

# **HCL Technologies Limited and Subsidiaries**

## **Consolidated Financial Statements**

**Nine Months Ended March 31, 2016 and Years Ended June 30, 2015 and 2014**

**With Report of Independent Auditors**

# HCL Technologies Limited and Subsidiaries

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## Report of Independent Auditors

The Board of Directors  
HCL Technologies Limited

We have audited the accompanying consolidated financial statements of HCL Technologies Limited and Subsidiaries, which comprise the consolidated balance sheets as of March 31, 2016 and June 30, 2015, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the nine months ended March 31, 2016 and for each of the two years in the period ended June 30, 2015, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of HCL Technologies Limited and Subsidiaries at March 31, 2016 and June 30, 2015, and the consolidated results of their operations and their cash flows for the nine months ended March 31, 2016 and for each of the two years in the period ended June 30, 2015, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2(a) to the consolidated financial statements, the Company changed its fiscal year end from June 30 to March 31.

*Ernst & Young Associates LLP*

Gurgaon, India  
April 28, 2016

# HCL Technologies Limited and Subsidiaries

## Consolidated Balance Sheets

Amount in thousands, except share and per share data

	As of	
	June 30,	March 31,
	2015	2016
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$212,342	\$110,069
Term deposits with banks	1,331,758	1,298,073
Deposit with corporation	187,431	299,615
Accounts receivable, net	1,031,163	1,165,295
Unbilled revenue	459,198	452,971
Investment securities, available for sale	120,575	80,959
Inventories	24,763	39,913
Other current assets	268,422	323,839
<b>Total current assets</b>	<b>3,635,652</b>	<b>3,770,734</b>
Deferred income taxes	252,277	279,964
Investments in affiliates	1,551	24,434
Property and equipment, net	600,119	652,407
Intangible assets, net	27,230	60,643
Goodwill	790,387	908,120
Other assets	303,607	305,406
<b>Total assets (a)</b>	<b>\$5,610,823</b>	<b>\$6,001,708</b>

See accompanying notes.

# HCL Technologies Limited and Subsidiaries

## Consolidated Balance Sheets

Amount in thousands, except share and per share data

	As of	
	June 30, 2015	March 31, 2016
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Current portion of capital lease obligations	\$15,572	\$14,955
Accounts payable	146,395	137,013
Short term borrowings	55,851	32,359
Current portion of long term debt	3,970	5,950
Accrued employee costs	286,854	241,974
Deferred revenue	150,433	167,961
Income taxes payable	158,648	157,129
Other current liabilities	688,575	715,952
<b>Total current liabilities</b>	<b>1,506,298</b>	<b>1,473,293</b>
Long term debt	13,799	108,566
Capital lease obligations, net of current portion	12,579	2,729
Deferred income taxes	12,591	16,015
Accrued employee costs	79,753	108,483
Deferred revenue	86,439	50,461
Other liabilities	10,481	12,989
<b>Total liabilities (a)</b>	<b>\$1,721,940</b>	<b>\$1,772,536</b>
<b>Commitments and contingencies (Note 26)</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 1,410,381,314 shares as of June 30, 2015 and March 31, 2016, respectively	57,154	57,286
Additional paid-in capital	703,224	711,027
Shares application money pending allotment	325	7
Retained earnings	3,666,121	4,098,241
Accumulated other comprehensive loss	(538,035)	(669,298)
<b>HCL Technologies Limited Shareholders' Equity</b>	<b>3,888,789</b>	<b>4,197,263</b>
Noncontrolling interest	94	31,909
<b>Total equity</b>	<b>3,888,883</b>	<b>4,229,172</b>
<b>Total liabilities and equity</b>	<b>\$5,610,823</b>	<b>\$6,001,708</b>

(a) Consolidated assets at June 30, 2015 and March 31, 2016 include assets totaling \$22,978 and \$29,317, 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 March 31, 2016, include liabilities of certain VIEs for which the VIEs creditors do not have recourse to HCL Technologies Limited and Subsidiaries (See Note 10).

See accompanying notes.

# HCL Technologies Limited and Subsidiaries

## Consolidated Statements of Income

Amount in thousands, except share and per share data

	Year ended June 30, 2014	Year ended June 30, 2015	Nine months ended March 31, 2016
<b>Revenues</b>	<b>\$5,359,750</b>	<b>\$5,952,297</b>	<b>\$4,697,887</b>
Cost of revenues (exclusive of depreciation and amortization)	3,291,510	3,823,183	3,089,520
<b>Gross profit</b>	<b>2,068,240</b>	<b>2,129,114</b>	<b>1,608,367</b>
Selling, general and administrative expenses	657,125	733,088	598,956
Depreciation and amortization	119,328	72,359	67,155
Other income, net	(15,962)	(160,523)	(131,538)
Finance cost	18,702	14,132	11,163
<b>Income before income taxes</b>	<b>1,289,047</b>	<b>1,470,058</b>	<b>1,062,631</b>
Provision for income taxes	252,072	306,355	223,097
<b>Net income</b>	<b>1,036,975</b>	<b>1,163,703</b>	<b>839,534</b>
Net income (loss) attributable to noncontrolling interest	53	18	(112)
<b>Net income attributable to HCL Technologies Limited shareholders</b>	<b>\$1,036,922</b>	<b>\$1,163,685</b>	<b>\$839,646</b>
<b>Earnings per equity share</b>			
Basic	\$0.74	\$0.83	\$0.60
Diluted	\$0.73	\$0.82	\$0.60
<b>Weighted average number of equity shares used in computing earnings per equity share</b>			
Basic	1,397,233,894	1,404,808,456	1,407,845,713
Diluted	1,413,598,490	1,411,663,430	1,410,916,234

See accompanying notes.

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

	Year ended June 30, 2014	Year ended June 30, 2015	Nine months ended March 31, 2016
<b>Net income attributable to HCL Technologies Limited shareholders</b>	<b>\$1,036,922</b>	<b>\$1,163,685</b>	<b>\$839,646</b>
<b>Other comprehensive income (loss) net of taxes:</b>			
Change in unrealized gain (loss) on cash flow hedges, net of taxes (\$15,554), (\$6,956) and (\$1,812) for the years ended June 30, 2014 and 2015 and the nine months ended March 31, 2016, respectively.	47,318	28,547	7,612
Change in unrealized gain (loss) on securities available for sale, net of taxes \$215, (\$72) and \$187 for the years ended June 30, 2014 and 2015 and the nine months ended March 31, 2016, respectively.	(441)	218	(319)
Change in unrealized gain (loss) on defined benefit plan, net of taxes (\$870), (\$321) and (\$58) for the years ended June 30, 2014 and 2015 and the nine months ended March 31, 2016, respectively.	3,257	1,123	1,766
Change in foreign currency translation	38,386	(193,969)	(140,322)
<b>Other comprehensive income (loss)</b>	<b>88,520</b>	<b>(164,081)</b>	<b>(131,263)</b>
<b>Total comprehensive income</b>	<b>1,125,442</b>	<b>\$999,604</b>	<b>\$708,383</b>

See accompanying notes.

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

	Equity shares		Addition al paid- in capital	Ordinary shares subscrib ed	Retained earnings	Accumulate d other comprehens ive loss	HCL Technologie s Limited Shareholder ' Equity	Non Controlli ng Interest	Total Equity
	Shares	Par Value							
<b>Balances as at June 30, 2013</b>	<b>696,869,857</b>	<b>\$34,460</b>	<b>\$702,498</b>	<b>\$1,068</b>	<b>\$2,131,410</b>	<b>(\$462,474)</b>	<b>\$2,406,962</b>	<b>\$23</b>	<b>\$2,406,985</b>
Shares issued for exercised options	3,106,524	100	5,029	(1,068)	-	-	4,061	-	4,061
Stock options exercised pending allotment of shares	-	-	-	1,582	-	-	1,582	-	1,582
Stock based compensation	-	-	6,151	-	-	-	6,151	-	6,151
Excess tax benefit from stock options	-	-	4,581	-	-	-	4,581	-	4,581
Cash dividend	-	-	-	-	(212,278)	-	(212,278)	-	(212,278)
Net income	-	-	-	-	1,036,922	-	1,036,922	53	1,036,975
Other comprehensive income (loss)	-	-	-	-	-	88,520	88,520	-	88,520
<b>Balances as at June 30, 2014</b>	<b>699,976,381</b>	<b>\$34,560</b>	<b>\$718,259</b>	<b>\$1,582</b>	<b>\$2,956,054</b>	<b>(\$373,954)</b>	<b>\$3,336,501</b>	<b>\$76</b>	<b>\$3,336,577</b>

See accompanying notes.



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

	Equity shares		Addition al paid- in capital	Ordinary shares subscrib ed	Retained earnings	Accumulate d other comprehens ive loss	HCL Technologie s Limited Shareholder ' Equity	Non Controlli ng Interest	Total Equity
	Shares	Par Value							
<b>Balances as at June 30, 2014</b>	<b>699,976,381</b>	<b>\$34,560</b>	<b>\$718,259</b>	<b>\$1,582</b>	<b>\$2,956,054</b>	<b>(\$373,954)</b>	<b>\$3,336,501</b>	<b>\$76</b>	<b>\$3,336,577</b>
Shares issued for exercised options	3,154,076	102	2,879	(1,582)	-	-	1,399	-	1,399
Stock options exercised pending allotment of shares	-	-	-	325	-	-	325	-	325
Stock split effected in the form of stock dividend	702,847,961	22,492	(22,492)	-	-	-	-	-	-
Stock based compensation	-	-	(753)	-	-	-	(753)	-	(753)
Excess tax benefit from stock options	-	-	5,331	-	-	-	5,331	-	5,331
Cash dividend	-	-	-	-	(453,618)	-	(453,618)	-	(453,618)
Net income	-	-	-	-	1,163,685	-	1,163,685	18	1,163,703
Other comprehensive income (loss)	-	-	-	-	-	(164,081)	(164,081)	-	(164,081)
<b>Balances as at June 30, 2015</b>	<b>1,405,978,418</b>	<b>\$57,154</b>	<b>\$703,224</b>	<b>\$325</b>	<b>\$3,666,121</b>	<b>(\$538,035)</b>	<b>\$3,888,789</b>	<b>\$94</b>	<b>\$3,888,883</b>

See accompanying notes.

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

	Equity shares		Addition al paid- in capital	Ordinary shares subscrib ed	Retained earnings	Accumulate d other comprehens ive loss	HCL Technologies Limited Shareholder' Equity	Non Controlli ng Interest	Total Equity
	Shares	Par Value							
<b>Balances as at June 30, 2015</b>	<b>1,405,978,418</b>	<b>\$57,154</b>	<b>\$703,224</b>	<b>\$325</b>	<b>\$3,666,121</b>	<b>(\$538,035)</b>	<b>\$3,888,789</b>	<b>\$94</b>	<b>\$3,888,883</b>
Shares issued for exercised options	4,402,896	132	-	(325)	-	-	(193)	-	(193)
Stock options exercised pending allotment of shares	-	-	-	7	-	-	7	-	7
Stock based compensation	-	-	959	-	-	-	959	-	959
Excess tax benefit from stock options	-	-	6,844	-	-	-	6,844	-	6,844
Cash dividend	-	-	-	-	(407,526)	-	(407,526)	-	(407,526)
Change in noncontrolling interest	-	-	-	-	-	-	-	31,927	31,927
Net income	-	-	-	-	839,646	-	839,646	(112)	839,534
Other comprehensive income (loss)	-	-	-	-	-	(131,263)	(131,263)	-	(131,263)
<b>Balances as at March 31, 2016</b>	<b>1,410,381,314</b>	<b>\$57,286</b>	<b>\$711,027</b>	<b>\$7</b>	<b>\$4,098,241</b>	<b>(\$669,298)</b>	<b>\$4,197,263</b>	<b>\$31,909</b>	<b>\$4,229,172</b>

See accompanying notes.

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

	Year ended June 30, 2014	Year ended June 30, 2015	Nine months ended March 31, 2016
<b>Cash flows from operating activities</b>			
<b>Net income</b>	<b>\$1,036,975</b>	<b>\$1,163,703</b>	<b>\$839,534</b>
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>			
Depreciation and amortization	119,328	72,359	67,155
Deferred income taxes	(39,772)	(51,477)	(34,528)
Gain on sale of property and equipment	(7,793)	(25,022)	(21,985)
Stock based compensation expense, net	6,236	(842)	949
Loss on divestment of stake in affiliate	-	2,040	-
Excess tax benefit related to stock options exercise	(4,585)	(5,200)	(6,859)
Gain on sale of investment securities	(9,547)	(5,909)	(3,722)
Equity in earnings of affiliates	(1,299)	(1,875)	(920)
Others, net	18,546	(2,507)	14,522
<b>Changes in assets and liabilities, net of effects of acquisitions</b>			
Accounts receivable and unbilled revenue	(240,853)	(287,036)	(166,446)
Other assets	(10,204)	(100,893)	(82,219)
Accounts payable	1,308	20,213	(1,495)
Accrued employee costs	23,072	67,114	(7,333)
Other liabilities	195,301	129,374	35,854
<b>Net cash provided by operating activities</b>	<b>1,086,713</b>	<b>974,042</b>	<b>632,507</b>
<b>Cash flows from investing activities</b>			
Investment in term deposit with banks	(1,272,813)	(1,364,396)	(701,385)
Proceeds from term deposit with banks on maturity	469,014	1,255,603	682,491
Increase in entrusted loan receivable	-	(4,030)	-
Investment in term deposits with corporation	(93,051)	(191,573)	(303,484)
Proceeds from term deposits with corporation on maturity	122,039	91,692	183,776
Purchase of property and equipment	(118,004)	(194,533)	(139,438)
Proceeds from sale of property and equipment (including advance)	38,857	1,973	29,121
Purchase of investment securities (including advance)	(1,289,409)	(1,317,645)	(1,037,890)
Proceeds from sale of investment securities	1,301,486	1,307,928	1,076,087
Acquisition of business, net of cash acquired	-	-	(177,845)
Proceeds from sale of stake in affiliate (net of expenses)	-	1,600	-
Investment in Equity Method Investee	-	(1,600)	(2,957)
Dividend from equity investment in affiliates	-	980	-
<b>Net cash used in investing activities</b>	<b>(841,881)</b>	<b>(414,001)</b>	<b>(391,524)</b>
<b>Cash flows from financing activities</b>			
Payment of principal under capital lease obligations	(5,899)	(4,325)	(2,158)
Proceeds from short term borrowings	11,914	92,975	7,891
Proceeds from entrusted loan	-	4,030	-
Repayment of short term borrowings	-	(72,394)	(29,508)
Proceeds from long term debt	1,848	14,553	104,281
Repayment of long term debt	(5,507)	(3,615)	(10,391)
Repayment of redeemable secured non – convertible debentures	-	(80,290)	-
Proceeds from issuance of equity shares	4,139	1,287	130
Proceeds from subscription of shares pending allotment	1,478	391	7
Dividend paid	(212,255)	(453,541)	(407,464)
Excess tax benefit related to stock options exercise	4,585	5,200	6,859
<b>Net cash used in financing activities</b>	<b>(199,697)</b>	<b>(495,729)</b>	<b>(330,353)</b>
Effect of exchange rate changes on cash and cash equivalents	1,166	(21,533)	(12,903)
Net increase (decrease) in cash and cash equivalents	46,301	42,779	(102,273)
Cash and cash equivalents at the beginning of the year	123,262	169,563	212,342
<b>Cash and cash equivalents at the end of the year</b>	<b>\$169,563</b>	<b>\$212,342</b>	<b>\$110,069</b>
<b>Supplemental disclosures of cash flow</b>			
Property and equipment acquired under capital lease obligation	\$2,492	\$693	\$1,292
Cash payments for interest expenses	\$9,366	\$2,866	\$1,182
Cash payments for income taxes	\$268,950	\$332,281	\$261,945
See accompanying notes.			

**HCL Technologies Limited and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**March 31, 2016**

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

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

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

These consolidated financial statements include the accounts of all subsidiaries which are more than 50% owned and controlled by the Company. In addition, relationships with other entities are reviewed to assess if the Company is the primary beneficiary in any variable interest entity. If 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. In the case of investments in Limited Liability Partnerships (LLPs), significant influence is presumed to exist where the Company has more than a 5% partnership interest. The excess of the cost over the underlying net equity of investments in affiliates is allocated to identifiable assets based on the fair value at the date of acquisition. The unassigned residual value of the excess of the cost over the underlying net equity is recognized as goodwill.

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

Section 2(41) of the Companies Act, 2013 requires all companies to have their financial year ending on March 31. The Company has adopted this change from the current financial year and accordingly, the current financial year is for nine month period from July 1, 2015 to March 31, 2016. The financial statements of the subsidiary companies and affiliates used in the consolidation are drawn upto the same reporting date as that of the Company. Accordingly, the figures for the current financial year are not comparable to those of the previous year.

*(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 Consolidated Financial Statements**  
**March 31, 2016**

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

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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 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*

*Contracts involving provision of services*

Revenue is recognized when persuasive evidence of an arrangement exists, services have been rendered, the fee is determinable and collectability is reasonably assured. Contracts can be primarily categorized as time -and- material or fixed price contracts.

*Time-and-material contracts*

Revenue with respect to time-and-material contracts is recognized as the related services are performed.

*Fixed Price contracts*

Revenue related to contracts providing maintenance and support services, is recognized over the term of the contract.

Revenue from technology integration and 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.

Revenue related to other fixed price contracts 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. . Any revision in cost to complete would result in increase or decrease in revenue and income and such changes are recorded in the period in which they are identified. 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. Contract losses are determined to be the amount by which the estimated total cost to complete exceeds the estimated total revenues that will be generated by the contract and are included in Cost of services and classified in Other accrued liabilities.

**HCL Technologies Limited and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**March 31, 2016**

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

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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 and collectability is reasonably assured.

Revenues from unit-priced contracts are recognized as transactions are processed based on objective measures of output.

Revenue from product sales are shown net of sales tax and applicable discounts and allowances. Revenue related to product with installation services that are critical to the product is recognized when installation of product 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.

*Multiple-element arrangements*

When a sales arrangement contains multiple elements, such as services, hardware and software products and licenses 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.

Revenue from activities in 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 unless revenues are earned and obligations are fulfilled in a different pattern. The undiscounted cash flows from the arrangement are periodically estimated and compared with the unamortized costs. If the unamortized costs exceed the undiscounted cash flow, a loss is recognized.

In instances when revenue is derived from sales of third-party vendor services, material 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.

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

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

For services accounted for under the POC 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. Revenue from operating leases is accounted on a straight-line basis as service revenue over the rental period. Interest attributable to sales-type leases and direct financing leases included therein is recognized on an 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 include 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:

<u>Asset description</u>	<u>Asset life (in years)</u>
Buildings	20
Computer and networking equipment	4 to 5
Software	3
Furniture, fixtures and office equipment	5 to 7
Plant and equipment	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 7).

*(g) Leases*

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



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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 certain 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 debt 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.

Research and development expenses for the years ended June 30, 2014 and 2015 and the nine months ended March 31, 2016 were \$24,886, \$29,188 and \$15,503, respectively.

*(k) 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.



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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.

*(l) 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.

*(m) 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.

*(n) 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 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.

*(o) 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.

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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.

*(p) Dividend*

Final dividend proposed by the Board of Directors is 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.

*(q) 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 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 consolidated statement of income. The ineffective portion of hedging derivatives is immediately recognized in the consolidated statement of income as part of 'other income'.

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

Hedge accounting is discontinued prospectively from the last testing date when (1) it is determined that the derivative financial instrument is no longer effective in offsetting changes in the fair value or cash flows of the underlying exposure being hedged; (2) the derivative financial instrument matures or is sold, terminated or exercised; or (3) it is determined that designating the derivative financial instrument as a hedge is no longer appropriate. When hedge accounting is discontinued 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 12 for additional information.

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*(r) 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.

The Group completed its annual goodwill impairment testing as of June 30, 2014 and, 2015 and March 31, 2016, which did not result in any goodwill impairment. During the period ended March 31, 2016, the Group changed the date of its annual goodwill impairment testing to March 31 as a result of the Group’s change in its fiscal year-end from June 30 to March 31. The Group believes that the resulting change in accounting principle related to the annual testing date will not delay, accelerate or avoid an impairment charge. Goodwill impairment tests performed as of March 31, 2016 concluded that no impairment charges were required as of that date. The Group determined that the change in accounting principle related to the annual testing date is preferable under the circumstances and did not result in adjustments to the Group’s consolidated financial statements when applied retrospectively.

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:

<b><u>Asset description</u></b>	<b><u>Asset life (in years)</u></b>
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 m	4
Brand and contractors database and others	2 to 5

*(s) Recently issued accounting pronouncements*

Adoption of new accounting principles

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 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 was effective for the Group beginning April 1, 2017, including interim periods in its 2018 fiscal year, 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. As permitted the Group elected to early adopt ASU 2015-17 on a retrospective basis effective January 1, 2016 resulting in reclassification of \$78,438 of deferred tax assets and \$3,060 of deferred tax liabilities from current to non

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current. Deferred tax assets totaling \$74,159 have been retroactively reclassified from current assets to non-current assets and \$4,039 of deferred tax liabilities have been retroactively reclassified from current to non-current as of June 30, 2015.

*New accounting pronouncement*

May 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 for annual reporting periods beginning after March 31, 2018, including interim periods within that reporting period, though early adoption is permitted for annual reporting periods beginning after March 31, 2017. The Group is currently in the process of evaluating the impact of the adoption of ASU 2014-09 on its consolidated financial statements, implementing accounting system changes related to the adoption, and considering additional disclosure requirements.

In April 2015, FASB issued ASU No. 2015-03, "Interest-Imputation of Interest" ("ASU No. 2015-03"), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance of debt issuance costs are not affected by the amendments in that update. The standard will be effective for the Company beginning in the first quarter of fiscal year beginning after March 31, 2016 and requires the Company to apply the new guidance on a retrospective basis on adoption. The Company is currently evaluating the impact of this standard on its consolidated financial statements and related disclosures.

In August 2015, FASB issued ASU No. 2015-15, "Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line of Credit Arrangements" ("ASU No. 2015-15"). This ASU indicates that the guidance in ASU No. 2015-03 did not address presentation or subsequent measurement of debt issuance costs related to line of credit arrangements. Given the absence of authoritative guidance within ASU No. 2015-03, the SEC staff has indicated that they would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the costs ratably over the term of the line of credit arrangement, regardless of whether there are any outstanding borrowings on the line of credit arrangement. The Company does not expect the adoption of ASU No. 2015-15 to have any effect on the Company's financial position or results of operations.

In September 2015, FASB issued ASU No. 2015-16, "Simplifying the Accounting for Measurement Period Adjustments" ("ASU No. 2015-16"). ASU No. 2015-16 require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in ASU No. 2015-16 require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in ASU No. 2015-16 require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public business entities, the amendments in ASU No. 2015-16 are effective for fiscal years beginning after March 31, 2016, including interim periods within those fiscal years. The amendments in ASU No. 2015-16 should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this update with earlier application permitted for financial statements that have not been issued. The Company is currently evaluating the impact of adoption of ASU No. 2015-16 on its consolidated financial statements.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01 (ASU 2016-01) "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." ASU 2016-01 amends various aspects of the recognition, measurement, presentation, and disclosure for financial instruments. ASU 2016-01 is effective for annual reporting periods, and interim periods within those years beginning after March 31, 2018. Early adoption is permitted only for certain provisions. The Group is currently in the process of evaluating the impact of the adoption of this standard on its consolidated financial statements.

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In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") ASU 2016-02 – Leases. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for annual reporting period beginning after March 31, 2019, including interim periods within those fiscal years. The Group is currently evaluating the impact of adoption of the new standard on its financial statements.

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") ASU 2016-05 – Derivatives and Hedging - Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships. The term novation, as it relates to derivative instruments, refers to replacing one of the parties to a derivative instrument with a new party. The amendments in this Update clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The amendments in this Update are effective for financial statements issued for fiscal years beginning after March 31, 2017, and interim periods within those fiscal years. The Group is currently in the process of evaluating the impact of the adoption of this standard on its consolidated financial statements.

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") ASU 2016-07 – Investments—Equity Method and Joint Ventures. The amendments in this Update eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require to adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The amendments in this Update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after March 31, 2017. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier application is permitted. The Group is currently in the process of evaluating the impact of the adoption of this standard on its consolidated financial statements.

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") ASU 2016-08 – Revenue from Contracts with Customers. The amendments in this Update do not change the core principle of the guidance in Topic 606. The amendments in this Update are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. The amendments in this Update affect the guidance in Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements of Update 2014-09. The Group is currently in the process of evaluating the impact of the adoption of this standard on its consolidated financial statements.

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") ASU 2016-09 – Compensation—Stock Compensation. Update is issued as part of Simplification Initiative. The areas for simplification in this Update involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this Update are effective for annual periods beginning after March 31, 2017, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Group is currently in the process of evaluating the impact of the adoption of this standard on its consolidated financial statements.



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**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, finance lease receivable, 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 counterparties. In the management's opinion, as of June 30, 2015 and March 31, 2016, 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 and finance lease receivables are concentrated in the respective countries. The Group periodically assesses the financial reliability of customers, taking into account the financial condition, current economic trends, analysis of historical bad debts and ageing of accounts receivable.

**4. CASH AND CASH EQUIVALENTS**

The cash and cash equivalents as of June 30, 2015 and March 31, 2016 are as follows:

	<b>June 30, 2015</b>	<b>March 31, 2016</b>
Deposits with banks, having maturities less than three months	\$3,226	\$17,685
Other cash and bank balances	209,116	92,384
<b>Total</b>	<b>\$212,342</b>	<b>\$110,069</b>

**5. TRANSFER OF FINANCIAL ASSETS**

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 year ended June 30, 2015 and the nine months ended March 31, 2016 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. The Group has immaterial outstanding service obligation.

The Group has sold finance lease receivables of \$88,965 and \$17,137 during the year ended June 30, 2015 and the nine months ended March 31, 2016, respectively, on non-recourse basis. Gains or losses on the sales are recorded at the time of transfer of these finance Lease receivables and are immaterial. The Group has immaterial outstanding service obligation.

**6. ACQUISITIONS/ARRANGEMENTS IN CURRENT PERIOD**

***Trygstad Technical Services Inc.***

In August 2015, the Company through a subsidiary 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 the ecosystem of large Independent Software Vendors (ISVs).

The total purchase price for the acquisition was \$9,874, including deferred earn-out component of \$3,000 dependent on achievement of certain specified performance obligations as set out in the agreement over a period of one year from the closing date. The Group has paid, \$6,874 of the purchase price through March 31, 2016.

The earn-out liability was fair valued at \$2,652 and recorded as part of the preliminary purchase price allocation. The purchase price of \$9,526 has been preliminarily allocated to the acquired assets and liabilities as follows:

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	<b>Amount</b>
Net working capital	\$24
Customer relationship	539
Customer contract	816
Goodwill	8,147
<b>Total purchase consideration</b>	<b>\$9,526</b>

The resultant goodwill is tax deductible over the period of 15 years and has been allocated to the software segment.

The table below shows the values and life of intangibles recognized on acquisition:-

	<b>Amount</b>	<b>Life (Years)</b>
Customer relationship	\$539	4.8
Customer contract	816	1.11
<b>Total Intangibles</b>	<b>\$1,355</b>	

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

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

Purchase consideration payable for the acquisition was \$1,884 out of which \$1,765 has been paid and \$119 is payable at March 31, 2016.

The purchase price of \$1,884 has been preliminarily allocated to the acquired assets and liabilities as follows:

	<b>Amount</b>
Net working capital	\$501
Customer relationship	192
Goodwill	1,191
<b>Total purchase consideration</b>	<b>\$1,884</b>

The resultant goodwill is not tax deductible and has been allocated to the software segment.

The table below shows the values and life of intangibles recognized on acquisition:-

	<b>Amount</b>	<b>Life (Years)</b>
Customer relationship	\$192	0.9
<b>Total Intangibles</b>	<b>\$192</b>	

In addition to the purchase consideration, \$1,061 is payable to selling shareholders in tranches over a two year period. Payment of this amount is contingent upon achieving certain specified targets and the selling shareholder continuing to be the employee of the subsidiary on the payment date. This consideration is being accounted for as post acquisition employee compensation expense in accordance with ASC 805 on "Business combination".

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**Powerteam LLC**

In October 2015, the Company through a subsidiary 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 the Group to take advantage of the rapidly-growing global CRM market.

Total purchase price for the acquisition was \$41,356 which includes deferred earn-out component of \$13,500 dependent on achievement of certain specified performance obligations as set out in the agreement and is payable in tranches over a three year period ending June 2018. The Group has paid, \$27,750 through March 31, 2016 and \$106 is payable at March 31, 2016.

This earn-out liability was fair valued at \$8,157 and recorded as part of the preliminary purchase price allocation. The purchase price of \$36,013 has been preliminarily allocated to the acquired assets and liabilities as follows:

	<b>Amount</b>
Net working capital	\$2,937
Property plant and equipment	666
Customer relationship	6,500
Customer contract	500
Brand	700
Goodwill	24,710
<b>Total purchase consideration</b>	<b>\$36,013</b>

The resultant goodwill is tax deductible over the period of 15 years and has been allocated to the software segment.

The table below shows the values and life of intangibles recognized on acquisition:-

	<b>Amount</b>	<b>Life (Years)</b>
Customer relationship	\$6,500	5.8
Customer contract	500	0.6
Brand	700	3.0
<b>Total Intangibles</b>	<b>\$7,700</b>	

In addition to the purchase consideration, \$5,000 which is currently held in escrow account, is payable to the selling shareholders in tranches over two year period. Payment of this amount is contingent upon the selling shareholders continuing to be the employees of the subsidiary 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 entered into a 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 and is obligated to contribute \$32,045 over a period of two years. As at March 31, 2016, the Group has contributed \$3,437 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 \$23,331, with the residual \$9,257 accounted for as goodwill. The resultant goodwill is not tax deductible and has been allocated to the software segment.



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The table below shows the values and life of intangibles recognized on acquisition:-

	<u>Amount</u>	<u>Life (Years)</u>
Technology	14,336	5-15
Customer relationships	8,995	10
<b>Total Intangibles</b>	<b><u>\$23,331</u></b>	

The Group has majority shareholding in Celeritifintech Limited, and is consolidating this entity in its Group accounts pursuant to ASC 810 "Consolidation".

The Group owns a 49% interest in Celeritifintech Services Limited and is obligated to contribute \$21,363 over a period of two years. As at March 31, 2016, the Group has contributed \$2,292 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 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.

**Point to Point (P2P)**

In January 2016, the Company through a subsidiary has acquired Point to Point Limited and Point to Point Products Limited (jointly referred as Point to Point or P2P), UK's leading end-user cloud solutions design, implementation and delivery specialists.

Acquisition of P2P augments the Group's capability in virtualized desktop technologies such as Citrix, Microsoft and Lakeside.

The total purchase consideration is \$10,033 out of which \$8,772 has been paid through March 31, 2016 and \$1261 is payable as at March 31, 2016.

The purchase price of \$10,033 has been preliminarily allocated to the acquired assets and liabilities as follows:

	<u>Amount</u>
Net working capital	\$1,261
Property plant and equipment	84
Customer relationship	1,266
Customer contract	466
Brand	146
Goodwill	6,810
<b>Total purchase consideration</b>	<b><u>\$10,033</u></b>

The table below shows the values and life of intangibles recognized on acquisition:-

	<u>Amount</u>	<u>Life (Years)</u>
Customer relationship	\$1,266	4.11
Customer contract	466	0.11
Brand	146	2.0
<b>Total Intangibles</b>	<b><u>\$1,878</u></b>	

The resultant goodwill is not tax deductible and has been allocated to the Infrastructure Services segment.

In addition to the purchase consideration, \$2,760 is payable over two years from the closing date, of which \$1,319 payable after one year is currently held in escrow account. The payment of \$2,760 is contingent upon the selling shareholders and certain key employees continuing to be the employees of the subsidiary on the payment date. This consideration is being accounted for as post acquisition employee compensation expense in accordance with ASC 805 on "Business combination".

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**HCL Training and Staffing Services Private Limited (HCLTSS)**

In February 2016, the Company acquired HCLTSS for total purchase consideration of \$355. The acquisition will enable the Company to supplement its capabilities in hiring of trained resources.

Purchase consideration of \$355 has been preliminarily allocated to net liabilities of \$338 with the residual \$693 allocated to goodwill. The resultant goodwill is not tax deductible and has been allocated to the Infrastructure Services segment.

**IT Division of Volvo**

On March 31, 2016, the Group has acquired the IT divisions of Volvo IT AB ("Volvo IT"), a subsidiary of AB Volvo, the holding company of the Volvo Group, providing IT services to the Volvo group as well as non-Volvo group customers .

This acquisition enables the Group to create a market leading position in the Nordics and France, gives it a differentiated offering in Mainframe services and provides it with significant domain capabilities to serve the Company's global automotive and manufacturing customers.

Total purchase price for the acquisition was \$134,852 which has been paid on March 31, 2016,

The purchase price of \$134,852 has been preliminarily allocated to the acquired assets and liabilities as follows:

	<b>Amount</b>
Property plant and equipment	\$33,946
Customer relationship	8,391
Goodwill	92,515
<b>Total purchase consideration</b>	<b>\$134,852</b>

The resultant goodwill has been allocated to the Infrastructure Services segment .Out of total goodwill, \$84,724 is tax deductible over the period of 10 years

The table below shows the values and life of intangibles recognized on acquisition:-

	<b>Amount</b>	<b>Life (Years)</b>
Customer relationship	\$8,391	10.0
<b>Total Intangibles</b>	<b>\$8,391</b>	

As per shareholders agreement, certain items of working capital including employee obligations, unbilled revenue etc. will also be transferred to the Group. All these alongwith certain leases that have not yet been novated to the Group are not part of the purchase consideration. These are likely to be finalized within 45 days of close of deal. The purchase price allocation remains preliminary because the valuation of fixed assets is not final.

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**7. PROPERTY AND EQUIPMENT**

As of June 30, 2015 and March 31, 2016, property and equipment comprises the following:

	<b>June 30, 2015</b>	<b>March 31, 2016</b>
Freehold land	\$13,687	\$8,316
Buildings	332,822	328,843
Computer and networking equipment	299,132	341,281
Software	110,612	112,542
Furniture, fixtures and office equipment	110,530	105,308
Plant and equipment	231,547	240,784
Vehicles	15,550	15,891
Capital work-in-progress	91,480	99,574
	<b>1,205,360</b>	<b>1,252,539</b>
Accumulated depreciation and amortization	(605,241)	(600,132)
<b>Property and equipment, net</b>	<b>\$600,119</b>	<b>\$652,407</b>

Depreciation expense was \$110,059, \$64,707 and \$59,526 for the years ended June 30, 2014 and 2015 and for the nine months ended March 31, 2016, respectively.

**8. GOODWILL AND INTANGIBLES**

The changes in the carrying value of goodwill balances by reportable segment, for the year ended June 30, 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, 2014	<b>\$792,714</b>	<b>\$1,007</b>	<b>\$24,353</b>	<b>\$818,074</b>
Effect of exchange rate changes	(27,029)	(55)	(603)	(27,687)
Closing balance as at June 30, 2015	<b>\$765,685</b>	<b>\$952</b>	<b>\$23,750</b>	<b>\$790,387</b>

The changes in the carrying value goodwill balances by reportable segment, for the nine months ended March 31, 2016, 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>				
Trygstad Technical Services, Inc	8,147	-	-	8,147
Concept to Silicon Systems (C2SiS)	1191	-	-	1191
Powerteam LLC	24,710	-	-	24,710
Celeritifintech Limited	9,257	-	-	9,257
HCL Training and staff services Pvt Limited	-	693	-	693
Point to Point limited and Point to Point product limited	-	6,810	-	6,810
IT divisions of Volvo IT	-	92,515	-	92,515
Effect of exchange rate changes	(24,963)	(39)	(588)	(25,590)
Closing balance as at March 31, 2016	<b>\$ 784,027</b>	<b>\$100,931</b>	<b>\$ 23,162</b>	<b>\$908,120</b>

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The components of intangible assets are as follows:

	June 30, 2015			March 31, 2016		
	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Intellectual property rights	\$554	(\$554)	\$-	\$520	(\$520)	\$-
Technology	8,835	(7,702)	1,133	22,753	(7,613)	15,140
Customer related intangibles	124,192	(105,225)	18,967	146,534	(105,510)	41,024
Customer contracts	5,835	(2,625)	3,210	7,333	(4,035)	3,298
Non-compete agreements	9,118	(5,198)	3,920	3,102	(2,657)	445
Brand and contractors database and others	3,169	(3,169)	-	3,716	(2,980)	736
	<b>\$151,703</b>	<b>(\$124,473)</b>	<b>\$27,230</b>	<b>\$183,958</b>	<b>(\$123,315)</b>	<b>\$60,643</b>

Amortization expense for the years ended June 30, 2014 and, 2015 and for the nine months ended March 31, 2016 is \$9,269, \$7,652 and \$7,629, respectively.

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

Year ending March 31,	
2017	\$12,549
2018	13,642
2019	10,658
2020	5,824
2021	4,504
Thereafter	13,466
	<b>\$60,643</b>

## 9. INVESTMENTS IN AFFILIATE

### *Equity Method Investment*

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

In June, 2008, the US based subsidiary of the Group entered into a Joint Venture Agreement with APR Holdco Puerto Rico, Inc. whereby the US subsidiary holds a 49% stake in joint venture entity Axon Puerto Rico Inc, and APR Holdco Puerto Rico, Inc. holds a 51% stake.

In April, 2015 the US subsidiary entered into an agreement with APR Holdco Puerto Rico, Inc. for the sale of its 49% stake in Axon Puerto Rico at a gross consideration of \$1,600. The sale was completed on June, 17, 2015.

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The Group accounts for its interest in affiliate under the equity method and the gain (loss) for the years ended June 30, 2014 and, 2015 and the nine months ended March 31, 2016 are shown below:

Name of the Affiliate	Year ended June 30,		Nine months ended March 31,
	2014	2015	2016
<i>Axon Puerto Rico Inc</i>	\$ 1,299	\$1,924	\$-
	<b>\$1,299</b>	<b>\$1,924</b>	<b>\$-</b>

***Morado Venture Partners II LLP***

In January, 2015, the Group, through a wholly owned subsidiary, invested \$1,600 in Morado Venture Partners II LLP, a limited liability partnership "Venture Fund". During the current year the Group has further invested \$600 in Morado Venture Partners II LLP. The Group has a commitment to contribute an additional \$1,800 to Morado Venture Partners II LLP in future years.

Equity method investment as of June 30, 2015 and March 31, 2016 is as follows:

Name of the Affiliate	June 30, 2015		March 31, 2016	
	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
<i>Morado Venture Partners II LLP</i>	1,551	13.25%	2,351	13.12%
	<b>\$1,551</b>		<b>\$2,351</b>	

The Group accounts for its interest in affiliate under the equity method and the gain (loss) for the years ended June 30, 2014 and, 2015 and the nine months ended March 31, 2016 are shown below:

Name of the Affiliate	Year ended June 30,		Nine months ended March 31,
	2014	2015	2016
<i>Morado Venture Partners II LLP</i>	\$-	(49)	\$200
	<b>\$-</b>	<b>\$(49)</b>	<b>\$200</b>

***Celeritifintech Services Limited***

In November 2015, the Group entered into a 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 a 49% interest in Celeritifintech Services Limited and is obligated to contribute \$21,363 over a period of two years. As at March 31, 2016, the Group has contributed \$2,292 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 51% interest.

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Equity method investment as of March 31, 2016 is as follows:

<b>Name of the Affiliate</b>	<b>March 31, 2016</b>	
	<b>Carrying Value</b>	<b>Ownership Percentage</b>
<i>Celeritifintech Services Limited</i>	22,083	49.00%
	<b>\$22,083</b>	

Investment in Celeritifintech Services Limited is accounted on equity investment method as the Group has the ability to exercise significant influence over this entity. The gain (loss) for the nine months ended March 31, 2016 is shown below:

<b>Name of the Affiliate</b>	<b>Nine months ended March 31, 2016</b>
<i>Celeritifintech Services Limited*</i>	720
	<b>\$720</b>

\*The Group picks up its share of the equity in CeleritiFintech Services Limited on a three month lag. There are no material transactions between the reporting dates of the affiliate and that of Group.

**10. 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 and distribution 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>March 31, 2016</b>
<b>Current assets</b>		
Cash and cash equivalents	\$2,656	\$1,347
Short term deposits with banks	4,531	6,023
Accounts receivables, net	4,385	6,920
Unbilled revenue	2,924	2,565
Other current assets	1,250	1,701
<b>Total Current Assets</b>	<b>15,746</b>	<b>\$18,556</b>
Deferred income taxes	1,766	3,023
Property and Equipment, net	3,948	6,234
Intangible assets, net	687	423
Other assets	831	1,081
<b>Total Assets</b>	<b>\$22,978</b>	<b>\$29,317</b>

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**Current liabilities**

Accounts payable	\$1,244	\$897
Accrued employee costs	1,009	1,283
Deferred revenue	322	153
Other current liabilities	2,107	2,263
<b>Total current liabilities</b>	<b>\$4,682</b>	<b>\$4,596</b>
Deferred income taxes	12	-
Accrued employee costs	102	220
Deferred revenue	214	-
<b>Total liabilities</b>	<b>\$5,010</b>	<b>\$4,816</b>

- a) Assets and liabilities exclude all intercompany accounts and transactions, which are eliminated in consolidation.
- b) For the year ended June 30, 2015 and the nine months ended March 31, 2016, total revenues from VIEs were \$30,024 and \$31,309, respectively.

**11. 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 March 31, 2016:

	<u>Carrying value</u>	<u>Gross unrealized holding gains</u>	<u>Fair value</u>
Mutual fund units - debt	\$80,698	\$261	\$80,959
<b>Total</b>	<b>\$80,698</b>	<b>\$261</b>	<b>\$80,959</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 March 31, 2016 is set out below:

	<u>Fair value</u>
Less than one year	\$80,959
One to five years	-
	<u><b>\$80,959</b></u>

Proceeds from the sale of available- for -sale securities during the years ended June 30, 2014 and, 2015 and the nine months ended March 31, 2016 were \$1,301,486, \$1,307,928 and \$1,076,087, 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:

	Year ended June 30,		Nine months ended March 31,
	2014	2015	2016
Net realised gain due to change in fair value	\$9,547	\$5,909	\$3,722
Net unrealized gain included in statements of other comprehensive income.	\$477	\$767	\$261
Reclassification in to earnings on maturity out of other comprehensive income	\$1,133	\$477	\$767

**12. DERIVATIVE FINANCIAL INSTRUMENTS**

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

As a result of the use of derivative instruments, the Group is exposed to the risk that counterparties to derivative contracts will fail to meet their contractual obligations. To mitigate the counterparty credit risk, the Group has a policy of entering into contracts only with carefully selected, nationally recognized financial institutions, based upon their credit ratings and other factors. The Group has entered into a 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	
	June 30, 2015	March 31, 2016	Asset (Liability)	Asset (Liability)
	June 30, 2015	March 31, 2016	June 30, 2015	March 31, 2016
Foreign exchange forward denominated in:				
USD /INR	\$498,660 (Sell)	\$275,250 (Sell)	(\$11,277)	(\$7,061)
GBP/ INR	£1,000 (Sell)	£2,816 (Sell)	(61)	(19)
EUR / USD	€ 37,611 (Sell)	€ 10,950 (Sell)	(60)	(195)
EUR/ INR	€ 12,500 (Sell)	€ 2,000 (Sell)	2090	335
GBP/ USD	£11,000 (Sell)	- (Sell)	74	-
AUD/INR	- (Sell)	AUD 4,350 (Sell)	-	(9)
AUD/USD	AUD 12,770 (Sell)	- (Sell)	44	-
SEK/USD	SEK 55,373 (Sell)	SEK 13,880 (Sell)	(149)	(63)
ZAR/USD	ZAR 122,000 (Sell)	ZAR 112,000 (Sell)	40	(268)
JPY/USD	JPY 300,000 (Sell)	- (Sell)	(27)	-
CHF/USD	CHF 11,050 (Sell)	CHF 370 (Sell)	(76)	(1)
CHF/ INR	CHF 1,000 (Sell)	CHF 9,599 (Sell)	18	86
NOK/USD	NOK 146,000 (Sell)	- (Sell)	59	-
MXN/USD	MXN 66,000 (Sell)	MXN 70,000 (Sell)	73	(98)
RUB/USD	RUB 185000 (Sell)	RUB 100,000 (Sell)	28	(88)
SEK/INR	SEK 15,000 (Sell)	SEK 108,000 (Sell)	46	(114)
CAD/USD	CAD 12,500 (Buy)	CAD 19,000 (Buy)	(78)	602
SGD/USD	SGD 4,400 (Buy)	SGD 1,000 (Buy)	(44)	29
JPY/USD	- (Buy)	JPY 510,000 (Buy)	-	53
GBP/USD	£29,930 (Buy)	£13,380 (Buy)	651	267
CHF/USD	CHF 5,000 (Buy)	CHF 1,000 (Buy)	(19)	9
SEK/USD	SEK 17,000 (Buy)	- (Buy)	3	-
MYR/USD	MYR 16,000 (Buy)	MYR 26,000 (Buy)	(98)	448



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	Notional principal amounts		Balance sheet exposure	
			Asset (Liability)	
	June 30, 2015	March 31, 2016	June 30, 2015	March 31, 2016
DKK/USD	- (Buy)	DKK 16,000 (Buy)	-	24
NOK/INR	- (Sell)	NOK 37,000 (Sell)	-	(26)
CNY/USD	- (Sell)	CNY 105,000 (Sell)	-	(149)
			<b>(\$8,763)</b>	<b>(\$6,238)</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	March 31, 2016	June 30, 2015	March 31, 2016
<b>Range Forward</b>				
USD/INR	\$524,230	\$481,955	\$3,707	\$7,298
EUR/INR	€ 93,240	€ 82,300	338	215
GBP/INR	£54,350	£36,920	(842)	4,311
AUD/INR	AUD 13,800	AUD 25,950	316	(317)
CHF/INR	-	CHF 1,235	-	15
<b>PUT</b>				
USD/INR	\$2,000	\$24,000	22	47
<b>Seagull</b>				
USD/INR	\$28,600	\$8,000	115	149
EUR/INR	€ 4,300	€ 4,000	(28)	(44)
			<b>\$3,628</b>	<b>\$11,674</b>

The notional amount is a key element of derivative financial instrument agreements. However, notional amounts do not represent the amount exchanged by counterparties 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 US Dollars.

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

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>

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	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	\$10,709	\$2,186	\$4,413	\$207	\$17,515
Foreign exchange contracts in an liability position	(4,413)	(207)	(5,959)	(2,910)	(13,489)
<b>Net asset (liability)</b>	<b>\$6,296</b>	<b>\$1,979</b>	<b>(\$1,546)</b>	<b>(\$2,703)</b>	<b>\$4,026</b>
<b>Derivatives not designated as hedging instruments:</b>					
Foreign exchange contracts in an asset position	\$2,506	\$-	\$770	\$-	\$3,276
Foreign exchange contracts in an liability position	(770)	-	(1,096)	-	(1,866)
<b>Net asset (liability)</b>	<b>\$1,736</b>	<b>\$-</b>	<b>(\$326)</b>	<b>\$-</b>	<b>\$1,410</b>
<b>Total Derivatives at fair value</b>	<b>\$8,032</b>	<b>\$1,979</b>	<b>(\$1,872)</b>	<b>(\$2,703)</b>	<b>\$5,436</b>

The following tables set forth the fair value of derivative instruments included in the consolidated balance sheets as on June 30, 2015 and March 31, 2016:

**Derivatives designated as hedging instruments:**

	June 30, 2015	March 31, 2016
Unrealized gain on financial instruments classified under current assets	\$1,939	\$6,296
Unrealized gain on financial instruments classified under non current assets	95	1,979
Unrealized loss on financial instruments classified under current liabilities	(1,965)	(1,546)
Unrealized loss on financial instruments classified under non-current liabilities	(5,930)	(2,703)
	<b>(\$5,861)</b>	<b>\$4,026</b>

**Derivatives not designated as hedging instruments:**

	June 30, 2015	March 31, 2016
Unrealized loss on financial instruments classified under current liabilities	(\$537)	(\$326)
Unrealized gain on financial instruments classified under current assets	1,263	1,736
	<b>\$726</b>	<b>\$1,410</b>

The following tables summarize the activities in the consolidated statement of income during the year ended June 30, 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	(\$27,264)	Other Income (Expense),net	(\$88,730)	Other Income (Expense),net	Nil
	<b>(\$27,264)</b>		<b>(\$88,730)</b>		<b>Nil</b>

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Derivatives not Designated as Hedging	Location of Gain or (Loss) recognized in Income on Derivatives	Amount of Gain or (Loss) recognized in Income on Derivatives
Foreign exchange contracts	Other Income (Expense),net	(\$8,027)

The following tables summarize the activities in the consolidated statement of income during the year ended June 30, 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	\$18,805	Other Income (Expense),net	(\$14,335)	Other Income (Expense),net	Nil
	<b>\$18,805</b>		<b>(\$14,335)</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	\$16,126

The following tables summarize the activities in the consolidated statement of income during the nine months ended March 31, 2016

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	\$4,570	Other Income (Expense),net	(\$4,542)	Other Income (Expense),net	Nil
	<b>\$4,570</b>		<b>(\$4,542)</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	\$409

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The following table summarizes the activity in the accumulated 'Other comprehensive (loss) gain' within equity related to all derivatives classified as cash flow hedges during the years ended June 30, 2014 and, 2015 and the nine months ended March 31, 2016:

	Year ended June 30,		Nine months ended March 31,
	2014	2015	2016
Balance as at the beginning of the period (before tax)	(\$106,293)	(\$43,421)	(\$7,918)
Unrealized gain (loss) on cash flow hedging derivatives during the year	(27,264)	18,805	4,570
Net loss reclassified into net income on occurrence of hedged transactions	88,730	14,335	4,542
Effect of exchange rate fluctuations	1,406	2,363	312
Balance as at the end of the period	<b>(\$43,421)</b>	<b>(\$7,918)</b>	<b>\$1,506</b>
Deferred tax	8,482	1,526	(286)
	<b>(\$34,939)</b>	<b>(\$6,392)</b>	<b>\$1,220</b>

As of March 31, 2016, the estimated net amount of existing gain that is expected to be reclassified into the income statement from AOCI within the next twelve months is \$2,741.

**13. INVENTORY**

As of June 30, 2015 and March 31, 2016, Inventory comprise the following:

	June 30, 2015	March 31, 2016
Finished goods	\$24,467	\$39,913
Stores and spares	296	-
	<b>\$24,763</b>	<b>\$39,913</b>

**14. OTHER CURRENT ASSETS**

As of June 30, 2015 and March 31, 2016, other current assets comprise the following:

	June 30, 2015	March 31, 2016
Prepaid expenses	\$53,826	\$73,876
Prepaid rentals for leasehold land	478	\$463
Interest receivable	15,776	15,948
Prepaid/advance taxes	10,763	13,230
Deposits	6,585	14,349
Deferred cost	81,289	79,652
Employee receivables	11,681	18,091
Derivative financial instruments	3,201	8,032
Advance to suppliers	7,811	8,240
Entrusted loan receivable	4,032	3,871
Finance lease receivable	27,613	35,287
Restricted cash	501	4,365
Others	44,866	48,435
	<b>\$268,422</b>	<b>\$323,839</b>

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**15. OTHER ASSETS**

As of June 30, 2015 and March 31, 2016, other assets comprise the following:

	<u>June 30, 2015</u>	<u>March 31, 2016</u>
Deposits	\$27,371	\$24,953
Deferred cost	119,097	114,750
Prepaid expenses	13,809	18,479
Prepaid rentals for leasehold land	39,825	38,169
Advance to suppliers	13,473	12,941
Finance lease receivable	44,008	50,062
Restricted cash	-	2,533
Others	46,024	43,519
	<u><b>\$303,607</b></u>	<u><b>\$305,406</b></u>

**16. ALLOWANCES FOR ACCOUNTS RECEIVABLE**

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

The movement in allowance for accounts receivable is given below:

	<u>June 30, 2015</u>	<u>March 31, 2016</u>
Balance at the beginning of the period	\$62,611	\$44,405
Additional provision during the period	17,014	21,689
Deductions on account of write offs and collections	(32,442)	(7,909)
Effect of exchange rates changes	(2,778)	(1,565)
Balance at the end of the period	<u><b>\$44,405</b></u>	<u><b>\$56,620</b></u>

**17. DEBTS**

**SHORT TERM LOANS**

The Group has availed unsecured short term loan amounting to \$998 and \$500 as of June 30, 2015 and March 31, 2016, respectively, at effective interest rates of 4.10%.

The Group has availed an unsecured bank line of credit from its bankers amounting to \$50,821 and \$27,988 as of June 30, 2015 and March 31, 2016, respectively, at effective interest rates ranging from 0.45% to 17.33%.

**Entrusted loan receivable/payable**

During the year ended June 30, 2015, two wholly owned subsidiaries in the Group, namely, 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 principal), the bank acts as the agent (charging commission of 0.20% p.a.) and Axon Solutions (Shanghai) Co. Limited acts as the borrower (the "Entrusted Loan"). The entrusted loan receivable included under other current assets and the entrusted loan payable included under short term loans which cannot be set off and bears interest of 5% p.a., are repayable on demand within one year. Amount outstanding is \$4,032 and \$3,871 as of June 30, 2015 and March 31, 2016, respectively.

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**LONG TERM DEBT**

	<b>June 30, 2015</b>	<b>March 31, 2016</b>
From banks	\$17,164	\$111,164
Other	605	3,352
Less: Current portion	(3,970)	(5,950)
	<b>\$13,799</b>	<b>\$108,566</b>

The scheduled principal repayments are as follows:

	<b>March 31, 2016</b>
Within one year	\$5,950
One to two years	28,092
Two to three years	27,314
Three to five years	53,160
	<b>\$114,516</b>

The Group's borrowings are subject to certain financial and non financial covenants. At March 31, 2016, the Group was in compliance with all such covenants.

**Long term debts from banks include:**

During the year ended March 31 ,2016 an unsecured Long term loan of \$101,910 is borrowed by a subsidiary in Sweden at STIBOR + 1.15%, (currently at an effective interest rate of 0.71%) repayable over 20 quarterly installements beginning June 2017.

Term loans of \$6,464 and \$6,357 as of June 30, 2015 and March 31, 2016, respectively, at interest rates ranging from 9.75% to 10.50% per annum and secured by hypothecation of vehicles with a book value of \$14,183 and \$14,507 as of June 30, 2015 and March 31, 2016, respectively.

Term loans of \$10,700 and \$2,897 as of June 30, 2015 and March 31, 2016, respectively, at effective interest rate of 2.95% per annum, respectively.

**Other long term debts include:**

Unsecured long term loans from a vendor of \$605 and \$3,352 as of June 30, 2015 and March 31, 2016, respectively, at nil interest.

**18. OTHER CURRENT LIABILITIES**

As of June 30, 2015 and March 31, 2016, other current liabilities comprise the following:

	<b>June 30, 2015</b>	<b>March 31, 2016</b>
Advances from customers	\$9,350	\$6,710
Sales tax and other taxes payable	60,882	68,897
Accrued liabilities and expenses	340,181	365,908
Supplier's credit*	242,481	217,698
Due to related parties	1,616	881
Payable towards equity interest in affiliate	-	19,072
Derivative financial instruments	2,502	1,872
Others	31,563	34,914
	<b>\$688,575</b>	<b>\$715,952</b>

\* The Group has negotiated extended interest bearing credit terms with certain vendors for extended payment terms up to 360 days. Interest rate on this arrangement ranges from 1.5% to 9.75% per annum.

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**19. EQUITY SHARES**

The Company has only one class of capital stock referred to herein as equity shares. Par value of each equity share outstanding as of March 31, 2016 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 on foreign exchange governs the remittance of dividends outside India. Such dividend payments are 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, dividend or liquidation rights to the option holders under the Company's stock option plans.

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

For the years ended June 30, 2014 and, 2015 and the nine months ended March 31, 2016, other income/ (expenses), net consist of:

	Year ended June 30,		Nine months ended
	2014	2015	March 31,
	2014	2015	2016
Interest income	\$88,936	\$131,035	\$98,237
Gain (loss) on divestment of stake in affiliates	-	(2,040)	-
Gain on sale of investment securities and other investments, net	9,547	5,909	3,722
Foreign exchange gain (loss) , net	(95,877)	(3,115)	5,414
Equity in earning of affiliates	1,299	1,875	920
Gain on sale of property and equipment	7,793	25,022	21,985
Miscellaneous income	4,264	1,837	1,260
<b>Other income, net</b>	<b>\$15,962</b>	<b>\$160,523</b>	<b>\$131,538</b>

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**21. INCOME TAXES**

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

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

	Year ended June 30,		Nine months ended March 31,
	2014	2015	2016
Current taxes			
Indian taxes	\$251,350	\$257,927	\$186,873
Foreign taxes	40,494	99,905	70,752
	<b>\$291,844</b>	<b>\$357,832</b>	<b>\$257,625</b>
Deferred taxes			
Indian taxes	(24,036)	(43,786)	(\$31,698)
Foreign taxes	(15,736)	(7,691)	(2,830)
	<b>(\$39,772)</b>	<b>(\$51,477)</b>	<b>(\$34,528)</b>
<b>Total taxes</b>	<b>\$252,072</b>	<b>\$306,355</b>	<b>\$223,097</b>

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

	Year ended June 30,		Nine months ended March 31,
	2014	2015	2016
Income before taxes, equity in earnings of affiliates and noncontrolling interest	\$1,289,047	\$1,470,058	\$1,062,631
Average enacted tax rate in India	33.99%	34.13%	34.61%
Expected tax expense	438,147	501,657	367,755
Non-taxable export income	(174,773)	(200,748)	(141,329)
Non-taxable other income	(2,696)	(9,852)	(6,760)
Accumulated one time tax benefits	(15,438)	-	-
Income taxed at a lower / higher rate	(1,840)	(2,602)	(4,142)
Differences between Indian and foreign tax rates	8,981	4,522	(227)
Employee stock compensation cost	831	1,817	197
Increase (decrease) in valuation allowance including losses of subsidiaries	38	765	(2,258)
Provision for deemed branch taxes	945	1,869	723
Others	(2,123)	8,927	9,138
<b>Total taxes</b>	<b>\$252,072</b>	<b>\$306,355</b>	<b>\$223,097</b>

In India, the company has benefited from certain tax incentives that the Government of India has provided for the units situated in Special Economic Zones (SEZs) under the Special Economic Zone Act, 2005, which began providing services on or after April 1, 2005. The eligible units are eligible for a deduction of 100 percent of profits or gains derived from the export of services for the first five years from commencement of provision of services and 50 percent of such profits and gains for a further five years. Certain tax benefits are also available for a further five years subject to the unit meeting defined conditions. It has been proposed in the Finance Bill, 2016 that the aforesaid tax benefits shall not be available to Units commencing operations on or after 1st day of April, 2020.



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Income tax charged to equity for the years ended June 30, 2014, and 2015 and the nine months ended March 31, 2016 are as follows:

	<b>Year ended June 30,</b>		<b>Nine months ended</b>
	<b>2014</b>	<b>2015</b>	<b>March 31,</b>
			<b>2016</b>
Income tax from continuing operations	\$252,072	\$306,355	\$223,097
Stockholder's equity for:-			
Tax benefits received on exercise of employee stock options reflected as part of additional paid in capital	(4,581)	(5,331)	(6,844)
Unrealized holding (loss) gain on available for sale investment			
Securities	(215)	72	(187)
Unrealized (loss) gain on cash flow hedge	15,554	6,956	1,812
Unrealized actuarial (loss) gain	870	321	58
Effect of exchange rate fluctuations	1,367	9,461	6,401
	<b>\$265,067</b>	<b>\$317,834</b>	<b>\$224,337</b>

The Company in India is subject to Minimum Alternate Tax (MAT) on its book profit, which gives rise to future economic benefits in the form of adjustment of future income tax liability. MAT paid for a year can be set-off against the normal tax liability within ten subsequent years, expiring over the years between 2018 to 2026.

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

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

	<b>June 30, 2015</b>	<b>March 31, 2016</b>
Balance at the beginning of the period	\$ 108,611	\$104,918
Increase due to tax position taken during the current period	3,771	11,043
Increase (decrease) due to tax position taken during the prior period	(3,720)	-
Effect of exchange rate fluctuations	(3,744)	(2,567)
Balance at the end of the period	<b>\$104,918</b>	<b>\$113,394</b>

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

Income tax expense includes penalties and interest related to income tax. As of June 30, 2015 and March 31, 2016, income tax payable includes \$44,094 and \$49,884, respectively, on account of accrued interest and penalties related to uncertain tax positions.

The Group's two major tax jurisdictions are India and USA. The tax examination is open in India for fiscal year beginning April 1, 2012 onwards and in USA for fiscal year beginning July 1, 2007 onwards.

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The components of the deferred tax balances as of June 30, 2015 and March 31, 2016 are as follows:

	<b>June 30, 2015</b>	<b>March 31, 2016</b>
<b>Deferred tax assets:</b>		
Business losses (foreign)	\$18,011	\$18,881
Allowance for accounts receivable	15,084	18,042
Accrued employee costs	70,596	65,512
Property and equipment	8,269	4,334
Minimum alternate tax	134,051	157,576
Employee stock compensation	3,493	1,426
Unrealized loss on derivative financial instruments	1,526	-
Leased assets	4,135	3,050
Deferred revenue	1,561	5,253
Other temporary differences	20,004	27,087
	<b>276,730</b>	<b>301,161</b>
Less: Valuation allowance	(24,453)	(21,197)
<b>Total deferred tax assets</b>	<b>\$252,277</b>	<b>\$279,964</b>
 <b>Deferred tax liabilities:</b>		
Unrealized gains on investment securities	\$234	\$47
Unrealized gain on derivative financial instruments	-	285
Intangibles	6,811	7,395
Others	5,546	8,288
<b>Total deferred tax liabilities</b>	<b>\$12,591</b>	<b>\$16,015</b>
<b>Net deferred tax assets</b>	<b>\$239,686</b>	<b>\$263,949</b>

The components of valuation allowance as of June 30, 2015 and March 31, 2016 are as follows:

	<b>June 30, 2015</b>	<b>March 31, 2016</b>
Business losses(Foreign)	(\$11,428)	(\$10,580)
Others(Indian)	(\$13,025)	(\$10,617)

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

Business losses carried forward of certain subsidiaries of the Group for tax purposes amount to approximately \$70,406 and \$71,222 as of June 30, 2015 and March 31, 2016, respectively, and are available as an offset against future taxable income expiring at various dates through 2021.

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

During the years ended June 30, 2014 and, 2015 and the nine months ended March 31, 2016, the US based subsidiary of the Group received excess tax benefit aggregating \$4,581, \$5,331 and \$6,844, respectively, upon exercise of employee stock options which was recognized in equity. As of March 31, 2016, the Group recognized a deferred tax asset amounting to \$1,426 on the stock compensation expense expected to be realized on exercise of stock options in future periods.

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Undistributed earnings of the subsidiaries aggregate approximately \$766,572 and \$884,962 as of June 30, 2015 and March 31, 2016, respectively. The Group has the intent to reinvest the undistributed foreign earning indefinitely in its significant overseas operations and consequently did not record a deferred tax liability on the undistributed earnings.

**22. EARNINGS PER EQUITY SHARE**

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

	Year ended June 30,		Nine months ended March 31,
	2014	2015	2016
Weighted average number of equity shares outstanding used in computing basic EPS	1,397,233,894	1,404,808,456	1,407,845,713
Dilutive effect of stock options	16,364,596	6,854,974	3,070,521
Weighted average number of equity and equity equivalent shares outstanding used in computing diluted EPS	1,413,598,490	1,411,663,430	1,410,916,234

For the years ended June 30 2014 and, 2015 and, the nine months ended March 31, 2016, there were nil, nil and nil options respectively 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.

**23. STOCK BASED COMPENSATION**

**STOCK OPTION PLAN:** The Company has provided various share-based payment schemes to its employees. During the nine months ended March 31 2016, the following schemes were in operation:

**ESOP 2004 (the “2004 Plan”):** In December 2004, the Company instituted the 2004 Stock Option Plan to provide equity-based incentives to all eligible employees and directors of the Company and its subsidiaries. The 2004 Plan is administered by the Nomination and Remuneration Committee of the Company. The 2004 Plan provides for the issuance of a maximum of 160,000,000 underlying shares at the option price determined by the Nomination and Remuneration Committee on the date the option is granted.

**STOCK OPTION PLAN:** During the year ended June 30 2015, the following plans were also in operation in additions to ESOP 2004 Plan :

**ESOP 1999 (the “1999 Plan”):** In September 1999, the Company instituted the 1999 Stock Option Plan to provide equity-based incentives to all eligible employees of the Company and its subsidiaries. The 1999 Plan is administered by a Committee with a majority of independent directors of the Company (Nomination and Remuneration Committee) and provides for the issuance of a maximum of 160,000,000 underlying shares at the option price determined by the Nomination and Remuneration Committee on the date the option is granted.

**ESOP 2000 (the “2000 Plan”):** In October 2000, the Company instituted the 2000 Stock Option Plan to provide equity-based incentives to all eligible employees of the Company and its subsidiaries. The 2000 Plan is administered by the Nomination and Remuneration Committee of the Company. The 2000 Plan provides for the issuance of a maximum of 120,000,000 underlying shares at the option price determined by the Nomination and Remuneration Committee on the date the option is granted

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

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Changes in number of shares representing the outstanding stock options during the year ended June 30, 2015 are given below:

	Shares arising out of option			Weighted average exercise price			Weighted average remaining contractual term (in year)			Aggregate Intrinsic Value		
	Plan			Plan			Plan			Plan		
	1999	2000	2004	1999	2000	2004	1999	2000	2004	1999	2000	2004
Outstanding at beginning of the year	1,006,584	1,681,928	13,830,792	\$1.50	\$1.34	\$0.02	-	-	4.77	\$11,202	\$18,716	\$172,031
Granted	-	-	-	-	-	-	-	-	-	-	-	-
Forfeited	-	-	(1,634,928)	-	-	\$0.03	-	-	-	-	-	-
Expired	(191,792)	(344,776)	(103,920)	\$1.27	\$1.31	\$0.24	-	-	-	-	-	-
Exercised	(814,792)	(1,337,152)	(3,873,712)	\$1.26	\$1.25	\$0.04	-	-	-	-	-	-
Outstanding at the end of the year	-	-	8,218,232	-	-	\$0.03	-	-	3.93	-	-	\$118,496
Vested and exercisable at the end of the year	-	-	1,603,176	-	-	\$0.03	-	-	2.59	-	-	\$23,116
Weighted-average grant date fair value of grants during the year	-	-	-	-	-	-	-	-	-	-	-	-
Estimated fair value of option vested during the year	-	-	\$9,814	-	-	-	-	-	-	-	-	-
Vested and exercisable as of June 30, 2015 and expected to vest Thereafter	-	-	8,016,848	-	-	\$0.03	-	-	3.93	-	-	\$115,592

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Changes in number of shares representing the outstanding stock options during the nine months ended March 31, 2016 are given below:

	Shares arising out of option			Weighted average exercise price			Weighted average remaining contractual term (in year)			Aggregate Intrinsic Value		
	Plan			Plan			Plan			Plan		
	1999	2000	2004	1999	2000	2004	1999	2000	2004	1999	2000	2004
Outstanding at beginning of the period	-	-	8,218,232	-	-	\$0.03	-	-	3.93	-	-	\$118,496
Granted	-	-	-	-	-	-	-	-	-	-	-	-
Forfeited	-	-	(124,560)	-	-	\$0.03	-	-	-	-	-	-
Expired	-	-	(9,600)	-	-	\$0.03	-	-	-	-	-	-
Exercised	-	-	(4,402,896)	-	-	\$0.03	-	-	-	-	-	-
Outstanding at the end of the period	-	-	3,681,176	-	-	\$0.03	-	-	3.14	-	-	\$45,114
Vested and exercisable at the end of the period	-	-	2,402,696	-	-	\$0.03	-	-	2.93	-	-	\$29,446
Weighted-average grant date fair value of grants during the period	-	-	-	-	-	-	-	-	-	-	-	-
Estimated fair value of option vested during the period	-	-	\$14,189	-	-	-	-	-	-	-	-	-
Vested and exercisable as of March 31, 2016 and expected to vest Thereafter	-	-	3,633,400	-	-	\$0.03	-	-	3.14	-	-	\$44,529

Total number of outstanding options for the 2004 Plan includes 421,590 performance based options as of March 31, 2016 (837,785 as of June 30, 2015). These options will vest to the employees of the Group based on the achievement of certain targets by the Group.

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The following table summarizes information about stock options outstanding and exercisable as of June 30, 2015:

Range of exercise price	Outstanding			Exercisable	
	Number of shares arising out of options	Weighted average remaining contractual life(years)	Weighted average exercise price	Number of shares arising out of Options	Weighted average exercise price
<b>2004 Plan</b> (\$0.00- \$0.03)	8,218,232	3.93	\$0.03	1,603,176	\$0.03

As of June 30, 2015 and March 31, 2016, options for 84,680 shares and 226,560 shares, respectively, under the 2004 Plan, were pending allotment.

The following table summarizes information about stock options outstanding and exercisable as of March 31, 2016:

Range of exercise price	Outstanding			Exercisable	
	Number of shares arising out of options	Weighted average remaining contractual life(years)	Weighted average exercise price	Number of shares arising out of Options	Weighted average exercise price
<b>2004 Plan</b> (\$0.00- \$0.03)	3,681,176	3.14	\$0.03	2,402,696	\$0.03

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The following table summarizes information concerning stock options issued that are vested or are expected to vest and stock options exercisable as of June 30, 2015:

Range of exercise price	Option vested or expected to vest		
	Number of shares arising out of options	Weighted average remaining contractual life (years)	Weighted average exercise price
<b>2004 Plan</b> (\$0.00-\$0.03)	8,016,848	3.93	\$0.03

The following table summarizes information concerning stock options issued that are vested or are expected to vest and stock options exercisable as of March 31, 2016:

Range of exercise price	Option vested or expected to vest		
	Number of shares arising out of options	Weighted average remaining contractual life (years)	Weighted average exercise price
<b>2004 Plan</b> (\$0.00-\$0.03)	3,633,400	3.14	\$0.03

The aggregate intrinsic value of shares for the 2004 Plan is \$44,529. This values represent the total pre-tax intrinsic value calculated as the difference between the Company's closing stock price on the last trading day of the nine months ended March 31, 2016 and the exercise price.



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There are no options granted during June 30, 2015 and the nine months ended March 31, 2016

Cash received from option exercises under the stock option plan for the years ended June 30, 2014 and, 2015 and the nine months ended March 31, 2016 was \$5,186, \$2,904 and \$133, respectively.

The tax benefit on account of compensation cost of stock options exercised in United States of America, Great Britain, Netherlands and Germany aggregated \$4,585, \$5,200 and \$6,859 for the years ended June 30, 2014 and, 2015 and the nine months ended March 31, 2016, respectively.

For the years ended June 30, 2014 and, 2015 and the nine months ended March 31, 2016, stock-based compensation expense related to the stock option plans was allocated as follows:

	Year ended June 30,		Nine months ended
	2014	2015	March 31, 2016
Cost of sales	\$344	(\$1,795)	\$17
Selling, general and administrative	5,892	953	932
<b>Stock compensation cost before income tax benefit</b>	<b>6,236</b>	<b>(842)</b>	<b>949</b>
Deferred tax benefit	(1,395)	2,138	(474)
<b>Stock compensation cost (net)</b>	<b>\$4,841</b>	<b>\$1,296</b>	<b>\$475</b>

#### 24. 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 base salary and the years of employment with the Group.

The reconciliation of the beginning and ending balance of the projected benefit obligation and the paid value of plan assets for the year ended June 30, 2015 and the nine months ended March 31, 2016, and the accumulated benefit obligation at June 30, 2015 and March 31, 2016 is as follows:

	June 30, 2015	March 31, 2016
Change in benefit obligation		
Obligation at the beginning of the period	\$34,974	\$38,626
Service cost	7,477	5,897
Interest cost	3,416	2,647
Benefits paid	(3,688)	(3,600)
Actuarial gain	(1,055)	(1,878)
Business combination	-	83
Foreign currency translation	(2,498)	(1,516)
Obligation at the end of the period	<b>\$38,626</b>	<b>\$40,259</b>
Benefit obligation current	\$7,776	\$7,561
Benefit obligation Non-current	\$30,850	\$32,698
Accumulated benefit obligation	<b>\$ 38,626</b>	<b>\$40,259</b>

Changes in plan assets

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Fair value of plan assets at the beginning of the period	\$-	\$-
Employer contributions	3,688	3,600
Benefits paid	(3,688)	(3,600)
Plan assets at the end of the period	<u>\$-</u>	<u>\$-</u>
Funded status	\$-	\$-
Net amount recognized	(38,626)	(40,259)
Amounts recognized in the statement of financial position consist of:		
Accrued benefit cost	<u>(\$38,626)</u>	<u>(\$40,259)</u>
	<u>June 30, 2015</u>	<u>March 31, 2016</u>
Net actuarial loss	\$1,328	\$3,153
Net prior service cost	-	-
Total accumulated other comprehensive loss	<u>\$1,328</u>	<u>\$3,153</u>

Net gratuity cost for the years ended June 30, 2014 and, 2015 and the nine months ended March 31, 2016 comprise the following components:

	Year ended June 30,		Nine Months ended March 31,
	2014	2015	2016
Service cost	\$6,977	\$7,477	\$5,897
Interest cost	2,863	3,416	2,647
Amortization of unrecognized actuarial loss (gain)	793	(156)	-
<b>Net gratuity cost</b>	<u>\$10,633</u>	<u>\$10,737</u>	<u>\$8,544</u>

The weighted average actuarial assumptions used in accounting for the benefit obligations and net gratuity cost under the Gratuity Plan as of June 30, 2014 and, 2015 and the nine months ended March 31, 2016 are given below:

	Year ended June 30,		Nine months ended March 31,
	2014	2015	2016
Discount rate	9.20%	8.60%	8.50%
Expected rate of increase in salaries			
-for next year	7.0%	7.0%	7.0%
-thereafter	7.0%	7.0%	7.0%

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

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

Year ending March 31,	
- 2017	\$7,788
- 2018	7,888
- 2019	8,785
- 2020	10,124
- 2021	10,496
Thereafter	50,537
<b>Total</b>	<b>\$95,618</b>

The expected benefits are based on the same assumptions as are used to measure the Group's benefit obligations as of March 31, 2016.

**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/-) 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 contributed to the Trust are invested in specific securities as mandated by law and generally consist of federal and state government bonds, debt instruments of government-owned corporations and other eligible market securities.

The reconciliation of the beginning and ending balance of the defined benefit obligation and the fair value of plan assets for the year ended June 30, 2015 and the nine months ended March 31, 2016, and the accumulated benefit obligation at June 30, 2015 and March 31, 2016 is as follows:

	<b>June 30, 2015</b>	<b>March 31, 2016</b>
Change in benefit obligation		
Obligation at the beginning of the period	\$262,203	\$302,877
Service cost	13,863	9,310
Interest cost	21,940	17,461
Actuarial loss	4,395	3,815
Employees contribution	26,999	18,698
Benefits paid	(12,254)	(14,339)
Foreign currency translation	(14,268)	(11,953)
Obligation at the end of the period	<b>\$302,878</b>	<b>\$325,869</b>
	<b>June 30, 2015</b>	<b>March 31, 2016</b>
Change in fair value of plan assets		
Plan assets at the beginning of the period	\$262,203	\$302,877
Expected return of plan assets	24,025	20,352
Actuarial loss	2,310	924
Employer contributions	13,863	9,310
Employee contributions	26,999	18,698
Benefits paid	(12,254)	(14,339)
Foreign currency translation	(14,268)	(11,953)
Plan assets at the end of the period	<b>\$302,878</b>	<b>\$325,869</b>

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Net provident fund cost for the year ended June 30, 2014 and, 2015 and the nine months ended March 31, 2016 comprise the following components:

	Year ended June 30,		Nine Months ended
	2014	2015	March 31,
Service cost	\$16,432	\$13,863	\$9,310
Interest cost	16,867	21,940	17,461
Expected return on plan assets	(21,415)	(24,025)	(20,352)
Amortization of unrecognized actuarial loss	4,549	2,085	2,891
Total Included in "Employee Benefit Expense"	\$16,432	\$13,863	\$9,310
Actual Return on Plan Assets	\$18,973	\$3,617	\$21,276

The actuary has provided a valuation based on the assumption mentioned below and there is no shortfall as at 30 June, 2015 and March 31, 2016.

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

	June 30 ,2015	March 31, 2016
Plan assets at the period end	\$302,878	\$325,869
Present value of benefit obligation at period end	302,878	325,869
Asset recognized in balance sheet	\$-	\$-

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

	June 30 ,2015	March 31, 2016
Government of India (GOI) bond yield	9.4%	9.4%
Remaining term of maturity	7.83 Years	8.43 Years
Expected guaranteed interest rate	8.8%	8.8%

Total contributions made by the Group in respect of certain subsidiaries in India directly to Government administered provident fund for the year ended June 30, 2014 and, 2015 and the nine months ended March 31, 2016 are \$97, \$107 and \$148, respectively.

**Defined Contribution Plan**

**Superannuation**

In respect of superannuation, a defined contribution plan for eligible employees who contribute to a recognized Trust under schedule IV, Part B of Income Tax 1961, Trust funds are administered on its behalf by an appointed fund manager 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 years ended June 30, 2014 and, 2015 and the nine months ended March 31, 2016 are \$329, \$286 and \$186, respectively.

Total contributions made by the Group in respect of other foreign defined contribution plan for the years ended June 30, 2014 and, 2015 and the nine months ended March 31, 2016 are \$42,516, \$42,734 and \$36,492, respectively.

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**25. RELATED PARTY TRANSACTIONS**

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

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

The related party transactions are categorized as follows:

*Revenues*

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

	Year ended June 30,		Nine months ended
	2014	2015	March 31, 2016
Significant interest entities	\$25,785	\$24,007	\$564
Affiliates	848	179	-
<b>Total</b>	<b>\$26,633</b>	<b>\$24,186</b>	<b>\$564</b>

*Cost of revenues and selling, general and administrative expenses*

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

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

	Year ended June 30,		Nine months ended
	2014	2015	March 31, 2016
Significant interest entities	\$16,356	\$7,636	\$3,716
Affiliates	2,004	1,970	-
<b>Total</b>	<b>\$18,360</b>	<b>\$9,606</b>	<b>\$3,716</b>

*Sale of leasehold property and equipment*

The Group sold a building to certain significant interest entities and recorded a gain during the year ended June 30, 2014 and, 2015 and the nine month ended March 31, 2016 of \$7,602, \$24,698 and, nil respectively.

*Computer equipment, software purchases and others*

The Group purchases computer equipment, software and other items from certain significant interest entities. These purchases during the year ended June 30, 2015 and the nine months ended March 31, 2016 amounted to \$3,839 and \$446, respectively.

*Payment for Business acquisition*

In February 2016, the Company acquired HCL Training and Staffing Services Private Limited (HCLTSS) for total purchase consideration of \$355 from a significant interest entity. The acquisition will enable the Company to supplement its capabilities in hiring of trained resources.

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*Subleasing of facilities*

Significant interest entities have subleased a portion of their facilities to the Group. The total amount charged for the years ended June 30, 2014 and, 2015 and the nine months ended March 31, 2016 were \$397, \$2,736 and \$1,704, respectively.

*Interest paid on Letters of credit:*

The Group has negotiated extended interest bearing credit terms with certain related parties for extended payment terms up to 360 days and have paid interest during the year ended June 30, 2014 and, 2015 and the nine months ended March 31, 2016 of \$1,215, \$2,653 and \$158 respectively.

*Loans to employees*

The Group has advanced general purpose loans to its employees at rates of interest not more than 11% per annum. The repayment periods for these loans are fixed with the tenure of these loans extending up to four years. Employee loan balances outstanding as of June 30, 2015 and March 31, 2016 are \$2,900 and \$8,075, respectively.

*The balances receivable from and payable to related parties other than employees as of June 30, 2015 and March 31, 2016 are as follows:*

Accounts receivable include amounts due from significant interest entities totaling \$23,820 and \$2,153, respectively.

Unbilled receivable include amounts due from significant interest entities totaling \$1,493 and \$266, respectively.

Other assets include amounts due from significant interest entities totaling \$451 and \$348, respectively.

Accounts payable include amounts due to significant interest entities totaling \$507 and \$800, respectively.

Other liabilities include amounts due to significant interest entities totaling \$6,877 and \$6,408, and amounts due to affiliates totaling Nil and \$19,071 payment towards equity interest in affiliates, respectively.

**26. COMMITMENTS AND CONTINGENCIES**

*Capital commitments*

As of March 31, 2016, the Group had contractual commitments for capital expenditure of \$56,053.

*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*

The Group is involved in various lawsuits, claims and proceedings that arise in the ordinary course of business, the outcome of which is inherently uncertain. Certain of these matters include speculative and frivolous claims for substantial or indeterminate amounts of damages. The Group records a liability when it is both probable that a loss has been incurred and the amount can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount. The Group reviews these provisions at least quarterly and adjusts these provisions accordingly to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and updated information. The Group believes that the amount

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or estimable range of reasonably possible loss, will not, either individually or in the aggregate, have a material adverse effect on its business, consolidated financial position, results of operations, or cash flows with respect to loss contingencies for legal and other contingencies as of March 31, 2016.

**27. LEASES**

The Group has taken networking and computer equipment, vehicles, office furniture and equipment on capital leases. Future minimum lease payments under capital leases as of March 31, 2016 are as follows:

Year ending March 31,	
2017	\$15,234
2018	2,221
2019	343
2020	180
2021	-
Total minimum payments	<u>17,978</u>
Less: Amount representing future interest	294
Present value of minimum payments	<u>17,684</u>
Less: Current portion	<u>14,955</u>
<b>Long term capital lease obligation</b>	<b><u>\$2,729</u></b>

The Group has taken office facilities on lease under non-cancellable operating lease agreements. Future minimum lease payments as of March 31, 2016 for such non-cancellable operating leases are as follows:

Year ending March 31,	
2017	\$54,009
2018	46,076
2019	32,687
2020	28,615
2021	25,657
Thereafter	<u>68,901</u>
<b>Total minimum payments</b>	<b><u>\$255,945</u></b>

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

Rental expenses under operating leases are amortized on the straight line method. The expense for the year ended June 30, 2014 and, 2015 and for the nine months ended March 31, 2016 amounts to \$56,601, \$60,459 and \$41,781, respectively.

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

	Total minimum lease payments receivables	Interest included in minimum lease payments receivables	Present value of minimum lease payments receivables
Year ending March 31,			
2017	\$42,091	\$6,804	\$35,287
2018	28,728	2,376	26,352
2019	15,037	1,736	13,301
2020	8,793	1,026	7,767
2021	2,331	205	2,126
Thereafter	<u>554</u>	<u>38</u>	<u>516</u>
	<b><u>\$97,534</u></b>	<b><u>\$12,185</u></b>	<b><u>\$85,349</u></b>

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



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**28. 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. 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 global delivery model.

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.

Information on reportable segments for the year ended June 30, 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>\$3,291,378</u>	<u>1,820,311</u>	<u>248,061</u>	<u>\$5,359,750</u>
Depreciation and amortization	\$67,941	40,709	10,678	\$119,328
<b>Segment earnings</b>	<b>\$828,054</b>	<b>\$445,206</b>	<b>\$18,527</b>	<b>\$1,291,787</b>

Information on reportable segments for the year ended June 30, 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>\$3,588,584</u>	<u>\$2,063,755</u>	<u>\$299,958</u>	<u>\$5,952,297</u>
Depreciation and amortization	42,865	22,786	6,708	72,359
<b>Segment earnings</b>	<b>\$800,238</b>	<b>\$490,184</b>	<b>\$33,245</b>	<b>\$1,323,667</b>

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Information on reportable segments for the nine months ended March 31, 2016 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>\$2,774,631</u>	<u>\$1,672,490</u>	<u>\$250,766</u>	<u>\$4,697,887</u>
Depreciation and amortization	39,332	22,061	5,762	67,155
<b>Segment earnings</b>	<b>\$549,507</b>	<b>\$355,637</b>	<b>\$37,112</b>	<b>\$942,256</b>

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

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

	<b>Year ended June 30,</b>		<b>Nine months ended March 31,</b>
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	Segment earnings	\$1,291,787	\$1,323,667
Foreign exchange gain (loss)	(95,877)	(3,115)	5,414
Finance cost	(18,702)	(14,132)	(11,163)
Other income, net	111,839	163,638	126,124
Income before income taxes	<u><b>\$1,289,047</b></u>	<u><b>\$1,470,058</b></u>	<u><b>\$1,062,631</b></u>

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

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

	<b>Year ended June 30,</b>		<b>Nine months ended March 31,</b>
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	America	\$2,793,432	\$3,288,912
Europe	1,583,939	1,620,610	1,241,013
India	238,591	230,287	142,445
Others	743,788	812,488	559,174
	<u><b>\$5,359,750</b></u>	<u><b>\$5,952,297</b></u>	<u><b>\$4,697,887</b></u>

During the year ended June 30, 2014 and, 2015 and the nine months ended March 31, 2016, a single customer accounted for approximately 5.1%, 4.6% and 4.7% and top five customers accounted for 14.7%, 13.2% and 13.9% of the Group's revenue, respectively.

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Property and equipment located in geographic segments are as follows:

	<b>As of June 30,</b>		<b>As of</b>
	<b>2014</b>	<b>2015</b>	<b>March 31,</b>
	<b>2016</b>		<b>2016</b>
America	\$27,909	\$37,776	\$51,737
Europe	14,772	18,472	55,385
India	474,151	535,185	524,409
Others	5,962	8,686	20,876
	<b>\$522,794</b>	<b>\$600,119</b>	<b>\$652,407</b>

**29. 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.

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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 banks, having maturities less than three months	\$3,226	\$3,226	-	-
Term deposits with banks	\$1,338,241	-	\$1,338,241	-
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)	-

The following table discloses the assets and liabilities measured at fair value on a recurring basis as of March 31, 2016 and the basis for that measurement:

	Fair value	Level 1 inputs	Level 2 inputs	Level 3 inputs
<b>Assets</b>				
Deposits with banks, having maturities less than three months	\$17,685	\$17,685	-	-
Term deposits with banks	\$1,301,163	-	\$1,301,163	-
Deposits with corporation	\$301,096	-	\$301,096	-
Investment securities, available for sale	\$80,959	\$80,959	-	-
Derivative contracts	\$10,011	-	\$10,011	-
<b>Liabilities</b>				
Derivative contracts	(\$4,575)	-	(\$4,575)	-

*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 12 for further details on Derivative financial instruments.

Fair value of earn-out consideration: The fair value measurement of earn-out consideration is determined using Level 3 inputs. The Group earn-out consideration represents a component of the total purchase consideration for its acquisition of Trygstad Technical Services Inc and Powerteam LLC. The measurement is calculated using unobservable inputs based on the Company's own assessment of achievement of certain performance goals by Trygstad Technical Services Inc and Powerteam LLC. The Group estimated the total fair value of the earn out consideration to be \$10,809. See Note 6 for further details

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

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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.

**30. 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 .

	Year ended June 30		Nine months ended March 31
	2014	2015	2016
<b>Unrealized gain on securities available for sale:</b>			
Opening balance (net of tax)	\$756	\$315	\$533
Unrealized gains	477	767	261
Reclassification adjustments into other (income) expenses, net	(1,133)	(477)	(767)
Income tax benefit (expense)	215	(72)	187
Closing balance (net of tax)	<u><b>\$315</b></u>	<u><b>\$533</b></u>	<u><b>\$214</b></u>
<b>Unrealized loss on cash flow hedges:</b>			
Opening balance (net of tax)	(\$82,257)	(\$34,939)	(\$6,392)
Unrealized gain (loss)	(27,264)	18,805	4,570
Reclassification adjustments into other (income) expenses, net	88,730	14,335	4,542
Income tax benefit (expense)	(15,554)	(6,956)	(1,812)
Effect of exchange fluctuations	1,406	2,363	312
Closing balance (net of tax)	<u><b>(\$34,939)</b></u>	<u><b>(\$6,392)</b></u>	<u><b>\$1,220</b></u>
<b>Actuarial loss on defined benefit plan:</b>			
Opening balance (net of tax)	(\$3,392)	(\$135)	\$988
Actuarial gain (loss)	4,127	1,437	1,878
Reclassification adjustments into employee benefit expenses <sup>1</sup>	(37)	-	-
Income tax benefit (expense)	(870)	(321)	(58)
Effect of exchange fluctuations	37	7	(54)
Closing balance (net of tax)	<u><b>(\$135)</b></u>	<u><b>\$988</b></u>	<u><b>\$2,754</b></u>
<b>Foreign currency translation:</b>			
Opening balance	(\$377,581)	(\$339,195)	(\$533,164)
Foreign currency translation	38,386	(193,969)	(140,322)
Reclassification adjustments into other (income) expenses, net	-	-	-
Closing balance	<u><b>(\$339,195)</b></u>	<u><b>(\$533,164)</b></u>	<u><b>(\$673,486)</b></u>

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

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

The components of accumulated other comprehensive loss at June 30, 2015 and March 31, 2016 are as follows:

	<b>June 30,2015</b>	<b>March 31,2016</b>
Unrealized gain on securities available for sale	\$533	\$214
Unrealized loss on cash flow hedges	(6,392)	1,220
Unrealized loss on defined benefit plan	988	2,754
Foreign currency translation	(533,164)	(673,486)
	<b>(\$538,035)</b>	<b>(\$669,298)</b>

**32. SUBSEQUENT EVENTS**

- a) On April 1, 2016, the Company has entered into an agreement for the acquisition of the IT enabled engineering services, PLM ('Product Lifecycle Management') services and engineering design productivity software tools businesses of Geometric Limited by way of demerger through a Court approved scheme of arrangement under Sections 391 to 394 and other relevant provisions of the Companies Act, 1956 (including those of the Companies Act, 2013) to be effective from March 31, 2016.

The acquisition will be accounted for in the books of the Company upon approval of the scheme by the Court and simultaneously with the acquisition of the demerged business the Company will issue 10 equity shares of ₹ 2 each for every 43 fully paid equity shares of ₹ 2 each held by equity shareholders of Geometric Limited

- b) The Group has evaluated all the subsequent events through April 28, 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 consolidated financial statements.