888,789</b>	<b>4,053,441</b>
Noncontrolling interest	94	31,796
<b>Total equity</b>	<b>3,888,883</b>	<b>4,085,237</b>
<b>Total liabilities and equity</b>	<b>\$5,610,823</b>	<b>\$5,670,003</b>

(a) Consolidated assets at June 30, 2015 and December 31, 2015 include assets totaling \$22,978 and \$24,468, respectively, of certain variable interest entities (VIE's) that can only be used to settle the liabilities of those VIEs. Consolidated liabilities at June 30, 2015 and December 31, 2015, include liabilities of certain VIEs for which the VIEs creditors do not have recourse to HCL Technologies Limited and Subsidiaries (Note 8).

See accompanying notes.

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

	Three months ended		Six months ended	
	December, 31 (Unaudited)		December, 31 (Unaudited)	
	2014	2015	2014	2015
<b>Revenues</b>	<b>\$1,490,759</b>	<b>\$1,566,127</b>	<b>\$2,924,256</b>	<b>\$3,110,646</b>
Cost of revenues (exclusive of depreciation and amortization)	939,341	1,024,925	1,845,672	2,056,499
<b>Gross profit</b>	<b>551,418</b>	<b>541,202</b>	<b>1,078,584</b>	<b>1,054,147</b>
Selling, general and administrative expenses	179,111	204,188	346,782	397,367
Depreciation and amortization	17,476	23,132	34,552	43,839
Other (income) expense, net	(37,592)	(57,431)	(92,125)	(98,350)
Finance cost	3,129	3,493	7,755	7,450
<b>Income before income taxes</b>	<b>389,294</b>	<b>367,820</b>	<b>781,620</b>	<b>703,841</b>
Provision for Income taxes	81,760	76,995	166,895	149,282
<b>Net income</b>	<b>307,534</b>	<b>290,825</b>	<b>614,725</b>	<b>554,559</b>
Net income attributable to noncontrolling interest	9	15	18	46
<b>Net income attributable to HCL Technologies Limited shareholders</b>	<b>\$307,525</b>	<b>\$290,810</b>	<b>\$614,707</b>	<b>\$554,513</b>
<b>Earnings per equity share</b>				
Basic	\$0.22	\$0.21	\$0.44	\$0.39
Diluted	\$0.22	\$0.21	\$0.44	\$0.39
<b>Weighted average number of equity shares used in computing earnings per equity share</b>				
Basic	1,403,370,126	1,407,635,747	1,402,307,690	1,406,864,266
Diluted	1,410,021,079	1,411,549,109	1,408,945,030	1,410,766,794

See accompanying notes.

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

	<b>Three months ended December 31, (Unaudited)</b>		<b>Six months ended December 31, (Unaudited)</b>	
	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>
<b>Net income attributable to HCL Technologies Limited shareholders</b>	<b>\$307,525</b>	<b>\$290,810</b>	<b>\$614,707</b>	<b>\$554,513</b>
<b>Other comprehensive income (loss) net of taxes:</b>				
Change in unrealized gain on cash flow hedges, net of taxes for three months (\$1,714), (\$1,433) and six months (\$3,943), (\$426), ended December 31, 2014 and 2015, respectively.	7,399	6,231	15,408	1,774
Change in unrealized gain (loss) on securities available for sale, net of taxes for three months (\$53), (\$5) and six months \$105, \$212 ended December 31, 2014 and 2015, respectively.	112	(6)	(198)	(479)
Change in unrealized gain (loss) on defined benefit plan, net of taxes for three months NIL, NIL and six months NIL, NIL ended December 31, 2014 and 2015, respectively.	3	(7)	7	(48)
Change in foreign currency translation	(73,559)	(38,125)	(162,870)	(141,192)
<b>Other comprehensive income (loss)</b>	<b>(66,045)</b>	<b>(31,907)</b>	<b>(147,653)</b>	<b>(139,945)</b>
<b>Total Comprehensive income</b>	<b>\$241,480</b>	<b>\$258,903</b>	<b>\$467,054</b>	<b>\$414,568</b>

**HCL Technologies Limited and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**  
*Amount in thousands*

	<b>Six months period ended</b>	
	<b>December, 31 (Unaudited)</b>	
	<b>2014</b>	<b>2015</b>
<b>Cash flows from operating activities</b>		
<b>Net income</b>	<b>\$614,725</b>	<b>\$554,559</b>
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>		
Depreciation and amortization	34,552	43,839
Deferred income taxes	(12,398)	(20,082)
Gain on sale of property and equipment	(25,235)	(21,935)
Stock based compensation expense	(1,851)	966
Excess tax benefit related to stock options exercise	(4,647)	(5,997)
Gain on sale of investment securities	(3,261)	(2,527)
Equity in earnings of affiliates	(910)	(862)
Others, net	5,167	9,335
<b>Changes in assets and liabilities, net of effects of acquisitions</b>		
Accounts receivable and unbilled revenue	(141,728)	(57,299)
Other assets	(78,842)	(72,623)
Accounts payable	4,095	(22,710)
Accrued employee costs	(14,421)	(30,498)
Other liabilities	81,561	14,358
<b>Net cash provided by operating activities</b>	<b>456,807</b>	<b>388,524</b>
<b>Cash flows from investing activities</b>		
Investment in term deposit with banks	(422,847)	(380,164)
Proceeds from term deposit with banks on maturity	451,028	404,793
Investment in term deposits with corporation	(93,864)	(198,438)
Proceeds from term deposits with corporation on maturity	36,638	89,579
Purchase of property and equipment	(106,617)	(93,506)
Proceeds from sale of property and equipment	753	29,060
Purchase of investment securities	(771,306)	(637,312)
Proceeds from sale of investment securities	783,809	662,633
Payments for business acquisitions, net of cash acquired	-	(35,513)
Investment in Equity Method Investee	-	(3,015)
Dividend from equity investment in affiliates	980	-
<b>Net cash used in investing activities</b>	<b>(121,426)</b>	<b>(161,883)</b>
<b>Cash flows from financing activities</b>		
Payment of principal under capital lease obligations	(2,382)	(1,994)
Proceeds from short term borrowings	98,986	3,906
Repayment of short term borrowings	(73,653)	(47,314)
Proceeds from issuance of long term debt	448	3,614
Repayment of long term debt	(1,403)	(8,222)
Repayment of redeemable secured non – convertible debentures	(81,057)	-
Proceeds from issuance of equity shares	1,291	99
Proceeds from subscription of shares pending allotment	380	16
Dividend paid	(239,972)	(256,587)
Excess tax benefit related to stock options exercise	4,647	5,997
<b>Net cash provided by (used in) financing activities</b>	<b>(292,715)</b>	<b>(300,485)</b>
Effect of exchange rate changes on cash and cash equivalents	(18,552)	(14,174)
Net increase (decrease) in cash and cash equivalents	24,114	(88,018)
Cash and cash equivalents at the beginning of the period	169,563	212,342
<b>Cash and cash equivalents at the end of the period</b>	<b>\$193,677</b>	<b>\$124,324</b>

See accompanying notes.



**HCL Technologies Limited and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**December 31, 2015**

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

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**1. ORGANIZATION AND NATURE OF OPERATIONS**

HCL Technologies Limited (the "Company" or the "Parent Company") along with its subsidiaries (hereinafter collectively referred to as the "Group") is primarily engaged in providing a range of software development services, business process outsourcing services and IT infrastructure services. The Company was incorporated in India in November 1991. The Group leverages its offshore infrastructure and professionals to deliver solutions across select verticals including financial services, manufacturing (automotive, aerospace, Hi-tech, semi conductors), telecom, retail and consumer products, media, publishing and entertainment, public services, energy and utility, healthcare, and travel, transport and logistics.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

The accompanying unaudited condensed consolidated financial statements include the accounts of HCL Technologies Limited and its subsidiaries are prepared on the basis of U. S. generally accepted accounting principles ("U.S. GAAP") for interim financial reporting to reflect the financial position and results of operations of the Group. The unaudited interim condensed consolidated financial statements reflect all adjustments (of a normal and recurring nature) which the management considers necessary for a fair presentation of such statements for these periods. The results for the interim periods presented are not necessarily indicative of the results that may be expected for the full year or for any subsequent period.

The accompanying balance sheet as of June 30, 2015 is derived from audited financial statements but does not include all of the financial information and footnotes required by US GAAP for complete financial statements.

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

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

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 direct sale of un-issued equity shares is accounted for as a capital transaction and is recognized in equity when the transaction occurs.

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

The Group's equity in the profits (losses) of affiliate is included in the condensed consolidated statements of income unless the carrying amount of an investment is reduced to zero and the Group is under no guaranteed obligation or otherwise committed to provide further financial support. The Group's share of net assets of affiliate is included in the carrying amount of the investment in the condensed consolidated balance sheet. 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.

*(b) Use of estimates*

The preparation of financial statements in conformity with US GAAP requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs, expenses and other comprehensive income that are reported and disclosed in the consolidated financial statements and accompanying notes. These estimates are based on the management's best knowledge of current events, historical experience, actions that the Group may undertake in the future and on various other assumptions that are believed to be reasonable under the circumstances. Significant estimates and

**HCL Technologies Limited and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**December 31, 2015**

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

assumptions are used, but not limited to accounting for costs expected to be incurred to complete performance under IT service arrangements, allowance for uncollectible accounts receivables and unbilled revenue, accrual of warranty costs, income taxes, valuation of share-based compensation, future obligations under employee benefit plans, the useful lives of property, equipment and intangible assets, impairment of property, equipment, intangibles and goodwill, valuation allowances for deferred tax assets, and other contingencies and commitments. Changes in estimates are reflected in the financial statements in the period in which the changes are made. Actual results could differ from those estimates.

*(c) Functional currency and translation*

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

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

*(d) Revenue recognition*

The Group derives revenues primarily from

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

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

**Software development services:**

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

**Business process outsourcing services:**

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

**IT infrastructure services:**

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

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

**HCL Technologies Limited and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**December 31, 2015**

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

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Revenue from product sales are shown net of sales tax and applicable discounts and allowances. Revenue from bandwidth and other services is recognized upon actual usage of such services by customers based on either the time for which these services are provided or volume of data transferred or both and excludes service tax. Revenue related to product with installation services that are critical to the product is recognized when installation of networking equipment at customer site is completed and accepted by the customer. If the revenue for a delivered item is not recognized for non receipt of acceptance from the customer, the cost of the delivered item is also deferred. Revenue from maintenance services is recognized ratably over the period of the contract.

Revenue from fixed-price complex network building contracts is recognized in accordance with the Percentage-Of-Completion (POC) method. Under the POC method, progress towards completion is measured based on either achievement of specified contract milestones, cost incurred as a proportion of estimated total cost or other measures of progress when available. If circumstances arise that change the original estimates of revenues, costs, or extent of progress towards completion, revisions are made to the estimates. These revisions may result in increase or decrease in estimated revenues or costs, and such revisions are reflected in income in the period in which the circumstances that gave rise to the revision become known to the management. If at any time these estimates indicate that the contract will be unprofitable, the entire estimated loss for the remainder of the contract is recorded immediately.

**Multiple-element arrangements**

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

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

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

**General**

Revenue from transition services not having standalone value 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 to the extent of revenue. Certain upfront nonrecurring contract acquisition costs incurred in the initial phases of outsourcing contracts are deferred and amortized usually on a straight line basis over the term of the contract. The undiscounted cash flows from the arrangement are periodically estimated and compared with the unamortized costs. If the unamortized costs exceed the undiscounted cash flow, a loss is recognized.

**HCL Technologies Limited and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**December 31, 2015**

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

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

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

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

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

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

*(e) Inventories*

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

*(f) Property and equipment*

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

<b><u>Asset description</u></b>	<b><u>Asset life (in years)</u></b>
Buildings	20
Computer and Networking Equipment	4 to 5
Software	3
Furniture ,fixtures and office equipment	5 to 7
Plant and Equipment (including Aircraft)	10 to 17
Vehicles	5

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

Advances paid towards the acquisition of property and equipment and cost of property and equipment not put to use before balance sheet date are classified as capital work-in-progress (Note 6).

**HCL Technologies Limited and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**December 31, 2015**

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

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*(g) Leases*

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

When substantially all the risks and rewards of property ownership have been transferred to the Company, as determined by the test criteria in FASB's guidance on ASC 840, the lease qualifies as a capital lease. Capital leases are capitalized at the lower of the net present value of the total amount of rent payable under the leasing agreement (excluding finance charges) or the fair market value of the leased asset. Capital lease assets are depreciated on a straight-line basis, over a period consistent with the Group's normal depreciation policy for tangible fixed assets, but not exceeding the lease term. Interest charges are expensed over the period of the lease in relation to the carrying value of the capital lease obligation.

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

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

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

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

*(i) Investment securities*

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

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

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

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

*(j) Research and development*

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

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*(k) Software product development*

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

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

The Group considers all highly liquid investments with an original maturity of three months or less, at the date of purchase/investment, 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 term of guarantees and letters of credit.

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

*(m) Income taxes*

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

*(n) Earnings per share*

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

*(o) Stock based compensation*

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

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

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*(p) Employee benefits*

Defined contribution plan

Contribution to defined contribution plans is recognised as expense when employees have rendered services entitling them to such benefits .

Defined benefit plan

Provident fund:

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

Gratuity:

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

Compensated absences:

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

*(q) Dividend*

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

*(r) Derivative and hedge accounting*

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

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

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

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

See Note 10 for additional information.

*(s) Goodwill and intangibles*

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Goodwill is not amortized but is reviewed for impairment annually or more frequently if indicators arise. Goodwill is tested annually, in the last quarter, for impairment, or sooner when circumstances indicate impairment may exist, using a fair-value approach at the reporting unit level. A reporting unit is the operating segment, or a business, which is one level below that operating segment (the "component" level) if discrete financial information is prepared and regularly reviewed by the management at that level. Components are aggregated as a single reporting unit if they have similar economic characteristics. In accordance with ASC topic 350, "Intangibles - Goodwill and Other", all assets and liabilities of the acquired businesses including goodwill are assigned to reporting units. The evaluation is based upon a comparison of the estimated fair value of the reporting unit to which the goodwill has been assigned with the sum of the carrying value of the assets and liabilities for that reporting unit. The fair value used in this evaluation is estimated based upon discounted future cash flow projections for the reporting unit. These cash flow projections are based upon a number of estimates and assumptions.

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

<u>Asset description</u>	<u>Asset life (in years)</u>
Customer relationships	1 to 10
Customer contracts	0.5 to 10
Technology	2.5 to 15
Non-compete agreements	3 to 5
Intellectual property rights	4
Brand and contractors database and others	2 to 5

*(t) Recently issued accounting pronouncements*

On May 28, 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, which will replace most existing revenue recognition guidance in U.S. GAAP. The core principle of the ASU is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. The ASU requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. The ASU will be effective for the Group beginning July 1, 2019, including interim periods in its fiscal year 2020, and



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allows for both retrospective and prospective methods of adoption. The Group is in the process of determining the method of adoption and assessing the impact of this ASU on its Consolidated Financial Statements.

On November 20, 2015, the FASB issued Accounting Standards Update (“ASU”) No. 2015-17, Balance Sheet Classification of Deferred Taxes, which will replace most existing guidance in U.S. GAAP. The amendments in this Update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this Update apply to all entities that present a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this Update. The ASU will be effective for the Group beginning July 1, 2017, including interim periods in its fiscal year 2018, earlier application is permitted as of the beginning of an interim or annual reporting period. The amendments in this Update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Group is in the process of assessing the impact of this ASU on its Consolidated Financial Statements.

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

Financial instruments that potentially subject the Group to concentration of credit risk consist principally of cash equivalents, short term deposits with banks and corporations, accounts receivables, unbilled revenue, investment securities and derivative instruments. The cash resources of the Group are invested with mutual funds, banks, financial institutions and corporations after an evaluation of the credit risk. By their nature, all such financial instruments involve risks, including the credit risk of non-performance by counter parties. In the management’s opinion, as of June 30, 2015 and December 31, 2015, there was no significant risk of loss in the event of non-performance of the counterparties to these financial instruments, other than the amounts already provided for in the financial statements.

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

### **4. SALES OF RECEIVABLES**

The Group has revolving accounts receivables based facilities of \$125,000 permitting it to sell certain accounts receivables to banks on a non-recourse basis in the normal course of business. The aggregate maximum capacity utilized by the Group at any time during the years ended June 30, 2015 and the six months ended December 31, 2015 was \$30,284 and \$26,201, respectively. Gains or losses on sale are recorded at the time of transfer of these accounts receivables and are immaterial. The Group has retained servicing obligations, which are limited to collection activities related to the non-recourse sales of accounts receivables. As of June 30, 2015 and December 31, 2015, the Group had outstanding service obligation of \$434 and \$26,201, respectively.

### **5. ACQUISITIONS/ARRANGEMENTS IN CURRENT PERIOD**

#### ***Trygstad Technical Services Inc.***

In August 2015, the Group acquired certain business of Trygstad Technical Services Inc., a US based service provider of IT consulting services and solutions. With this acquisition the Group enhanced its ability to provide additional value and turnkey solutions to ecosystem of large Independent Software Vendors (ISVs).

The total purchase price for the acquisition was \$9,874 out of which \$6,517 has been paid and, \$357 is payable at December 31, 2015. The balance \$3,000 has been recorded as deferred consideration which is contingent upon achieving of certain specific performance obligations as set out in the agreement. The initial purchase consideration of \$9,874 has been preliminarily allocated to intangible assets of \$1,041 and net assets of \$24 based on their fair value, with the residual \$8,809 allocated to goodwill. The resultant goodwill is tax deductible and has been allocated to the software segment.

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***Concept to Silicon Systems (C2SiS)***

In October 2015, the Group acquired a Bengaluru-based engineering services firm, Concept to Silicon Systems (C2SiS). With this strategic acquisition, Group will be able to leverage C2SiS capability in areas such as system-on-chip, physical design etc.

Purchase consideration payable for the acquisition was \$1,887 out of which \$1,603 has been paid and \$284 is payable at December 31, 2015. The initial purchase consideration of \$1,887 has been preliminarily allocated to intangible assets of \$192 and net assets of \$504 based on their fair value, with the residual \$1,191 allocated to goodwill. The resultant goodwill is not tax deductible and has been allocated to the software segment.

In addition to the purchase consideration, \$1,062 is payable to selling shareholder in tranches over a two year period. Payment of this deferred consideration is contingent upon achieving certain specified targets and the selling shareholder continuing to be the employee of the Company on the payment date. This consideration is being accounted for as post acquisition employee compensation expense in accordance with ASC 805 on "Business combination".

***Power team LLC***

In October 2015, the Group acquired Minneapolis-based Power team LLC - a North American professional services firm providing service, support, education and add-ons for Microsoft Dynamics CRM. This acquisition enables Group to take advantage of the rapidly-growing global CRM market.

Purchase consideration payable for the acquisition was \$36,013 out of which \$27,750 has been paid and \$106 is payable at December 31, 2015. The balance of \$8,157 represents the fair value of the earn-out component, which is contingent upon achieving certain specific performance obligations as set out in the agreement over a period of 3 years ending June'2018.

The purchase consideration of \$36,013 has been preliminarily allocated to intangible assets of \$7,700 and net assets of \$3,603 based on their fair value, with the residual \$24,710 allocated to goodwill. The resultant goodwill is tax deductible and has been allocated to the software segment.

In addition to the purchase consideration, \$5,000 which is currently held in escrow account, is payable to selling shareholders in tranches over a two year period. Payment of this deferred consideration is contingent upon selling shareholders continuing to be the employees of the Company on the payment date. This consideration is being accounted for as post acquisition employee compensation expense in accordance with ASC 805 on "Business combination".

***Formation of Joint Venture with CSC***

In November 2015, the Group has entered into joint venture arrangement with Computer Science Corporation (CSC) to operate and expand the existing Core Banking business of CSC. Under the joint venture arrangement, two entities, Celeritifintech Limited and Celeritifintech Services Limited have been formed, where Celeritifintech Limited would be focusing on account management and delivery governance and Celeritifintech Services Limited would be focusing on service delivery and product development.

The Group owns 51% interest in Celeritifintech Limited in exchange for cash contribution of \$32,948 over a period of two years. As at December 31, 2015, the Company has contributed \$3,534 in cash. CSC has contributed right to exploit and sub license its core banking, cards, payments and default management solutions and its existing business and customers in exchange for 49% interest. The fair value of CSC's contribution has been preliminarily allocated to intangibles of \$25,703, with residual \$7,668 accounted for as goodwill. The resultant goodwill is not tax deductible and has been allocated to the software segment.

Pursuant to ASC 810 "Consolidation", the Group has majority shareholding in Celeritifintech Limited, and as such is consolidating this entity in its group accounts.

The Group owns a 49% interest in Celeritifintech Services Limited and is obligated to contribute \$ 21,965 over a period of two years. As at December 31, 2015, the Company has contributed \$2,536 in cash. CSC has contributed right to exploit and sub license its core banking , cards, payments and default

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management solutions, its existing business and customers in exchange for 51% interest.

Investment in Celeritifintech Services Limited is accounted on equity investment method as the Group has the ability to exercise significant influence over this entity.

**6. PROPERTY AND EQUIPMENT**

As of June 30, 2015 and December 31, 2015 property and equipment comprises the following:

	<b>June 30, 2015</b>	<b>December 31, 2015</b>
Freehold land	\$13,687	\$8,328
Buildings	332,822	330,239
Computer and networking equipment	299,132	317,070
Software	110,612	111,572
Furniture, fixtures and office equipment	110,530	106,325
Plant and equipment	231,547	230,861
Vehicles	15,550	15,991
Capital work-in-progress	91,480	88,770
	<b>1,205,360</b>	<b>1,209,156</b>
Accumulated depreciation and amortization	(605,241)	(607,810)
<b>Property and equipment, net</b>	<b>\$600,119</b>	<b>\$601,346</b>

Depreciation expense was \$15,547 and \$20,238 for the three months period and \$30,595 and \$38,946 and six months period ended December 31, 2014 and 2015, respectively.

**7. GOODWILL AND INTANGIBLES**

The changes in the carrying value of goodwill balances by reportable segment, for the six months ended December 31, 2015, are as follows:

	<b>Software Services</b>	<b>Infrastructure services</b>	<b>Business process outsourcing services</b>	<b>Total</b>
Opening balance as at July 1, 2015	<b>\$765,685</b>	<b>\$952</b>	<b>\$23,750</b>	<b>\$790,387</b>
<b>Acquisitions during the period</b>				
<i>Trygstad Technical Services, Inc</i>	8,809	-	-	8,809
<i>Concept to Silicon Systems (C2SiS)</i>	1,191	-	-	1,191
<i>Powerteam LLC</i>	24,710	-	-	24,710
<i>Celeritifintech Limited</i>	7,668	-	-	7,668
Effect of exchange rate changes	(19,268)	(36)	(407)	(19,711)
Closing balance as on December 31, 2015	<b>\$788,795</b>	<b>\$916</b>	<b>\$23,343</b>	<b>\$813,054</b>

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The components of intangibles assets are as follows:

	<b>June 30, 2015</b>			<b>December 31, 2015</b>		
	<b>Gross carrying amount</b>	<b>Accumulated amortization</b>	<b>Net</b>	<b>Gross carrying amount</b>	<b>Accumulated amortization</b>	<b>Net</b>
Intellectual property rights	\$554	(\$554)	\$-	\$510	(\$510)	\$0
Technology	8,835	(7,702)	1,133	24,616	(7,669)	16,947
Customer related intangibles	130,027	(107,850)	22,177	141,305	(106,583)	34,722
Non-compete agreements	9,118	(5,198)	3,920	8,636	(5,360)	3,276
Brand and contractors database and others	3,169	(3,169)	-	3,664	(2,964)	700
	<u>\$151,703</u>	<u>(\$124,473)</u>	<u>\$27,230</u>	<u>\$178,731</u>	<u>(\$123,086)</u>	<u>\$55,645</u>

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

Current year charge (Year 1)	\$6,688
Year 2	11,807
Year 3	10,600
Year 4	6,459
Year 5	3,397
Thereafter	16,694
	<u>\$55,645</u>

#### 8. VARIABLE INTEREST ENTITIES (VIEs)

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

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

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

	<b>June 30, 2015</b>	<b>December 31, 2015</b>
<b>Current assets</b>		
Cash and cash equivalents	\$2,656	\$1,185
Short term deposits with bank	4,531	2,257
Inter Corporate Deposits – Current	-	2,048
Accounts receivables, net	4,385	4,050
Unbilled revenue	2,924	4,574
Deferred income taxes	11	11
Other current assets	1,250	1,499
<b>Total Current Assets</b>	<b>15,757</b>	<b>\$15,624</b>
Deferred income taxes	1,755	2,089
Property and equipment, net	3,948	5,178
Intangible assets, net	687	503
Other assets	831	1,074
<b>Total Assets</b>	<b>\$22,978</b>	<b>\$24,468</b>

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	<u>June 30, 2015</u>	<u>December 31, 2015</u>
<b>Current liabilities</b>		
Accounts payable	\$1,244	\$ 973
Accrued employee costs	1,009	1,164
Deferred revenue	322	244
Other current liabilities	2,107	1,864
<b>Total current liabilities</b>	<b>\$4,682</b>	<b>\$4,245</b>
Deferred income taxes	12	-
Accrued employee costs	102	131
Deferred revenue	214	20
<b>Total liabilities</b>	<b>\$5,010</b>	<b>\$4,396</b>

- a) Assets and liabilities exclude all intercompany accounts and transactions, which are eliminated in consolidation.
- b) For the six months period ended December 31, 2014 and 2015, total revenues from VIE's were \$14,006 and \$18,683, respectively and for the three months period ended December 31, 2014 and 2015, total revenues from VIE's were \$7,107 and \$10,249, respectively

**9. INVESTMENT SECURITIES**

Available for sale investment securities consist of the following:

As of June 30, 2015:

	<u>Carrying value</u>	<u>Gross unrealized holding gains</u>	<u>Fair value</u>
Mutual fund units – debt	\$119,808	\$767	\$120,575
<b>Total</b>	<b>\$119,808</b>	<b>\$767</b>	<b>\$120,575</b>

As of December 31, 2015:

	<u>Carrying value</u>	<u>Gross unrealized holding gains</u>	<u>Fair value</u>
Mutual fund units –debt	\$ 92,666	\$67	\$92,733
<b>Total</b>	<b>\$92,666</b>	<b>\$67</b>	<b>\$92,733</b>

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

The maturity profile of the investments classified as available for sale as of December 31, 2015 is set out below:

	<u>Fair value</u>
Less than one year	\$92,733
One to five years	-
	<b>\$92,733</b>

Proceeds from the sale of available- for -sale securities was \$318,792 and \$345,796 for the three month periods and \$783,809 and \$662,633 for the six month periods ended December 31, 2014 and 2015, respectively.

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

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The table summarizes the transactions for available for sale securities:

	<b>June 30,</b>	<b>December 31,</b>
	<b>2015</b>	<b>2015</b>
Net realised gain due to change in fair value	\$5,909	\$2,527
Net unrealized gain included in other comprehensive income (loss)	\$767	\$67
Reclassification into earnings on maturity out of other comprehensive income (loss)	\$477	\$767

## 10. DERIVATIVE FINANCIAL INSTRUMENTS

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

As a result of the use of derivative instruments, the Group is exposed to the risk that counterparties to derivative contracts will fail to meet their contractual obligations. To mitigate the counterparty credit risk, the Group has a policy of entering into contracts only with carefully selected nationally recognized financial institutions based upon their credit ratings and other factors. We have entered into series of foreign exchange forward contracts that are designated as cash flow hedges and the related forecasted transactions extend through April 2018.

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

	Notional principal amounts		Balance sheet exposure Asset (Liability)	
	<b>June 30, 2015</b>	<b>December 31, 2015</b>	<b>June 30, 2015</b>	<b>December 31, 2015</b>
Foreign exchange forward denominated in:				
USD / INR	\$498,660 (Sell)	\$366,060 (Sell)	(\$11,277)	(\$11,506)
GBP/ INR	£1,000 (Sell)	-	(61)	-
EUR / USD	€ 37,611 (Sell)	€ 22,450 (Sell)	(60)	35
EUR/ INR	€ 12,500 (Sell)	€ 3,500 (Sell)	2090	646
GBP/ USD	£11,000 (Sell)	-	74	-
AUD/USD	AUD 12,770 (Sell)	-	44	-
SEK/USD	SEK 55,373 (Sell)	SEK 11,130 (Sell)	(149)	5
ZAR/USD	ZAR 122,000 (Sell)	ZAR 45,000 (Sell)	40	160
JPY/USD	JPY 300,000 (Sell)	-	(27)	-
CHF/USD	CHF 11,050 (Sell)	CHF 3,630 (Sell)	(76)	(54)
CHF/ INR	CHF 1,000 (Sell)	CHF 4,250 (Sell)	18	114
NOK/USD	NOK 146,000 (Sell)	NOK 60,000 (Sell)	59	50
MXN/USD	MXN 66,000 (Sell)	MXN 100,000 (Sell)	73	139
RUB/USD	RUB 185,000 (Sell)	RUB 100,000 (Sell)	28	69
SEK/INR	SEK 15,000 (Sell)	SEK 115,000 (Sell)	46	333
CNH/USD	-	CNH 95,000 (Sell)	-	(190)
CAD/USD	CAD 12,500 (Buy)	CAD 19,000 (Buy)	(78)	(291)
SGD/USD	SGD 4,400 (Buy)	SGD 14,800 (Buy)	(44)	(38)
JPY/USD	- (Buy)	JPY 250,000 (Buy)	-	60
GBP/USD	£29,930 (Buy)	£37,930 (Buy)	651	(\$1,412)

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	Notional principal amounts		Balance sheet exposure Asset (Liability)	
	June 30, 2015	December 31, 2015	June 30, 2015	December 31, 2015
	CHF/USD	CHF 5,000 (Buy)	CHF 1,000 (Buy)	(19)
SEK/USD	SEK 17,000 (Buy)	-	3	-
EUR/USD	-	€ 2,000 (Buy)	-	(17)
ZAR/USD	-	ZAR 20,000 (Buy)	-	(105)
MYR/USD	MYR 16,000 (Buy)	MYR 23,000 (Buy)	(98)	(11)
			<b>(\$8,763)</b>	<b>(\$12,015)</b>

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

	Notional principal amounts		Balance sheet exposure Asset (Liability)	
	June 30, 2015	December 31, 2015	June 30, 2015	December 31, 2015
	<b>Range Forward</b>			
USD/INR	\$524,230	\$386,100	\$3,707	\$2,553
EUR/INR	€ 93,240	€ 76,210	338	1,770
GBP/INR	£54,350	£61,670	(842)	3,208
AUD/INR	AUD 4,000	AUD 13,550	316	256
CHF/INR	-	CHF 6,235	-	34
<b>PUT</b>				
USD/INR	\$2,000	\$39,000	22	83
<b>Seagull</b>				
USD/INR	\$28,600	\$32,950	115	185
GBP/INR	-	£4,000	-	120
EUR/INR	€ 4,300	€ 21,500	(28)	(30)
			<b>\$3,628</b>	<b>\$8,179</b>

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

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

The Group presents its foreign exchange derivative instruments on a net basis in the condensed consolidated financial statements due to the right of offset by its individual counterparties under master netting agreements .

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The fair value of those derivative instruments presented on a gross basis as of each date indicated below is as follows:

**June 30, 2015**

	Other Current Assets	Other Non - Current Assets	Other Current Liabilities	Other Non - Current Liabilities	Total Fair Value
<b>Derivatives designated as hedging instruments:</b>					
Foreign exchange contracts in an asset position	\$7,962	\$351	\$6,023	\$256	\$14,592
Foreign exchange contracts in an liability position	(6,023)	(256)	(7,988)	(6,186)	(20,453)
<b>Net asset (liability)</b>	<b>\$1,939</b>	<b>\$95</b>	<b>(\$1,965)</b>	<b>(\$5,930)</b>	<b>(\$5,861)</b>
<b>Derivatives not designated as hedging instruments:</b>					
Foreign exchange contracts in an asset position	\$2,799	\$-	\$1,536	\$-	\$4,335
Foreign exchange contracts in an liability position	(1,536)	-	(2,073)	-	(3,609)
<b>Net asset (liability)</b>	<b>\$1,263</b>	<b>\$-</b>	<b>(\$537)</b>	<b>\$-</b>	<b>\$726</b>
<b>Total Derivatives at fair value</b>	<b>\$3,202</b>	<b>\$95</b>	<b>(\$2,502)</b>	<b>(\$5,930)</b>	<b>(\$5,135)</b>

**December 31, 2015**

	Other Current Assets	Other Non - Current Assets	Other Current Liabilities	Other Non - Current Liabilities	Total Fair Value
<b>Derivatives designated as hedging instruments:</b>					
Foreign exchange contracts in an asset position	\$8,341	\$947	\$4,397	\$426	\$14,111
Foreign exchange contracts in an liability position	(4,397)	(426)	(8,304)	(4,328)	(17,455)
<b>Net asset (liability)</b>	<b>\$3,944</b>	<b>\$521</b>	<b>(\$3,907)</b>	<b>(\$3,902)</b>	<b>(\$3,344)</b>
<b>Derivatives not designated as hedging instruments:</b>					
Foreign exchange contracts in an asset position	\$1,854	\$-	\$533	\$-	\$2,387
Foreign exchange contracts in an liability position	(533)	-	(2,346)	-	(2,879)
<b>Net asset (liability)</b>	<b>\$1,321</b>	<b>\$-</b>	<b>(\$1,813)</b>	<b>\$-</b>	<b>(\$492)</b>
<b>Total Derivatives at fair value</b>	<b>\$5,265</b>	<b>\$521</b>	<b>(\$5,720)</b>	<b>(\$3,902)</b>	<b>(\$3,836)</b>

The following tables set forth the fair value of derivative instruments included in the condensed consolidated balance sheets as on June 30, 2015 and December 31, 2015:

**Derivatives designated as hedging instruments:**

	<b>June 30, 2015</b>	<b>December 31, 2015</b>
Unrealized gain on financial instruments classified under current assets	\$1,939	\$3,944
Unrealized gain on financial instruments classified under non current assets	95	521
Unrealized (loss) on financial instruments classified under current liabilities	(1,965)	(3,907)
Unrealized (loss) on financial instruments classified under non-current liabilities	(5,930)	(3,902)
	<b>(\$5,861)</b>	<b>(\$3,344)</b>



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**Derivatives not designated as hedging instruments:**

	<b>June 30, 2015</b>	<b>December 31, 2015</b>
Unrealized (loss) on financial instruments classified under current liabilities	(\$537)	(\$1,813)
Unrealized gain on financial instruments classified under current assets	1,263	1,321
	<b>\$726</b>	<b>(\$492)</b>

The following tables summarizes activities in the condensed consolidated statement of income during the three months ended December 31, 2014

Derivatives in Cash flow Hedging Relationships	Amount of Gain or (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion) and Amount Excluded from Effectiveness Testing	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Foreign Exchange Contracts	\$5,653	Other Income (Expense),net	(\$2,600)	Other Income (Expense),net	Nil
	<b>\$5,653</b>		<b>(\$2,600)</b>		<b>Nil</b>

Derivatives not Designated as Hedging	Location of Gain or (Loss) recognized in Income on Derivatives	Amount of Gain or (Loss) recognized in Income on Derivatives
Foreign exchange contracts	Other Income (Expense),net	\$2,227

The following tables summarizes activities in the condensed consolidated statement of income during the three months ended December 31, 2015

Derivatives in Cash flow Hedging Relationships	Amount of Gain or (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion) and Amount Excluded from Effectiveness Testing	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Foreign Exchange Contracts	\$6,531	Other Income (Expense),net	(\$1,068)	Other Income (Expense),net	Nil
	<b>\$6,531</b>		<b>(\$1,068)</b>		<b>Nil</b>

Derivatives not Designated as Hedging	Location of Gain or (Loss) recognized in Income on Derivatives	Amount of Gain or (Loss) recognized in Income on Derivatives
Foreign exchange contracts	Other Income (Expense),net	\$2,833

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The following tables summarizes activities in the condensed consolidated statement of income during the six months ended December 31, 2014

Derivatives in Cash flow Hedging Relationships	Amount of Gain or (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion) and Amount Excluded from Effectiveness Testing	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Foreign Exchange Contracts	\$3,918	Other Income (Expense),net	(\$12,883)	Other Income (Expense),net	Nil
	<b>\$3,918</b>		<b>(\$12,883)</b>		<b>Nil</b>

Derivatives not Designated as Hedging	Location of Gain or (Loss) recognized in Income on Derivatives	Amount of Gain or (Loss) recognized in Income on Derivatives
Foreign exchange contracts	Other Income (Expense),net	\$4,987

The following tables summarizes activities in the condensed consolidated statement of income during the six months ended December 31, 2015

Derivatives in Cash flow Hedging Relationships	Amount of Gain or (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion) and Amount Excluded from Effectiveness Testing	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Foreign Exchange Contracts	(\$750)	Other Income (Expense),net	(\$2,650)	Other Income (Expense),net	Nil
	<b>(\$750)</b>		<b>(\$2,650)</b>		<b>Nil</b>

Derivatives not Designated as Hedging	Location of Gain or (Loss) recognized in Income on Derivatives	Amount of Gain or (Loss) recognized in Income on Derivatives
Foreign exchange contracts	Other Income (Expense),net	\$2,119

The following table summarizes the activity in the accumulated 'Other comprehensive income (loss)' within equity related to all derivatives classified as cash flow hedges during the six months ended December 31, 2014 and December 31, 2015:

	<b>December 31,</b>	
	<b>2014</b>	<b>2015</b>
Balance as at the beginning of the period	(\$43,421)	(\$7,918)
Unrealized gain (loss) on cash flow hedging derivatives during the period	3,918	(750)
Net loss reclassified into net income on occurrence of hedged transactions	12,883	2,650
Effect of exchange rate fluctuations	2,550	300
Balance as at the end of the period	<b>(\$24,070)</b>	<b>(\$5,718)</b>
Deferred tax	4,539	1,100
	<b>(\$19,531)</b>	<b>(\$4,618)</b>

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As at December 31, 2015, the estimated net amount of existing loss that is expected to be reclassified into the income statement from AOCI with in the next twelve months is (\$2,041).

**11. INVENTORY**

As of June 30, 2015 and December 31, 2015, Inventory comprise of the following:

	<u>June 30, 2015</u>	<u>December 31, 2015</u>
Finished goods	\$24,467	\$33,708
Stores and spares	296	-
	<u><b>\$24,763</b></u>	<u><b>\$33,708</b></u>

**12. OTHER CURRENT ASSETS**

As of June 30, 2015 and December 31, 2015, other current assets comprise of the following:

	<u>June 30, 2015</u>	<u>December 31, 2015</u>
Prepaid expenses	\$53,826	\$75,181
Prepaid rentals for leasehold land	478	\$464
Interest receivable	15,776	16,510
Prepaid/advance taxes	10,763	10,855
Deposits	6,585	8,827
Deferred cost	81,289	81,300
Employee receivables	11,681	19,212
Derivative financial instruments	3,202	5,265
Advance to suppliers	7,811	7,694
Entrusted loan receivable	4,032	3,850
Finance lease receivable	27,613	26,050
Others	45,366	53,600
	<u><b>\$268,422</b></u>	<u><b>\$308,808</b></u>

**13. OTHER ASSETS**

As of June 30, 2015 and December 31, 2015, other assets comprise the following:

	<u>June 30, 2015</u>	<u>December 31, 2015</u>
Deposits	\$27,371	\$25,275
Deferred cost	119,097	123,998
Prepaid expenses	13,809	21,730
Prepaid rentals for Leasehold land	39,825	38,347
Advance to suppliers	13,473	12,963
Finance lease receivable	44,008	42,129
Others	46,024	41,350
	<u><b>\$303,607</b></u>	<u><b>\$305,792</b></u>

**14. DEBTS**

**SHORT TERM LOANS**

The Group has availed unsecured short term loan amounting to \$998 and \$639 as of June 30, 2015 and December 31, 2015, respectively, at effective interest rates of 4.1%.

The Group has availed bank line of credit from its bankers amounting to \$50,821 and \$6,729 as of June 30, 2015 and December 31, 2015, respectively, at effective interest rates ranging from 0.55% to 15.89%.

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**Entrusted loan receivable/payable**

During the year ended June 30, 2015, two of the Company's wholly owned subsidiaries, HCL Technologies (Shanghai) Limited and Axon Solutions (Shanghai) Co. Limited, entered into an entrusted loan arrangement in which HCL Technologies (Shanghai) Limited acts as the entrusted party (the principle) the bank acts as the agent (charging commission of 0.20% p.a.) and Axon Solutions (Shanghai) Co. Limited acts as a borrower (the "Entrusted Loan"). The entrusted loan receivable is included under other current assets and the entrusted loan payable included under short term loans which cannot be set off and bear interest of 5% p.a. and repayable on demand within one year. Amount outstanding is \$4,032 and \$3,850 as of June 30, 2015 and December 31, 2015, respectively.

**LONG TERM DEBT**

	<u>June 30, 2015</u>	<u>December 31, 2015</u>
From banks	\$17,164	\$10,525
Other	605	2,415
Less: Current portion	(3,970)	(7,006)
	<u><b>\$13,799</b></u>	<u><b>\$5,934</b></u>

The scheduled principal repayments are as follows:

	<u>December 31, 2015</u>
Within one year	\$7,006
One to two years	2,422
Two to three years	1,715
Three to five years	1,797
	<u><b>\$12,940</b></u>

The Group's borrowings are subject to certain financial and non financial covenants. At December 31, 2015, the Group was in compliance with all such covenants.

**Long term debts from banks include:**

Term loans of \$6,464 and \$6,334 as of June 30, 2015 and December 31, 2015, respectively, at interest rates ranging from 9.7% to 10.5% per annum and secured by hypothecation of vehicles with a book value of \$14,183 and \$14,669 as of June 30, 2015 and December 31, 2015, respectively.

Term loans of \$10,700 and \$4,191 as of June 30, 2015 and December 31, 2015, respectively, at effective interest rate of 2.9% per annum, respectively.

**Other long term debts include:**

Unsecured long term loans of \$605 and \$2,415 as of June 30, 2015 and December 31, 2015, respectively, at interest rate 0% per annum.

**15. OTHER CURRENT LIABILITIES**

As of June 30, 2015 and December 31, 2015, other current liabilities comprise of the following:

	<u>June 30, 2015</u>	<u>December 31, 2015</u>
Advances from customers	\$9,350	\$7,436
Sales tax and other taxes payable	60,882	67,513
Accrued liabilities and expenses	340,181	369,462
Supplier's credit	242,481	237,352
Due to related parties	1,616	21,142
Derivative financial instruments	2,502	5,720
Others	31,563	29,565
	<u><b>\$688,575</b></u>	<u><b>\$738,190</b></u>

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**16. 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 December 31, 2015 is \$0.03 ( ` 2.00 ).

*Voting*

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

*Dividends*

Dividends declared and paid by the Company are in Indian Rupees. Dividends payable to equity stockholders are based on the net income available for distribution as reported in the standalone financial statements of the Company prepared in accordance with Indian GAAP. Indian law mandates that any dividend, exceeding 10% of the common stock, can be declared out of distributable profits only after the transfer of up to 10% of net income computed in accordance with current regulations, to 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.

*Stock split*

The Company has allotted 702,847,961 fully paid up equity shares of face value ` 2/- each during March 2015 pursuant to a stock split approved by the shareholders through a postal ballot. The shareholders of the Company approved a one-for-one stock split which was effective on record date of March 20, 2015. Consequently, the Company capitalized an amount of \$22,492 from its additional paid-in capital (APIC) to common stock. All references in the financial statements to number of shares, stock option data, 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 preferential amounts, if any. Such amounts will be in proportion to the number of equity shares held by the stockholders.

*Stock options*

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

**17. OTHER INCOME (EXPENSES), NET**

For the period ended December 31, 2014 and 2015, other income (expenses), net consist of:

	<b>Three months ended December 31,</b>		<b>Six months ended December 31,</b>	
	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>
Interest income	\$32,763	\$33,049	\$68,053	\$66,791
Gain on sale of investment securities and other investments, net	1,437	654	3,261	2,527
Foreign exchange gain (losses) , net	2,611	1,686	(6,106)	5,061
Equity in earnings of affiliates	472	763	910	862
Gain (loss) on sale of property and equipment	(218)	21,074	25,235	21,935
Miscellaneous income	527	205	772	1,174
<b>Other income (expense), net</b>	<b>\$37,592</b>	<b>\$57,431</b>	<b>\$92,125</b>	<b>\$98,350</b>

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**18. INCOME TAXES**

The effective tax rate for the Group for the three and six months period ended December 31, 2014 and 2015 is 21.00% and 20.93% and 21.35% and 21.21%, respectively.

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

	<b>June 30, 2015</b>	<b>December 31, 2015</b>
Balance at the beginning of the period	\$ 108,611	\$104,918
Increase due to tax position taken during the current period	3,771	6,310
Decrease due to tax position taken during the prior period	(3,720)	-
Effect of exchange rate fluctuations	(3,744)	(2,452)
Balance at the end of the period	<b>\$104,918</b>	<b>\$108,776</b>

**19. 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:

	<b>Three months period ended December 31,</b>		<b>Six months period ended December 31,</b>	
	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>
Weighted average number of equity shares outstanding used in computing basic EPS	1,403,370,126	1,407,635,747	1,402,307,690	1,406,864,266
Dilutive effect of stock options	6,650,953	3,913,362	6,637,340	3,902,528
Weighted average number of equity and equity equivalent shares outstanding used in computing diluted EPS	<u>1,410,021,079</u>	<u>1,411,549,109</u>	<u>1,408,945,030</u>	<u>1,410,766,794</u>

For the three and six months ended December 31 2014 and 2015, there were no options to purchase equity shares of common stock with exercise price greater than the average market value of our stock that would have been anti-dilutive.

**20. STOCK BASED COMPENSATION**

**STOCK OPTION PLANS**

Stock-based compensation expense related to the stock option plans was allocated as follows:

	<b>Three months ended December 31,</b>		<b>Six months ended December 31,</b>	
	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>
Cost of sales	(\$1,729)	\$-	(\$1,587)	\$17
Selling, general and administrative	(1,784)	-	(264)	949
<b>Stock based compensation cost</b>	<b>(3,513)</b>	<b>\$-</b>	<b>(1,851)</b>	<b>966</b>

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**21. EMPLOYEE BENEFIT PLANS**

**India operations**

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

**Defined benefit Plan**

**Gratuity**

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

Net gratuity cost for the three and six months period ended December 31, 2014 and 2015 comprise the following components:

	Three months ended December 31,		Six months ended December 31,	
	2014	2015	2014	2015
Service cost	\$1,748	\$1,944	\$3,595	\$3,905
Interest cost	851	881	1,723	1,771
Amortization of unrecognized actuarial loss	28	-	28	-
<b>Net gratuity cost</b>	<b>\$2,627</b>	<b>\$2,825</b>	<b>\$5,346</b>	<b>\$5,676</b>

**Provident fund**

In accordance with Indian law, all employees receive benefits from a provident fund, which is a defined benefits plan. Under this plan, the employer and employee make monthly contributions to a fund managed by certain employees of the Group ("Trust"). The employees contribute 12% of their basic compensation, which is matched by an equal contribution by the employer. The Group contributes two-third of the contribution to the Government administered pension fund subject to a maximum of \$0.02 (~ 1250/-) with effect from September 1, 2014 and the remaining portion is contributed to the Trust. The rate at which the annual interest is payable to the beneficiaries by the Trust is administered by the government. The Group has an obligation to fund any shortfall on the yield of the Trust's investments over the administered interest rates. The funds contribution 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 Group in respect of this plan for the three and six months period ended December 31, 2014 and 2015 are \$3,190 and \$3,509 and \$7,105 and \$6,936, respectively

Total contributions made by the Group towards Employees Pension Scheme for the three and six months period ended December 31, 2014 and 2015 are \$3,223 and \$3,195 and \$5,493 and \$6,462, respectively.

**Defined Contribution Plan**

**Superannuation**

In respect of superannuation, a defined contribution plan for applicable employees, the Group contributes to a scheme administered on its behalf by an insurance company and such contributions for each year of service rendered by the employees are charged to the statement of profit and loss. The Group has no further obligations to the superannuation plan beyond its contributions. Total contributions made in respect of this plan for the three and six months period ended December 31, 2014 and 2015 are \$73 and \$61 and \$149 and \$125, respectively

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**Others**

Total contributions made by the Group in respect of other foreign defined contribution plans for the three and six months period ended December 31, 2014 and 2015 are \$10,052 and \$12,879 and \$20,472 and \$24,413, respectively.

**22. COMMITMENTS AND CONTINGENCIES**

*Capital commitments*

As of December 31, 2015, the Group had contractual commitments for capital expenditure of \$58,451.

*Other commitments*

Some of the Group's software development centers in India are Special Economic Zone/Software Technology Park/Export Oriented Units under the guidelines issued by the Government of India. These units are exempt from customs and central excise duties and levies on imported and indigenous capital goods and stores and spares. The Group has executed legal undertakings to pay customs duty, central excise duty, levies and liquidated damages payable, if any, in respect of imported and indigenous capital goods and stores and spares consumed duty free, in the event that certain terms and conditions are not fulfilled.

*Other Contingencies*

As of December 31, 2015, other contingencies have arisen in the normal course of business. The management believes that the ultimate outcome of these matters will not have a material adverse effect on its financial position, results of operations and cash flows.

**23. SEGMENT REPORTING**

The Group's operations predominantly relate to providing a range of IT & BPO services targeted at Global 2000 companies spread across America, Europe & Rest of the World. IT services include software services & IT infrastructure management services. Within software services, the Group provides application development & maintenance, enterprise application, next generation SAAS (Software As A Service) application services and engineering and R&D (Research and Development) services to several global customers. Infrastructure management services involve managing customer's IT assets effectively. The Group's Enterprise of the Future' (EOF) framework helps customers not just run IT effectively but also migrate to next generation IT. EOF involves services around cloud, next generation data centres, business productivity services, integrated service management layer and an integrated application development & operations services. Business process outsourcing services include the traditional contact centre & help desk services and the next generation services around platform BPO & BPAAS ( Business Process As A Service) delivered through a strong global delivery model. Group's trademarked EFAAS( Enterprise Function As A Service) helps customers reduce business cost rather than just the process cost as was the case in traditional BPO.

The Chief Operating Decision Maker ("CODM") evaluates the Group's performance by business segment, comprising software services, infrastructure management services and business process outsourcing services. Accordingly, the above stated business segments have been identified as reportable segments for the purpose of segment reporting. Assets and liabilities are not identified to any reportable segments, since these are increasingly used interchangeably across segments and consequently, the management believes that it is not practicable or meaningful to provide segment disclosures relating to total assets and liabilities. Segment information for prior periods is provided on a comparative basis.



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Information on reportable segments for the three months period ended December 31, 2014 is as follows:

	<b>Software Services</b>	<b>Infrastructure management Services</b>	<b>Business process Outsourcing Services</b>	<b>Total</b>
<b>Revenue</b>	<u>\$905,222</u>	<u>\$512,518</u>	<u>\$73,019</u>	<u>\$1,490,759</u>
Depreciation and amortization	10,178	5,637	1,661	17,476
<b>Segment earnings</b>	<b>\$212,892</b>	<b>\$132,564</b>	<b>\$9,375</b>	<b>\$354,831</b>

Information on reportable segments for the three months period ended December 31, 2015 is as follows:

	<b>Software Services</b>	<b>Infrastructure management services</b>	<b>Business process outsourcing services</b>	<b>Total</b>
<b>Revenue</b>	<u>\$923,855</u>	<u>\$555,415</u>	<u>\$86,857</u>	<u>\$1,566,127</u>
Depreciation and amortization	13,861	7,273	1,998	23,132
<b>Segment earnings</b>	<b>\$182,830</b>	<b>\$115,466</b>	<b>\$15,586</b>	<b>\$313,882</b>

Information on reportable segments for the six months period ended December 31, 2014 is as follows:

	<b>Software Services</b>	<b>Infrastructure management Services</b>	<b>Business process Outsourcing Services</b>	<b>Total</b>
<b>Revenue</b>	<u>\$1,772,286</u>	<u>\$1,007,332</u>	<u>\$144,638</u>	<u>\$2,924,256</u>
Depreciation and amortization	20,324	10,973	3,255	34,552
<b>Segment earnings</b>	<b>\$418,860</b>	<b>\$259,724</b>	<b>\$18,666</b>	<b>\$697,250</b>

Information on reportable segments for the six months period ended December 31, 2015 is as follows:

	<b>Software Services</b>	<b>Infrastructure management services</b>	<b>Business process outsourcing services</b>	<b>Total</b>
<b>Revenue</b>	<u>\$1,844,684</u>	<u>\$1,097,833</u>	<u>\$168,129</u>	<u>\$3,110,646</u>
Depreciation and amortization	26,020	13,995	3,824	43,839
<b>Segment earnings</b>	<b>\$357,413</b>	<b>\$233,716</b>	<b>\$21,812</b>	<b>\$612,941</b>

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

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

	Three months ended December 31,		Six months ended December 31,	
	2014	2015	2014	2015
Segment earnings	\$354,831	\$313,882	\$697,250	\$612,941
Foreign exchange (loss)	2,611	1,686	(6,106)	5,061
Finance cost	(3,129)	(3,493)	(7,755)	(7,450)
Other income, net	34,981	55,745	98,231	93,289
Income before income taxes	<b>\$389,294</b>	<b>\$367,820</b>	<b>\$781,620</b>	<b>\$703,841</b>

## 24. FAIR VALUE MEASUREMENT

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

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

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

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

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

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

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

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

Cost approach – Replacement cost method.

The following table discloses the assets and liabilities measured at fair value on a recurring basis as of June 30, 2015 and the basis for that measurement:

	Fair value	Level 1 inputs	Level 2 inputs	Level 3 inputs
<b>Assets</b>				
Deposits with bank, having maturities less than three months	\$3,225	\$3,225	-	-
Term deposits with banks	\$1,335,016	-	\$1,335,016	-
Deposits with corporation	\$188,147	-	\$188,147	-
Investment securities, available for sale	\$120,575	\$120,575	-	-
Derivative contracts	\$3,297	-	\$3,297	-
<b>Liabilities</b>				
Derivative contracts	(\$8,432)	-	(\$8,432)	-

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The following table discloses the assets and liabilities measured at fair value on a recurring basis as of December 31, 2015 and the basis for that measurement:

	Fair value	Level 1 inputs	Level 2 inputs	Level 3 inputs
<b>Assets</b>				
Deposits with bank, having maturities less than three months	\$13,090	\$13,090	-	-
Term deposits with banks	\$1,261,603	-	\$1,261,603	-
Deposits with corporation	\$289,579	-	\$289,579	-
Investment securities, available for sale	\$92,733	\$92,733	-	-
Derivative contracts	\$5,786	-	\$5,786	-
<b>Liabilities</b>				
Derivative contracts	(\$9,622)	-	(\$9,622)	-

*Valuation Methodologies*

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

Investments: The Company's investments consist primarily of investment in debt linked mutual funds. Fair values of investment securities classified as available -for -sale are determined using quoted prices for identical assets or liabilities in active markets and are classified as Level 1. Fair value of term deposits with banks and corporations is determined using observable markets inputs and is classified as Level 2.

Derivative Financial instruments: The Group's derivative financial instruments consist of foreign currency forward exchange contracts. Fair values for derivative financial instruments are based on broker quotations and are classified as Level 2. See note 10 for further details on Derivative Financial instruments.

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

Certain assets are measured at fair value on a non-recurring basis and therefore are not included in the recurring fair value table above. The assets and liabilities consist primarily of long term debt and other non financial assets such as goodwill and intangible assets. Goodwill and intangible assets are measured at fair value initially and subsequently when there is an indicator of impairment, the impairment is recognized.

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**25. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

The following table summarizes the changes in the accumulated balances for each component of accumulated other comprehensive income attributable to HCL Technologies limited .

	Three months ended		Six months ended	
	December 31		December 31	
	2014	2015	2014	2015
<b>Unrealized gain on securities available for sale:</b>				
Opening balance (net of tax)	\$5	\$60	\$315	\$533
Unrealized loss (gain)	161	(3)	167	67
Reclassification adjustments into other (income) expenses, net	-	-	(477)	(767)
Income tax benefit	(53)	(5)	105	212
Effect of exchange fluctuations	4	2	7	9
Closing balance (net of tax)	<u>\$117</u>	<u>\$54</u>	<u>\$117</u>	<u>\$54</u>
<b>Unrealized loss on cash flow hedges:</b>				
Opening balance (net of tax)	(\$26,930)	(\$10,849)	(\$34,939)	(\$6,392)
Unrealized loss (gain)	5,653	6,531	3,918	(750)
Reclassification adjustments into other (income) expenses, net	2,600	1,068	12,883	2,650
Income tax benefit (expense)	(1,714)	(1,433)	(3,943)	(426)
Effect of exchange fluctuations	860	65	2,550	300
Closing balance (net of tax)	<u>(\$19,531)</u>	<u>(\$4,618)</u>	<u>(\$19,531)</u>	<u>(\$4,618)</u>
<b>Actuarial loss on defined benefit plan:</b>				
Opening balance (net of tax)	(\$131)	\$947	(\$135)	\$988
Reclassification adjustments into employee benefit expenses <sup>1</sup>	-	-	-	-
Income tax benefit	-	-	-	-
Effect of exchange fluctuations	3	(7)	7	(48)
Closing balance (net of tax)	<u>(\$128)</u>	<u>\$940</u>	<u>(\$128)</u>	<u>\$940</u>
<b>Foreign currency translation:</b>				
Opening balance	(\$428,506)	(\$636,232)	(\$339,195)	(\$533,164)
Foreign currency translation	(73,559)	(38,125)	(162,870)	(141,192)
Closing balance	<u>(\$502,065)</u>	<u>(\$674,357)</u>	<u>(\$502,065)</u>	<u>(\$674,356)</u>

1 Reclassification into employee benefit expenses are recognized in cost of revenues and selling, general and administrative expenses

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**26. COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

The components of accumulated other comprehensive loss as of June 30, 2015 and December 31, 2015:

	<b>June 30,2015</b>	<b>December 31,2015</b>
Unrealized gain on securities available for sale	\$533	\$54
Unrealized loss on cash flow hedges	(6,392)	(4,618)
Unrealized loss on defined benefit plan	988	940
Foreign currency translation	(533,164)	(674,356)
	<b><u>(\$538,035)</u></b>	<b><u>(\$677,980)</u></b>

**27. SUBSEQUENT EVENTS**

On January 19, 2016 the Group announced an interim dividend of ₹ 6 per share amounting to ₹ 8,456 million (\$127,822).

The Group has evaluated all the subsequent events through January 19, 2016, which is the date on which these financial statements were issued, and no events have occurred from the balance sheet date through that date that would have material impact on the condensed consolidated financial statements.