

HCL Technologies Limited and Subsidiaries

**Consolidated Financial Statements
June 30, 2010 and 2009**

HCL Technologies Limited and Subsidiaries

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Report of Independent Auditors

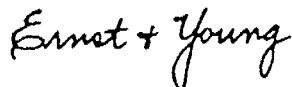
The Board of Directors
HCL Technologies Limited

We have audited the accompanying consolidated balance sheets of HCL Technologies Limited and subsidiaries as of June 30, 2010, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for the year then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of HCL Technologies Limited and subsidiaries for the years ended June 30, 2009 and 2008, were audited by other auditors whose report dated August 25, 2009, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with the 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 financial statements are free of material misstatement. We were not engaged to perform an audit of the Group's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2(u) to the consolidated financial statements, under the heading Recently issued accounting pronouncement, the Group adopted the provision of Accounting Standard Update No. 2009-13, Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements (ASU 2009-13) effective from July 01, 2009.

In our opinion, the 2010 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of HCL Technologies Limited and subsidiaries at June 30, 2010, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Gurgaon, India
July 29, 2010

HCL Technologies Limited

Consolidated Balance Sheets

Amount in thousands, except share and per share data

	As of June 30,	
	2009	2010
ASSETS		
Current assets		
Cash and cash equivalents	\$87,741	\$100,901
Short term deposit with banks	303,949	234,995
Short term deposit with Corporation	-	21,533
Accounts receivables, net	450,974	541,332
Unbilled revenue	113,994	115,336
Investment securities, available for sale	4,841	168,574
Inventories	36,156	14,034
Deferred income taxes	44,049	41,472
Other current assets	143,466	134,785
Total current assets	1,185,170	1,372,962
Deferred income taxes	79,635	97,804
Investment securities, held to maturity	4,175	10,767
Investments in affiliates	3,520	4,452
Property and equipment, net	331,270	398,054
Intangible assets, net	125,043	90,690
Goodwill	821,191	837,869
Other assets	100,080	109,772
Total assets	\$2,650,084	\$2,922,370

See accompanying notes.

HCL Technologies Limited

Consolidated Balance Sheets

Amount in thousands, except share and per share data

	As of June 30,	
	2009	2010
LIABILITIES AND EQUITY		
Current liabilities		
Current portion of capital lease obligations	\$3,135	\$1,610
Accounts payable	97,125	52,988
Short term borrowings	610,642	117,857
Accrued employee costs	106,307	112,615
Deferred revenue	88,754	138,009
Deferred income taxes	10,649	5,687
Income taxes payable	48,097	52,614
Other current liabilities	328,076	311,091
Total current liabilities	1,292,785	792,471
Long term debt	10,885	455,617
Capital lease obligations, net of current portion	5,029	4,680
Deferred income taxes	34,518	27,600
Accrued employee costs	26,285	31,583
Deferred revenue	34,917	73,393
Other liabilities	58,627	21,778
Total liabilities	1,463,046	1,407,122
Commitments and Contingencies		
 HCL Technologies Limited Shareholders' Equity		
Equity shares, Rs 2 par value, authorized 750,000,000 shares		
Issued and outstanding 670,256,600 and 678,783,812 shares as of June 30, 2009 and 2010, respectively	33,336	33,705
Additional paid-in capital	568,589	611,320
Shares application money pending allotment	99	324
Retained earnings	784,345	978,366
Accumulated other comprehensive loss	(199,674)	(108,763)
HCL Technologies Limited Shareholders' Equity	1,186,695	1,514,952
Noncontrolling Interests	343	296
Total equity	1,187,038	1,515,248
Total liabilities and equity	\$2,650,084	\$2,922,370

See accompanying notes.

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

	Year ended June 30,		
	2008	2009	2010
Revenues	\$1,860,873	\$2,179,540	\$2,704,583
Costs and expenses			
Cost of revenues	1,163,144	1,353,762	1,770,675
Selling, general and administrative expenses	323,573	367,225	400,745
Depreciation and amortization	74,612	92,245	107,588
Income from operations	299,544	366,308	425,575
Other (income)/expenses, net	6,816	43,881	70,853
Finance cost	4,385	21,785	42,387
Income before income taxes	288,343	300,642	312,335
Provision for Income taxes	29,453	51,848	50,608
Net income	258,890	248,794	261,727
Net income (loss) attributable to noncontrolling interest	647	(36)	(47)
Net income attributable to HCL Technologies Limited stockholders	\$258,243	\$248,830	\$261,774
Earnings per equity share			
Basic	\$0.39	\$0.37	\$0.39
Diluted	\$0.38	\$0.37	\$0.38
Weighted average number of equity shares used in computing earnings per equity share			
Basic	664,424,330	669,016,035	673,741,835
Diluted	682,748,596	674,009,042	689,471,254

See accompanying notes.

HCL Technologies Limited
Consolidated Statements of Shareholders' Equity and Comprehensive Income (loss)
Years ended June 30, 2010, 2009 and 2008
Amount in thousands, except share and per share data

	Equity shares		Additional paid-in capital	Ordinary shares subscribed	Retained earnings	Accumulated other comprehensive income/ (loss)	HCL Technologies Limited		Non Controlling Interest	Total Equity
	Shares	Par Value					Shareholder' Equity	Equity		
Balances as at June 30, 2007	663,683,116	\$33,036	\$516,466	\$-	\$581,204	\$100,273	\$1,230,979	\$3,566	\$1,234,545	
Shares issued for exercised options	2,657,156	130	7,331	-	-	-	7,461	-	7,461	
Stock options exercised pending allotment of shares			-	397	-	-	397	-	397	
Stock based compensation			23,904	-	-	-	23,904	-	23,904	
Excess tax benefit from exercise of stock options			371	-	-	-	371	-	371	
Cash dividend			-	-	(156,820)	-	(156,820)	-	(156,820)	
Non Controlling Interest acquired			-	-	-	-	-	(343)	(343)	
Dividend paid to noncontrolling interest			-	-	-	-	-	(2,557)	(2,557)	
Comprehensive income (loss):										
Net income					258,243	-	258,243	647	258,890	
Unrealized loss on available for sale securities, net of taxes					-	-	(195)	-	(195)	
Change in fair value of cash flow hedges, net of taxes					-	(95,700)	(95,700)	-	(95,700)	
Actuarial gain, net of taxes					-	-	(472)	-	(472)	
Foreign currency translation					-	(55,748)	(55,748)	-	(55,748)	
Total comprehensive loss					-	(152,115)	106,128	-	106,775	
Balances as at June 30, 2008	666,340,272	\$33,166	\$548,072	\$397	\$682,627	(\$51,842)	\$1,212,420	\$1,313	\$1,213,733	

HCL Technologies Limited
Consolidated Statements of Shareholders' Equity and Comprehensive Income (loss)
Years ended June 30, 2010, 2009 and 2008
Amount in thousands, except share and per share data

	Equity shares		Additional paid-in capital	Ordinary shares subscribed	Retained earnings	Accumulated other comprehensive income/(loss)	HCL Technologies Limited		Total Equity
	Shares	Par Value					Shareholder' Equity	Non Controlling Interest	
Balances as at June 30, 2008	666,340,272	\$33,166	\$548,072	\$397	\$682,627	(\$51,842)	\$1,212,420	\$1,313	\$1,213,733
Shares issued for exercised options	3,916,328	170	4,154	(397)	-	-	3,927	-	3,927
Stock options exercised pending allotment of shares	-	-	-	99	-	-	99	-	99
Stock based compensation	-	-	16,260	-	-	-	16,260	-	16,260
Excess tax benefit from stock options	-	-	103	-	-	-	103	-	103
Cash dividend	-	-	-	-	(147,112)	-	(147,112)	-	(147,112)
Dividend paid to noncontrolling interest	-	-	-	-	-	-	-	(934)	(934)
Comprehensive income (loss):									
Net income	-	-	-	-	248,830	-	248,830	(36)	248,794
Unrealized loss on available for sale securities, net of taxes	-	-	-	-	-	(16,719)	(16,719)	-	(16,719)
Change in fair value of cash flow hedges, net of taxes	-	-	-	-	-	(38,494)	(38,494)	-	(38,494)
Actuarial gain, net of taxes	-	-	-	-	-	268	268	-	268
Foreign currency translation	-	-	-	-	-	(92,887)	(92,887)	-	(92,887)
Total comprehensive loss	-	-	(147,832)	-	-	(147,832)	100,998	-	100,962
Balances as at June 30, 2009	670,256,600	\$33,336	\$568,589	\$99	\$784,345	(\$199,674)	\$1,186,695	\$343	\$1,187,038

HCL Technologies Limited
Consolidated Statements of Shareholders' Equity and Comprehensive Income (loss)
Years ended June 30, 2010, 2009 and 2008
Amount in thousands, except share and per share data

	Equity shares		Additional paid-in capital	Ordinary shares subscribed	Retained earnings	Accumulated other comprehensive income/ (loss)	HCL Technologies Limited Shareholder' Equity	Non Controlling Interest	Total Equity
	Shares	Par Value							
Balances as at June 30, 2009	670,256,600	\$33,336	\$568,589	\$99	\$784,345	(\$199,674)	\$1,186,695	\$343	\$1,187,038
Shares issued for exercised options	8,527,212	369	21,883	(99)			22,153	-	22,153
Stock options exercised pending allotment of shares			-	324			324	-	324
Stock based compensation			19,988				19,988		19,988
Excess tax benefit from stock options			860				860		860
Cash dividend					(67,753)		(67,753)		(67,753)
Change in noncontrolling interest ownership									-
Comprehensive income (loss):									
Net income					261,774		261,774	(47)	261,727
Unrealized loss on available for sale securities, net of taxes							(26)		(26)
Change in fair value of cash flow hedges, net of taxes						114,286	114,286		114,286
Actuarial gain, net of taxes						527	527		527
Foreign currency translation						(23,876)	(23,876)		(23,876)
Total comprehensive income						90,911	352,685		352,638
Balances as at June 30, 2010	678,783,812	\$33,705	\$611,320	\$324	\$978,366	(\$108,763)	\$1,514,952	\$296	\$1,515,248

See accompanying notes

HCL Technologies Limited
Consolidated Statements of Cash Flows
Amount in thousands

	Year ended June 30,		
	2008	2009	2010
Cash flows from operating activities			
Net income	\$258,890	\$248,794	\$261,727
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>			
Depreciation and amortization	74,612	92,245	107,588
Deferred income taxes	(28,634)	(15,105)	(36,423)
(Gain)/ loss on sale of property and equipment	481	(118)	(511)
Stock based compensation	23,904	16,260	19,944
Excess tax benefit from stock options	(371)	(103)	(860)
Other non cash charges	7,785	7,773	2,560
Profit on sale of investment securities	(28,185)	(24,491)	(886)
Equity in earnings of affiliates	(130)	(506)	(937)
Changes in assets and liabilities, net of effects of acquisitions			
Accounts receivable	(151,817)	(53,481)	(97,168)
Other assets	8,497	(127,724)	27,046
Accounts payable	18,907	41,611	(4,904)
Accrued employee costs	24,595	22,713	12,235
Other liabilities	141,962	(1,953)	94,043
Net cash provided by operating activities	350,496	205,915	383,454
Cash flows from investing activities			
Short term deposit with banks, net	(52,210)	(191,061)	78,354
Short term deposits with Corporation	-	-	(21,495)
Purchase of property and equipment	(136,886)	(112,637)	(137,054)
Proceeds from sale of property and equipment	1,838	3,455	5,332
Purchase of investments	(1,305,906)	(158,508)	(2,295,809)
Proceeds from sale of investments	1,373,718	461,546	2,126,909
Acquisition of business, net of cash acquired	(37,155)	(703,753)	(10,925)
Net cash used in investing activities	(156,601)	(700,958)	(254,688)
Cash flows from financing activities			
Payment of principal under capital lease obligations	(4,656)	(180)	(4,080)
Proceeds/(repayment) from short term borrowings	(2,387)	603,389	(513,073)
Proceeds from issuance of long term debt	1,833	13,585	267,318
Repayment of long term debt	(1,775)	(1,822)	(44,827)
Proceeds from issuance of Redeemable Secured Non – convertible debentures	-	-	214,946
Proceeds from issuance of equity shares	7,461	4,324	22,021
Proceeds from subscription of shares pending allotment	397	99	331
Dividend paid	(156,820)	(147,112)	(67,760)
Acquisition of Noncontrolling interest	(3,411)	-	-
Distribution to Noncontrolling interest	(2,557)	(934)	-
Excess tax benefits from employee stock based compensation	371	103	860
Net cash provided by (used in) financing activities	(161,544)	471,452	(124,264)
Effect of exchange rate changes on cash and cash equivalents	(12,246)	3,178	8,658
Net increase/(decrease) in cash and cash equivalents	20,105	(20,413)	13,160
Cash and cash equivalents at the beginning of the year	88,049	108,154	87,741
Cash and cash equivalents at the end of the year	\$108,154	\$87,741	\$100,901
Supplemental disclosures of cash flow			
Property and equipment acquired under capital lease obligation	\$5,830	\$4,989	\$2,982
Cash payments for interest	\$3,309	\$12,877	\$38,047
Cash payments for income taxes	\$52,813	\$55,549	\$67,732

See accompanying notes.

HCL Technologies Limited and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010

(Amount in thousands except share and per share data)

1. ORGANIZATION AND NATURE OF OPERATIONS

HCL Technologies Limited (the 'Company' or the 'Parent Company') along with its subsidiaries and associated (hereinafter collectively referred to as the 'Group') is primarily engaged in providing a range of information technology, business process outsourcing and infrastructure services. The Company was incorporated in India in November 1991. The Group leverages its extensive offshore infrastructure and professionals to deliver solutions across select verticals including Aerospace and Defense, Automotive, Energy and Utilities, Financial Services, Government, Hitech, Life Sciences, Healthcare, Media and Entertainment, Retail and consumer, Telecom, Travel, Transportation 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 in conformity with U. S. generally accepted accounting principles ('U.S. GAAP').

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

(b) Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs, expenses and other comprehensive income that are reported and disclosed in the consolidated financial statements and accompanying notes. These estimates are based on management's best knowledge of current events, historical experience, actions that the Company may undertake in the future and on various other assumptions that are believed to be reasonable under the circumstances. Significant estimates and assumptions are used for, but not limited to accounting for costs expected to be incurred to complete performance under software development arrangements, allowance for uncollectible accounts receivable, 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 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 six subsidiaries outside India which use the Indian Rupee ('INR') as their functional currency. The functional currency of the Parent Company is INR. The translation from functional currency into USD (the reporting currency) for assets and liabilities is performed using the exchange rates in effect at the balance sheet date, and for revenue, expenses and cash flows it is performed using an appropriate monthly weighted average exchange rate for the respective periods. The gains or losses resulting from such translation are reported as a component of other comprehensive income (loss), within stockholders' equity.

Foreign currency denominated assets and liabilities are re-measured into the functional currency at exchange rates in effect at the balance sheet date. Foreign currency transaction gains and losses are recorded in the consolidated statement of income within other income.

(d) Revenue recognition

The Group derives revenues primarily from

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

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

HCL Technologies Limited and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010

(Amount in thousands except share and per share data)

Software Development Services:

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

Business Process Outsourcing Services:

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

Infrastructure Services:

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

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

Revenue from product sales are shown net of sales tax and applicable discounts and allowances. Revenue from bandwidth and other services is recognized upon actual usage of such services by customers based on either the time for which these services are provided or volume of data transferred or both and excludes service tax. Revenue related to product with installation services and critical to product is recognized when installation of networking equipment at customer site is completed and accepted by the customer. Revenue from maintenance services is recognized ratably over the period of the contract.

Revenue from fixed-price network building contracts is recognized in accordance with the percentage-of-completion (POC) method. Under the POC method, revenue is recognized based on costs incurred to date as a percentage of the total estimated efforts/ labor costs to fulfill the contract. If circumstances arise that change the original estimates of revenues, costs, or extent of progress toward completion, revisions to the estimates are made. These revisions may result in increases or decreases in estimated revenues or costs, and such revisions are reflected in income in the period in which the circumstances that gave rise to the revision become known to management. If at any time these estimates indicate that the contract will be unprofitable, the entire estimated loss for the remainder of the contract is recorded immediately.

Multiple-element arrangements

When a sales arrangement contains multiple elements, such as hardware and software products, licenses and/or services, revenue to each element is based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence ('VSOE') if available, third party evidence ('TPE') if VSOE is not available, or estimated selling price ('ESP') if neither VSOE nor TPE is available. 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.

HCL Technologies Limited and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2010

(Amount in thousands except share and per share data)

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

For fiscal 2009 and fiscal 2008, pursuant to the previous guidance of revenue arrangements with multiple deliverables, for a sales arrangement with multiple elements, the revenue to each element was allocated based on its relative fair value, or for software, based on VSOE of fair value. In the absence of fair value for a delivered element, revenue was first allocated to the fair value of the undelivered elements and the residual revenue to the delivered elements. Where the fair value for an undelivered element could not be determined, revenue was deferred for the delivered elements until the undelivered elements were delivered or the fair value was determinable for the remaining undelivered elements. If the revenue for a delivered item was not recognized because it was not separable from the undelivered item, then the cost of the delivered item was also deferred. The amount of revenue recognition for delivered elements was limited to the amount that was not contingent on the future delivery of products or services, future performance obligations or subject to customer-specified return or refund privileges.

General:

Revenue from transition services in outsourcing arrangements is deferred and recognized over the period of the arrangement; direct and incremental costs in relation to such an arrangement are also deferred. Certain upfront non-recurring contract acquisition costs incurred in the initial phases of outsourcing contracts are deferred and amortized usually on a straight line basis over the term of the contract. The 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.

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 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).

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

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

(e) Inventory

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

HCL Technologies Limited and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010

(Amount in thousands except share and per share data)

(f) Property and equipment

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

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

Assets acquired under capital leases are capitalized as assets by the Group at lower of the fair value of the leased property or the present value of the related lease payments. Assets under capital leases and leasehold improvements are depreciated over the shorter of the lease term or the estimated useful life of the assets. Leasehold land is amortized over the period of the lease. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease period or estimated useful life of the asset. Assets under capital leases are amortized over their estimated useful life or the lease term, whichever is shorter. 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 under caption capital work-in-progress (See Note 7).

(g) Leases

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

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

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

Revenue from sales-type leases is recognized when risk of loss has transferred to the client and there are no unfulfilled obligations that affect the client's final acceptance of the arrangement.

Financing income attributable to sales-type leases and direct financing leases is recognized on the accrual basis using the effective interest method.

HCL Technologies Limited and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2010

(Amount in thousands except share and per share data)

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

In accordance with the provisions of Accounting Standards Codification Topic 360, "Accounting for Impairment or Disposal of Long Lived Assets, Long-lived assets, other than goodwill, are tested for impairment based on undiscounted cash flows and, if impaired, written down to fair value based on either discounted cash flows or appraised values. Goodwill is tested annually, in the fourth quarter, for impairment, or sooner when circumstances indicate impairment may exist, using a fair-value approach at the reporting unit level. A reporting unit is the operating segment, or a business, which is one level below that operating segment (the "component" level) if discrete financial information is prepared and regularly reviewed by management at the segment level. Components are aggregated as a single reporting unit if they have similar economic characteristics.

(i) Investment securities

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

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

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

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

(j) Investments in affiliates.

The Group's equity in the earnings/(losses) of affiliates is included in the statement of income and the Company's share of net assets of affiliates is included in the balance sheet, subject to an impairment charge to the income statement for any other than temporary decline in value.

(k) Research and development

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

(l) Software product development

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

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

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

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

(n) Income taxes

Income taxes are accounted for using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are recognized to reduce the deferred tax assets to an amount that is more likely than not to be realized. In assessing the likelihood of realization, management considers estimates of future taxable income and the effect of temporary differences.

FASB's ASC Topic 740 guidance on Accounting for Uncertainty in Income Taxes clarified the accounting and reporting for uncertainties in income tax by prescribing a minimum recognition threshold for a tax position taken or expected to be taken in a tax return that is required to be met before being recognized in the financial statements. Upon adoption of this guidance, the Group continued the policy to include interest and penalties within income taxes.

(o) Earnings per share

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

(p) Stock based compensation

Stock-based compensation represents the cost related to stock-based awards granted to employees. The Company measures stock-based compensation cost at grant date, based on the estimated fair value of the award and recognizes the cost on a straight-line basis (net of estimated forfeitures) over the employee requisite service period. 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.

(q) Employee benefits

Defined contribution plan

Eligible employees of the Group in the United States participate in a savings plan (the "Plan") under Section 401(k) of the United States Internal Revenue Code (the "Code"). The Plan allows for employees

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to defer a portion of their annual earnings on a pre-tax basis through voluntary contributions to the Plan. The Plan provides that the Group can make optional contributions up to the maximum allowable limit under the Code.

Eligible employees of the Group in India and US participate in a defined contribution fund in accordance with the regulatory requirements in the respective jurisdictions. Both the employee and the Group contribute on equal amount to the fund.

The Company has no further obligation under defined contribution plans beyond the contributions made under these plans. Contributions are charged to income in the year in which they accrue and are included in the consolidated statement of income (See Note 23).

Defined benefit plan

Employees in India are entitled to benefits under the Gratuity Act, a defined benefit retirement plan covering eligible employees of the Group. This plan provides for a lump-sum payment to eligible employees at retirement, death, incapacitation or on termination of employment, of an amount based on the respective employee's salary and tenure of employment (subject to a maximum of approximately \$22 per employee in India). The Group have unfunded gratuity obligations.

(r) Dividend

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

(s) Derivative and hedge accounting

Foreign exchange forward contracts and options are purchased to mitigate the risk of changes in foreign exchange rates associated with forecasted transactions denominated in certain foreign currencies.

In accordance with FASB guidance ASC 815, "Accounting for Derivative Instruments and Hedging Activities", the Group recognizes all derivatives as assets or liabilities measured at their fair value, regardless of the purpose or intent of holding them. Changes in fair value for derivatives not designated in 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 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.

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

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

See Note 11 of Notes to Consolidated Financial Statements for additional information.

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(t) *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. In accordance with ASC topic 350, "Intangibles - Goodwill and Other" (ASC No. 350), all assets and liabilities of the acquired businesses including goodwill are assigned to reporting units. The evaluation is based upon a comparison of the estimated fair value of the reporting unit to which the goodwill has been assigned to the sum of the carrying value of the assets and liabilities for that reporting unit. The fair value used in this evaluation is estimated based upon discounted future cash flow projections for the reporting unit. These cash flow projections are based upon a number of estimates and assumptions.

Intangible assets are initially valued at fair market value using generally accepted valuation methods appropriate for the type of intangible asset. Intangible assets with definite lives are amortized over the estimated useful lives and are reviewed for impairment, if indicators of impairment arise. The evaluation of impairment is based upon a comparison of the carrying amount of the intangible asset to the estimated future undiscounted net cash flows expected to be generated by the asset.

If estimated future undiscounted cash flows are less than the carrying amount of the asset, the asset is considered impaired. The impairment expense is determined by comparing the estimated fair value of the intangible asset to its carrying value, with any shortfall from fair value recognized as an expense in the current period. The Company's definite lived intangible assets are amortized over the estimated useful life of the assets:

<u>Asset description</u>	<u>Asset life (in years)</u>
Customer relationships	1 to 10
Existing customer contracts	0.5 to 6
Technology	2.5 to 5
Non-compete agreements	3 to 5
Intellectual property rights	4
Others*	2 to 5

* Others include brand and contractors database

(u) *Recently issued accounting pronouncements*

Adoption of new accounting principles In the second quarter of year ended June 30, 2010, the Company early adopted the provisions of Accounting Standards Update No. 2009-13, *Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements* (ASU 2009-13). ASU 2009-13 amended existing accounting guidance for revenue recognition for multiple-element arrangements. To the extent a deliverable within a multiple-element arrangement is not accounted for pursuant to other accounting standards, including ASC 985-605, *Software-Revenue Recognition*, ASU 2009-13 establishes a selling price hierarchy that allows for the use of an estimated selling price (ESP) to determine the allocation of arrangement consideration to a deliverable in a multiple element arrangement where neither VSOE nor third-party evidence (TPE) is available for that deliverable. As a result of early adoption of ASU 2009-13, the Group applied the provisions of these accounting standards updates as of the beginning of year ended June 30, 2010. As a result of the adoption, current year revenues and income from operations were higher by \$23,297 and \$8,161, respectively. The impact was due to the recognition of revenue for certain deliverables bundled in multiple element arrangements where the arrangements also included services for which the Group was unable to demonstrate fair value pursuant to the previous standards.

Effective January 1, 2010, FASB issued Accounting Standards Update ("ASU") No. 2010-06, "Improving Disclosures about Fair Value Measurements", to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the

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reasons and the timing of the transfers. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance is effective for interim and annual reporting period beginning after December 15, 2009, except for the disclosure about purchases, sales, issuance, and settlements in the roll forward of activity in level 3 fair value measurements which are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Group adopted the disclosure provisions on the transfers of assets and liabilities between Level 1 and Level 2 in the quarter ended December 31, 2009.

Effective July 1, 2009, the FASB issued ASU No. 2009-01, *“Generally Accepted Accounting Principles”* (ASC Topic 105) which establishes the FASB Accounting Standards Codification (“the Codification” or “ASC”) as the official single source of authoritative U.S. generally accepted accounting principles. All existing accounting standards are superseded. The Codification also includes all relevant Securities and Exchange Commission guidance organized using the same topical structure in separate sections within the Codification. Following the Codification, the FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates (“ASU”) which will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes to the Codification. The Codification is not intended to change GAAP, but it will change the way GAAP is organized and presented. All other non grandfathered non-SEC accounting literature not included in the Codification will become non authoritative. The Codification has been adopted by the Group for these financial statements and the principal impact on the financial statements was limited to disclosures as all future references to authoritative accounting literature will be referenced in accordance with the Codification.

Effective July 1, 2009, the Group adopted ASC 810-10-65 in respect of the non controlling interest in the operations of Axon Balance LLC, Axon Puerto Rico and NEC HCL System Technologies Limited and the profits or losses associated with the noncontrolling interest in these operations. The adoption of ASC 810-10-65 requires reclassification of amounts previously attributable to minority interest (now referred to as noncontrolling interest) to a separate component of equity on the balance sheets. Additionally, (i) net income includes net income or loss attributable to noncontrolling interest; (ii) the components of net income attributable to the shareholders of the Group and the net income attributable to noncontrolling interest are displayed in the statements of income and (iii) losses are allocated to the noncontrolling interest even if the losses exceed the equity attributable to noncontrolling interest. The adoption of ASC 810-10-65 did not have any impact on the net income attributable to Group’s shareholders.

Effective July 1, 2009, the Group adopted FASB ASC 855-10, *“Subsequent Events”*. ASC 855-10 establishes general standards for accounting and disclosure of events that occur after the balance sheet date but before financial statements are issued (subsequent events). These standards are largely the same guidance on subsequent events which previously existed only in auditing literature and adoption of ASC 855-10 did not impact the Group’s financial statement.

Effective July 1, 2009, the Group adopted the provisions of ASC 805-10, *“Business Combinations (revised 2007)”*. ASC 805-10 retains the underlying concepts of Statement of Financial Accounting Standards (“SFAS”) No. 141, *“Business Combinations”* in that all business combinations are still required to be accounted for at fair value under the acquisition method of accounting, but changes the method of applying the acquisition method in a number of significant aspects. Acquisition costs will generally be expensed as incurred; noncontrolling interests will be valued at fair value at the acquisition date; in-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date; restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition date; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense.

ASC 805-10 is effective on a prospective basis for all of business combinations consummated on or after July 1, 2009, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. ASC 805-10 amends ASC 740, *“Income Taxes”* such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of ASC 805-10 would also apply the provisions of ASC 805-10.

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New accounting pronouncement

In June 2009, the FASB issued and subsequently codified Accounting Standards Update No. 2009-16, *Transfers and Servicing (Topic 860)—Accounting for Transfers of Financial Assets* (ASU 2009-16). ASU 2009-16 eliminates the concept of a “qualifying special-purpose entity” with regards to transfer of financial assets and changes the requirements for derecognizing financial assets. The Group will adopt this new accounting standard update from July 1, 2010 and is currently evaluating the impact of its pending adoption on Group’s consolidated financial statements.

In June 2009, the FASB issued and subsequently codified Accounting Standards Update No. 2009-17, *Consolidations (Topic 810)—Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* (ASU 2009-17). ASU 2009-17 amends the evaluation criteria to identify the primary beneficiary of a variable interest entity as provided pursuant to existing accounting standards and requires ongoing reassessments of whether an enterprise is the primary beneficiary of the variable interest entity. The Group will adopt ASU 2009-17 from July 1, 2010 and is currently evaluating the impact of its pending adoption on Group’s consolidated financial statements.

3. FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISK

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash equivalents, short term deposits with banks and corporation, accounts receivables, investment securities, and derivative instruments. The cash resources of the Group are invested with mutual funds, banks, financial institutions and corporations after an evaluation of the credit risk. By their nature, all such financial instruments involve risk including the credit risk of non-performance by counter parties. In management’s opinion, as of June 30, 2010 and 2009, there was no significant risk of loss in the event of non-performance of the counter parties to these financial instruments, other than the amounts already provided for in the financial statements.

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

4. BUSINESS COMBINATIONS

Acquisitions in current year

UCS Solutions holdings (Pty) limited

On August 1, 2009, the Group acquired enterprise solutions division of UCS Solutions holdings (Pty) limited. The results of this business have been included in the consolidated statement of income from August 1, 2009.

The purchase price for the acquisition was a cash payment of \$8,295 and a contingent earn-out consideration of up to of \$9,503 based on satisfaction of certain performance obligation over a two-year period as set out in the sale of business agreement. The initial purchase consideration of \$17,798 is allocated as intangible assets of \$2,651 and net liabilities of \$186 based on a determination of their fair value, with the residual \$15,333 allocated to goodwill. The resultant goodwill has been allocated to Software segment.

RKV Technologies

On March 31, 2010, the Group acquired unemployment insurance practice of RKV Technologies. The results of this business have been included in the consolidated statement of income from April 1, 2010.

The total purchase price for the acquisition was \$5,000 out of which \$4,200 has been paid and balance \$800 is lying in deferred consideration. The initial purchase consideration of \$5,000 is allocated as intangible assets of \$2,363 and with the residual \$2,637 allocated to goodwill. The resultant goodwill has been allocated to Software segment.

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Acquisitions in previous year

HCL Insurance BPO Services Limited

On September 1, 2008, the Group acquired all outstanding shares of HCL Insurance BPO Services Limited ("IBS") previously known as Liberata Financial Services Limited. IBS is engaged in providing back office services to its customers in insurance vertical in UK.

The results of operations of IBS have been included in the consolidated statement of income from September 1, 2008. The purchase price for the acquisition was \$3,609 including direct transaction costs of \$484. The purchase consideration of \$3,609 had been allocated as intangible assets of \$6,721, net tangible assets (liabilities) of (\$3,900), and provision for restructuring cost of (\$4,234) based on a determination of their fair value with the residual value \$5,022 was allocated to goodwill.

During the year ended June 30 '2010, the Group has made certain fair value adjustments to the preliminary allocation which has reduced the value of goodwill and intangible assets to nil and the value of net tangible assets to \$3,609.

HCL Expense Management Services Inc.

On September 15, 2008, the Group acquired all outstanding shares of HCL Expense Management Services Inc. ("EMS") (previously known as Control Point Solutions Inc, "CPS"). HCL Expense Management Services Inc provides Telecom Expense Management services to enterprise and carrier clients in the US.

The results of operations of EMS have been included in the consolidated statement of income from September 15, 2008. The purchase price for the acquisition was a cash payment of \$22,473 including direct transaction cost of \$886. The purchase consideration of \$22,473 was allocated as intangible assets of \$3,000 and net tangible assets of \$4,687 based on a determination of their fair value, with the residual \$14,786 allocated to goodwill.

During the year ended June 30 '2010, the Group has made certain fair value adjustments to the preliminary allocations which has increased the value of goodwill to \$16,842 and reduced the value of net tangible assets to \$2,631.

The goodwill has been allocated to the Business Process Outsourcing services segment.

Axon Group Limited

On December 15, 2008, the Group acquired 100% interest in Axon Group Limited previously known as Axon Group Plc and its subsidiaries ("Axon"). Axon is a SAP consultancy company which provides advisory, implementation and application management services to enterprises which have chosen SAP as their strategic platform. The acquisition of Axon has strengthened the Group's position as a significant player in SAP implementation and consultancy services.

The results of operations of Axon have been included in the consolidated statement of income from December 15, 2008. The total purchase price for AXON was approximately \$687,497 which includes acquisition of 67,820,332 shares of outstanding common stock of AXON at an average price of GBP 6.4653 and direct transaction cost was \$8,456 (net of dividend received prior to consummation of business acquisition of \$231).

The purchase consideration of \$687,497 was allocated as intangible assets of \$122,206 and net tangible assets (liabilities) of \$(24,070) based on a determination of their fair value, with the residual \$589,361 allocated to goodwill.

During the year ended June 30 '2010, the Group has made certain fair value adjustments to the preliminary allocations which has increased the value of goodwill to \$608,418 and reduced the value of net tangible assets to \$(55,987)

The goodwill has been allocated to the Software services segment.

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5. CASH AND CASH EQUIVALENTS

The Cash and cash equivalents as of June 30, 2009 and June 30, 2010 are as follows:

	<u>June 30, 2009</u>	<u>June 30, 2010</u>
Deposits with banks, having maturities less than three months	\$6,755	\$9
Other cash and bank balances	80,986	100,892
	<u>\$87,741</u>	<u>\$100,901</u>

6. SHORT TERM DEPOSITS

The Company has short term deposits with banks amounting to \$303,949 and \$234,995 as of June 30, 2009 and June 30, 2010, respectively. As on June 30, 2009 and June 30, 2010, short term deposits of \$122,538 and \$Nil, respectively, have been pledged with banks as security for short term loan, \$495 and \$460 for guarantee, respectively, and \$2,617 and \$Nil for letters of credit, respectively.

7. PROPERTY AND EQUIPMENT

As of June 30, 2009 and June 30, 2010, property and equipment comprises the following:

	<u>June 30, 2009</u>	<u>June 30, 2010</u>
Freehold Land	\$17,795	\$18,323
Lease hold Land	23,338	25,935
Buildings	71,160	106,381
Computer and networking equipment	174,957	204,358
Software	85,425	109,017
Furniture ,fixtures and office equipment	93,456	98,571
Plant and equipment	105,708	129,226
Vehicles	12,761	13,704
Capital work-in-progress	101,798	131,070
	<u>686,398</u>	<u>836,585</u>
Accumulated depreciation and amortization	(355,128)	(438,531)
Property and equipment, net	<u>\$331,270</u>	<u>\$398,054</u>

Depreciation expense was \$73,577, \$73,033 and \$83,791 for the years ended June 30, 2008, 2009 and 2010, respectively.

8. GOODWILL AND INTANGIBLES

The changes in the carrying value of goodwill balances by reportable segment, for the year ended June 30, 2009, are as follows:

	Software Services	Infrastructure services	Business process outsourcing services	Total
Opening balance as at July 1, 2008	\$203,650	\$1,409	\$9,187	\$214,246
Acquisition during the year	589,361	-	19,808	609,169
Purchase price adjustments	-	-	-	-
Effect of exchange rate changes	(200)	(143)	(1,881)	(2,224)
Closing balance as on June 30, 2009	<u>\$792,811</u>	<u>\$1,266</u>	<u>\$27,114</u>	<u>\$821,191</u>

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The changes in the carrying value goodwill balances by reportable segment, for the year ended June 30, 2010, are as follows:

	Software Services	Infrastructure services	Business process outsourcing services	Total
Opening balance as at July 1, 2009	\$792,811	\$1,266	\$27,114	\$821,191
Acquisition during the year	17,970	-	-	17,970
Purchase price adjustments	19,057	-	(2,966)	16,091
Effect of exchange rate changes	(17,021)	40	(402)	(17,383)
Closing balance as on June 30, 2010	\$812,817	\$1,306	\$23,746	\$837,869

Purchase price adjustments recorded in 2010 were related to acquisitions that were completed on or prior to June 30, 2009 and were still subject to the measurement period that ends at the earlier of 12 month from the acquisition date or when information becomes available. There were no goodwill impairment losses recorded in 2010 or 2009, and the Group has no accumulated impairment losses.

The components of intangibles assets are as follows:

	June 30, 2009			June 30, 2010		
	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Intellectual property rights	\$350	(\$350)	\$-	\$678	(\$410)	\$268
Software & development cost	14,028	(3,072)	10,956	12,824	(5,743)	7,081
Customer related intangibles	142,812	(31,758)	111,054	132,252	(49,612)	82,640
Non-compete agreements	1,648	(400)	1,248	1,624	(923)	701
Others	3,520	(1,735)	1,785	3,159	(3,159)	-
	\$162,358	(\$37,315)	\$125,043	\$150,537	(\$59,847)	\$90,690

Amortization expense for the year ended June 30, 2008, 2009 and 2010 is \$4,174, \$21,943 and \$24,470, respectively. Amortization expense is included in depreciation and amortization other than \$3,139, \$2,731 and \$673 which is reported as a reduction of revenue during the year ended June 30, 2008, 2009 and 2010 respectively, in accordance with the EITF 01-09, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)*. As of June 30, 2010 the Company has unamortized Customer related intangibles of \$120 which will be amortized in future periods and reported as a reduction from revenue. The estimated annual amortization expense schedule for intangible assets based on current balance is as follows:

Year ending June 30,	
2011	\$14,419
2012	11,783
2013	10,889
2014	10,260
2015	9,740
Thereafter	33,599
	\$90,690

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9. INVESTMENTS IN AFFILIATES

Equity Method Investments

Equity Method Investments as of June 30 2009 and 2010 are as follows:

Name of the Affiliates	June 30, 2009		June 30, 2010	
	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Axon Balance LLC	\$-	50%	\$ -	50%
Axon Puerto Rico Inc	808	49%	968	49%
NEC HCL System Technologies Ltd.	2,712	49%	3,484	49%
	\$3,520		\$4,452	

The Company accounts for its interest in affiliates under the equity method and the equity in the gain/(loss) for the year ended June 30, 2008, 2009 and 2010 are shown below:

Name of the Affiliates	2008	2009	2010
Axon Balance LLC	\$-	\$-	\$-
Axon Puerto Rico Inc	-	(32)	160
NEC HCL System Technologies Limited	130	538	777
	\$130	\$506	\$937

10. INVESTMENT SECURITIES

Available for sale investment securities consist of the following:

As of June 30, 2009:

	Carrying value	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Equity securities	\$65	\$56	\$-	\$121
Mutual fund units	4,175	545	-	4,720
Total	\$4,240	\$601	\$	\$4,841

As of June 30, 2010:

	Carrying value	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Equity securities	\$65	\$110	\$0	\$175
Mutual fund units	167,946	610	157	168,399
Total	\$168,011	\$720	\$157	\$168,574

Above gross unrealized holding gains/losses have been recorded as part of other comprehensive income.

Proceeds from the sale of available for sale securities during the years ended June 30, 2008, 2009 and 2010 were \$1,373,718, \$461,546 and \$2,126,909, respectively. Dividend income earned from these investments during the years ended June 30, 2008, 2009 and 2010 was \$2,525, \$1,093 and \$5,943, respectively.

The cost of a security sold or the amount reclassified out of accumulated other comprehensive income into earnings was determined on basis of weighted average method.

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The table summarizes the transactions for available for sale securities:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Gross realized gains	\$28,276	\$24,496	\$936
Gross realized loss	(\$91)	(\$5)	(\$50)
The amount of the net unrealized holding gain or (loss) on available-for-sale securities for the period that has been included in accumulated other comprehensive income (including effect of exchange rate changes)	\$15,468	\$471	\$563
The amount of gains and (losses) reclassified out of accumulated other comprehensive income into earnings for the period	\$15,680	\$16,305	\$545

Investments in held-to-maturity as on June 30, 2009 and June 30, 2010 are \$4,175 and \$10,767, respectively. The maturity profile of the investments held-to-maturity as of June 30, 2010 is set out below:

	<u>Carrying value</u>
Less than one year	\$-
One to five years	10,767
	<u>\$10,767</u>

Interest income earned from these investments during the years ended June 30, 2008, 2009 and 2010 was \$222, \$548 and \$506, respectively.

11. 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 purposes.

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

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

	Notional principal amounts		Balance sheet exposure	
	<u>June 30, 2009</u>	<u>June 30, 2010</u>	<u>Asset</u>	<u>(Liability)</u>
	<u>June 30, 2009</u>	<u>June 30, 2010</u>	<u>Jun 30, 2009</u>	<u>June 30, 2010</u>
Foreign exchange forward denominated in:				
United States Dollars /INR	\$773,256 (Sell)	\$282,994 (Sell)	(\$126,396)	(\$30,958)
United States Dollars /INR	-(Buy)	\$81,000 (Buy)	-	(261)
Sterling Pounds / United States Dollars	£12,828 (Sell)	£9,334 (Sell)	(1,848)	(205)
Euros / United States Dollars	€ 12,029 (Sell)	€ 10,285 (Sell)	(753)	151
			<u>(\$128,997)</u>	<u>(\$31,273)</u>

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

	Notional principal amounts		Balance sheet exposure Asset (Liability)	
	June 30, 2009	June 30, 2010	Jun 30, 2009	June 30, 2010
Purchased Options				
United States Dollars /INR	-	\$16,000	-	\$469
Range Forward Options				
United States Dollars /INR	-	\$30,000	-	121
Euros / INR	-	€ 5,000	-	45
			<u>-</u>	<u>\$635</u>

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

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

The following tables set forth the fair value of derivative instruments included in the consolidated balance sheets as on June 30, 2010:

Derivatives designated as hedging instruments:

	June 30, 2010
Unrealized loss on financial instruments classified under current liabilities	(\$21,525)
Unrealized loss on financial instruments classified under non current liabilities	-
	<u>(\$21,525)</u>

Derivatives not designated as hedging instruments:

	June 30, 2010
Unrealized loss on financial instruments classified under current liabilities	(\$9,899)
Unrealized gain on financial instruments classified under current assets	786
	<u>(\$9,113)</u>

The following tables summarizes activities in the consolidated statement of income during the year ended June 30, 2010

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	\$42,614	Other Income (Expense),net	(\$102,760)	Other Income (Expense),net	Nil
	<u>\$42,614</u>		<u>(\$102,760)</u>		<u>Nil</u>

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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	\$2,967

The following table summarizes activity in the accumulated other comprehensive loss within stockholders' equity related to all derivatives classified as cash flow hedges during the years ended June 30, 2009 and 2010 :

	2009	2010
Balance as at the beginning of the year	(\$114,006)	(\$161,814)
Unrealized gain (losses) on cash flow hedging derivatives during the year	(123,510)	42,614
Net gains reclassified into net income on occurrence of hedged transactions	51,038	102,760
Net gains/(loss) reclassified into net income as hedged transactions are not likely to occur	13,086	-
Effect of exchange rate fluctuations	11,578	(5,085)
Balance as at the end of the year	(161,814)	(21,525)
Deferred tax	27,620	1,617
	(\$134,194)	(\$19,908)

As at June 30, 2010, the estimated net amount of existing loss that is expected to be reclassified into the income statement from AOCI with in the next twelve months is (\$21,525)

12. OTHER CURRENT ASSETS

As of June 30, 2009 and June 30, 2010, other current assets comprise of the following:

	June 30, 2009	June 30, 2010
Prepaid expenses	\$30,396	\$32,631
Interest receivable	15,730	6,543
Prepaid/advance taxes	8,285	3,393
Deposits	2,504	3,227
Restricted cash	3,093	3,055
Deferred cost	39,094	54,513
Employee receivables	8,210	6,258
Others	36,154	25,165
	\$143,466	\$134,785

13. OTHER ASSETS

As of June 30, 2009 and June 30, 2010, other assets comprise the following:

	June 30, 2009	June 30, 2010
Deposits	\$27,757	\$29,560
Deferred cost	46,608	59,053
Employee receivables	292	284
Others	25,423	20,875
	\$100,080	\$109,772

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14. ALLOWANCES FOR ACCOUNTS RECEIVABLE

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

The movement in allowance for accounts receivable is given below:

	2009	2010
Balance at the beginning of the year	\$11,424	\$33,542
Additional provision on account of acquisition	12,646	-
Additional provision during the year	20,308	(880)
Deductions on account of write offs and collections	(11,997)	(476)
Effect of exchange rates changes	1,161	(3,099)
Balance at the end of the year	\$33,542	\$29,087

15. DEBTS

SHORT TERM LOANS

The Group has availed three unsecured Packing credit in foreign currency loans of \$39,000 \$40,002 and \$2,000 during the year ended June 30, 2010 from banks which are due on July 21, 2010, August 13, 2010 and August 25, 2010, respectively. These loans carry interest rates ranging from 0.89% to 1.14%.

The Company has obtained bank line of credit from its bankers in India amounting to \$195

The Group has repaid a bridge loan of \$500,000 between July 2009 to December 2009 to its bankers availed for the acquisition of Axon at an effective interest rate ranging from 4% to 5%.

LONG TERM DEBT

Term Loans

The Group has availed unsecured long term loans of \$1,290 and \$2,273 as of June 30, 2009 and June 30, 2010, at an effective rate of 7.0%. The Group has availed a term loan of \$300,000 during December 2009 from its banker at an effective interest rate ranging from 4% to 5%. The loan is repayable in 8 equal half yearly installments beginning from May 2011. The loan is secured by pledge of the Group's investment in Axon and a corporate guarantee from the Company. Subsequently, the Group has repriced the loan at an effective interest rate ranging from 3% to 4%. The Group has also repaid \$39,000 by June 30, 2010.

The other long term debts of \$13,673 represents credit received from a vendor at an effective rate of 7.0% for purchases of fixed assets and are secured against hypothecation of such assets.

	June 30, 2009	June 30, 2010
From banks	\$13,430	\$261,000
Other	1,290	15,946
Less : Current portion	(3,835)	(36,660)
	\$10,885	\$240,286

The scheduled principal repayments are as follows:

	June 30, 2010
Within one year	\$36,660
One to two years	69,554
Two to three years	69,550
Three to five years	101,182
	\$276,946

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Secured Redeemable Non Convertible Debentures

The Company allotted 10,000 secured redeemable non convertible debentures of face value of Rs. 1million (\$21,533) each aggregating to \$215,331, carrying a quarterly coupon rate varying from 7.55% to 8.80% per annum. The debentures have a maturity period ranging from two years to five years and are secured against specified movable assets, receivables from subsidiaries and specified land and building of the Company.

The scheduled principal repayments are as follows:

Debenture Series	Maturity Date	June 30, 2010
7.55% Redeemable non convertible debentures	August 25, 2011	\$36,606
8.20% Redeemable non convertible debentures	August 25, 2012	71,059
8.80% Redeemable non convertible debentures	September 10, 2014	107,666
		\$215,331

16. OTHER CURRENT LIABILITIES

As of June 30, 2009 and June 30, 2010, other current liabilities comprise of the following:

	June 30, 2009	June 30, 2010
Advances from customers	\$17,625	\$23,138
Sales tax and other taxes payable	22,140	20,680
Unclaimed dividend	483	507
Accrued liabilities and expenses	138,785	165,295
Warranty obligations / provision	623	1,371
Due to related parties	1,404	1,720
Derivative financial instruments	101,824	31,424
Others	45,192	66,956
	\$328,076	\$311,091

17. OTHER LIABILITIES

As of June 30, 2009 and June 30, 2010, other liabilities comprise of the following:

	June 30, 2009	June 30, 2010
Derivative financial Instruments	\$27,173	\$-
Others	31,454	21,778
	\$58,627	\$21,778

18. EQUITY SHARES

The Company has only one class of capital stock referred to herein as equity shares. Par value of each equity share outstanding as of June 30, 2010 is \$0.04(Rs.2).

Voting

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

Dividends

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

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reserve. Further, Indian law on foreign exchange governs the remittance of dividends outside India. Such dividend payments are also subject to applicable taxes. The Company paid a cash dividend (including dividend tax, if any) of \$156,820, \$147,112 and \$ 67,760 during the years ended June 30, 2008, 2009 and 2010, respectively. The dividend per share was \$0.18, \$0.15 and \$0.09 during the years ended June 30, 2008, 2009 and 2010, respectively.

Liquidation

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

Stock options

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

19. OTHER INCOME/(LOSS)

For the years ended June 30, 2008, 2009 and 2010, other income/ (expenses) consist of:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Interest income	\$14,656	\$28,152	\$21,260
Dividend income from investments	2,525	1,093	5,943
Gain on sale of investment securities and other investments, net	28,185	24,491	886
Foreign exchange losses , net	(53,335)	(99,929)	(101,728)
Equity in earning of affiliates	130	506	937
Miscellaneous income	1,023	1,806	1,849
Other income/(expense), net	<u>(\$6,816)</u>	<u>(\$43,881)</u>	<u>(\$70,853)</u>

20. INCOME TAXES

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

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Current taxes			
Indian taxes	\$34,540	\$36,790	\$40,238
Foreign taxes	23,547	30,163	46,793
	<u>58,087</u>	<u>66,953</u>	<u>87,031</u>
Deferred taxes			
Indian taxes	(21,791)	(7,522)	(33,018)
Foreign taxes	(6,843)	(7,583)	(3,405)
	<u>(28,634)</u>	<u>(15,105)</u>	<u>(36,423)</u>
Total taxes	<u>\$29,453</u>	<u>\$51,848</u>	<u>\$50,608</u>

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

	2008	2009	2010
Income before taxes, equity in earnings of affiliates and noncontrolling interest	\$288,343	\$300,642	\$312,335
Average enacted tax rate in India	33.99%	33.99%	33.22%
Expected tax expense	98,008	102,188	103,750
Non-taxable export income	(75,877)	(73,230)	(79,561)
Non-taxable other income	(8,452)	(11,860)	(1,399)
Income taxed at a lower / higher rate	1,068	14,556	(1,067)
Differences between Indian and Foreign tax rates	(881)	8,653	4,358
Employee stock compensation cost	7,084	4,879	5,621
Increase (decrease) in valuation allowance including losses of subsidiaries	(790)	477	(439)
Provision for deemed branch taxes	8,429	6,202	22,747
Others (net)	864	(17)	(3,402)
Total taxes	\$29,453	\$51,848	\$50,608

Profits from the Group's operations in India attributable to the export operations from units situated in Software Technology Parks ("STP") are exempt from income tax for a period of any ten consecutive years (tax holiday period) beginning from the financial year of the unit commencing operations. The tax holiday on all of the units was scheduled to expire in stages by March 2010. However, the Finance Act, 2009 extended the availability of the tax holiday for one more year such that the tax holiday will now be available until the earlier of March 2011 or ten years after the commencement of a tax holiday for an individual unit. In respect of units situated in Special Economic Zones (SEZs), under the Special Economic Zone Act, 2005, units in designated special economic zones which begin providing services on or after April 1, 2005 will be eligible for a deduction of 100 percent of profits or gains derived from the export of services for the first five years from commencement of provision of services and 50 percent of such profits and gains for a further five years. Certain tax benefits are also available for a further five years subject to the unit meeting defined conditions.

Tax holiday period for certain units has expired during the current year and earlier periods.

Income taxes charged/(credited) to equity for the years ended June 30, 2008, 2009 and 2010 are as follows:

	2008	2009	2010
Income Tax from continuing operations	\$29,453	\$51,848	\$50,608
Stockholder's equity for:-			
Tax benefits received on exercise of employee stock options reflected as part of additional paid in capital	(371)	(103)	(860)
Unrealized holding (losses) gains on available for sale investment securities	(17)	(2,190)	-
Unrealized (loss) /gain on cash flow hedge	(18,306)	(9,659)	26,347
Unrealized actuarial (loss)/ gain	(713)	291	718
Effect of exchange rate fluctuations	2,446	4,707	(4,394)
	\$12,492	\$44,894	\$72,419

Effective April 2007, the Finance Act 2007 has introduced Minimum Alternate Tax (MAT) on the exempt income attributable to export operations of units situated in STPs. Any MAT paid for an year is available for set-off against tax liability for ten subsequent years. The Group foresees that an additional tax burden will arise due to the expiry of tax holiday period by 2011. Accordingly, the Group has recognized deferred tax assets for such tax credit amounting to \$16,154 and \$42,146 in the year ended June 30, 2009 and 2010, respectively.

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

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

	<u>2009</u>	<u>2010</u>
Balance at the beginning of the year	\$39,835	\$72,061
Increase due to tax position taken during the current year	26,472	28,621
Increase (decrease) due to tax position taken during the prior year	7,446	(9,264)
Effect of exchange rate fluctuations	(1,692)	1,578
Balance at the end of the year	<u>\$72,061</u>	<u>\$92,996</u>

The unrecognized tax benefits, if recognized, would effect 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.

Tax expense includes penalties and interest related to income tax. For the year ended June 30, 2008, 2009 and 2010, the Group recognized \$8,964, \$13,078 and \$16,441, respectively, on account of accrued interest and penalties related to uncertain tax positions which are included in income taxes payables.

The Group's two major tax jurisdictions are India and the U.S. In India, tax examination is open for fiscal years from 2006 onwards.

The components of the deferred tax balances as of June 30, 2009 and 2010 are as follows:

	<u>2009</u>	<u>2010</u>
Deferred tax assets:		
Business losses	\$21,665	\$24,614
Allowance for accounts receivable	5,790	7,488
Accrued employee costs	16,228	15,578
Property and equipment	23,897	24,567
Minimum Alternate Tax	16,154	42,146
Employee stock compensation	4,453	5,174
Unrealized loss on derivative financial instruments	27,965	1,618
Other temporary differences	13,796	24,745
	<u>129,948</u>	<u>145,930</u>
Less: valuation allowance	(6,264)	(6,654)
Total deferred tax assets	\$123,684	\$139,276
Deferred tax liabilities:		
Unrealized gains on investment securities	\$-	\$-
Intangibles	35,620	23,291
Others	9,547	9,996
Total deferred tax liabilities	<u>\$45,167</u>	<u>\$33,287</u>
Net deferred tax assets	\$78,517	\$105,989

The components of valuation allowance as of June 30, 2009 and 2010 are as follows:

	<u>2009</u>	<u>2010</u>
Business losses	(\$6,264)	(\$6,654)

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

Business loss carry forwards of certain subsidiaries of the Company for tax purposes amount to approximately \$64,344 and \$ 71,700 as of June 30, 2009 and 2010, respectively, and are available as an offset against future taxable income expiring at various dates through 2021.

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

During the years ended June 30, 2008, 2009 and 2010, the US based subsidiary of the Company received excess tax benefit aggregating to \$371, \$103 and \$860, respectively, upon exercise of employee stock options which was recognized in equity. As of June 30, 2010 the Company recognized a deferred tax assets amounting to \$5,174 on the stock compensation expense expected to be realized on exercise of stock options in future periods.

Undistributed earnings of the subsidiaries aggregated to approximately \$690,548 and \$906,731 as of June 30, 2009 and 2010, respectively. The Company has the intent and the ability to receive dividends and/or to liquidate investments in a tax-free manner, and consequently did not record a deferred tax liability on the undistributed earnings.

The Company has the intent and the ability to liquidate its investments in a tax-free manner, and consequently did not recognize deferred tax on the difference between the tax basis and the financial reporting basis of investments in subsidiaries outside India.

21. EARNINGS PER EQUITY SHARE

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Weighted average number of equity shares outstanding used in computing basic EPS	664,424,330	669,016,035	673,741,835
Dilutive effect of stock options	18,324,266	4,993,007	15,729,419
Weighted average number of equity and equity equivalent shares outstanding used in computing diluted EPS	682,748,596	674,009,042	689,471,254

Options to purchase 943,919, 18,323,030 and 153,977 equity shares during the years ended June 30, 2008, 2009 and 2010, respectively, were not included in the computation of diluted EPS as these options were anti-dilutive.

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22. STOCK BASED COMPENSATION

STOCK OPTION PLANS

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

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

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

Each option granted under the 1999 Plan, the 2000 Plan and the 2004 Plan, entitles the holder to four equity shares of the Company. The equity shares covered by the 1999 Plan, the 2000 Plan and the 2004 Plan stock option plans vest over a maximum period of 110 months, 104 months and 84 months respectively. The options are to be exercised within a maximum period of five years from their date of vesting or expiry of the respective plans whichever is earlier.

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Changes in number of shares representing the outstanding stock options during the years ended June 30, 2010 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	9,599,540	13,893,140	10,181,724	\$3.99	\$3.39	\$0.20						
Granted	-	-	960,000	-	-	\$0.04						
Forfeited	(1,680)	(4,400)	(231,700)	\$3.42	\$2.83	\$0.11						
Expired	(1,151,336)	(795,612)	(109,868)	\$4.84	\$4.25	\$1.59						
Exercised	(2,355,096)	(3,688,408)	(2,483,708)	\$3.93	\$3.34	\$0.20						
Outstanding at the end of the year	6,091,428	9,404,720	8,316,448	\$4.06	\$3.49	\$0.18	2.40	2.92	4.80	\$23,054	\$40,880	\$63,719
Exercisable at the end of the year	6,091,428	9,404,720	2,719,740	\$4.06	\$3.49	\$0.46						
Weighted-average grant date fair value of grants during the year	-	-	\$1,552	-	-	-						
Estimated fair value of option vested during the year	\$751	\$845	\$2,248	-	-	-						
Vested and exercisable as of June 30, 2010	6,091,428	9,404,720	2,719,740	\$4.06	\$3.49	\$0.46	2.40	2.92	3.65	\$23,054	\$40,880	\$20,075
Vested and exercisable as of June 30, 2010 and expected to vest thereafter	6,091,428	9,404,720	8,159,260	\$4.06	\$3.49	\$0.18	2.40	2.92	3.65	\$23,054	\$40,880	\$62,493

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As of June 30, 2009 and 2010, out of the total options exercised, options for 1,800 shares and 53,092 shares, respectively, under the Plan 1999, options for 39,732 shares and 60,496 shares, respectively, under the Plan 2000 and options for 78,576 shares and 120,272 shares, respectively, under the Plan 2004 were pending allotment.

The following table summarizes information about stock options outstanding and exercisable as of June 30, 2009:

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
1999 Plan					
(\$1.25-\$3.91)	6,451,524	3.95	\$3.34	3,856,084	\$3.34
(\$5.14-\$12.76)	3,148,016	0.89	\$5.33	2,839,616	\$5.35
2000 Plan					
(\$1.36-\$2.45)	708,140	2.27	\$2.13	571,640	\$2.14
(\$2.52-\$4.3)	12,335,064	4.11	\$3.27	7,011,504	\$3.26
(\$5.3-\$6.85)	849,936	1.31	\$6.10	847,136	\$6.10
2004 Plan					
(\$0.04-\$0.04)	9,711,852	5.59	\$0.04	1,721,848	\$0.04
(\$3.35-\$3.87)	469,872	4.30	\$3.57	264,592	\$3.59

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The following table summarizes information about stock options outstanding and exercisable as of June 30, 2010:

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
1999 Plan					
(\$1.29-\$4.04)	4,330,988	3.34	\$3.49	4,330,988	\$3.49
(\$5.3-\$13.16)	1,760,440	0.10	\$5.44	1,760,440	\$5.44
2000 Plan					
(\$1.4-\$2.53)	439,520	1.50	\$2.19	439,520	\$2.19
(\$2.6-\$4.43)	8,437,140	3.14	\$3.39	8,437,140	\$3.39
(\$5.47-\$7.06)	528,060	0.59	\$6.29	528,060	\$6.29
2004 Plan					
(\$0.04-\$0.04)	8,006,468	4.85	\$0.04	2,409,760	\$0.04
(\$3.46-\$3.99)	309,980	3.32	\$3.70	309,980	\$3.70

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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, 2010:

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
1999 Plan			
(\$1.29-\$4.04)	4,330,988	3.34	\$3.49
(\$5.3-\$13.16)	1,760,440	0.10	\$5.44
2000 Plan			
(\$1.4-\$2.53)	439,520	1.50	\$2.19
(\$2.6-\$4.43)	8,437,140	3.14	\$3.39
(\$5.47-\$7.06)	528,060	0.59	\$6.29
2004 Plan			
(\$0.04-\$0.04)	7,849,280	4.85	\$0.04
(\$3.46-\$3.99)	309,980	3.32	\$3.70

The aggregate intrinsic value of shares for the 1999 Plan, the 2000 Plan and the 2004 Plan is \$23,045, \$40,877 and \$62,493, respectively. These values represent the total pre-tax intrinsic value calculated as the difference between the Company's closing stock price on the last trading day of the year ended June 30, 2010 and the exercise price.

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

	<u>2010</u>
Dividend yield %	1.38%
Expected term	up to 30 months
Risk free interest rates	7.0%
Volatility	37.76%

As of June 30, 2010, \$7,097 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 0.35 years.

Cash received from option exercises under the stock option plan for the years ended June 30, 2008, June 30, 2009 and June 30, 2010 was \$7,461, \$4,324 and \$22,021, respectively.

The tax benefit on account of compensation cost of stock options exercised in United States of America, Great Britain, Netherlands and Germany aggregated to \$2,233, \$648 and \$1,158 for the years ended June 30, 2008, 2009 and 2010, respectively.

For the year ended June 30, 2008, June 30, 2009 and June 30, 2010, stock-based compensation expense related to the stock option plans was allocated as follows:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Cost of sales	\$9,459	\$6,517	\$5,845
Selling, general and administrative	14,445	9,743	14,099
Stock compensation cost before income tax benefit	23,904	16,260	19,944
Tax benefit	(2,233)	(648)	(1,158)
Stock compensation cost (net)	\$21,671	\$15,612	\$18,786

23. EMPLOYEE BENEFIT PLANS

India operations

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

Defined benefit Plan

Gratuity

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

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The reconciliation of the beginning and ending balance of the projected benefit obligation and the paid value of plan assets for the years ended June 30, 2009 and 2010, and the accumulated benefit obligation at June 30, 2009 and 2010 is as follows:

	2009	2010
Change in benefit obligation		
Obligation at the beginning of the year	\$12,465	\$15,116
Service cost	2,882	3,835
Interest cost	1,191	1,380
Benefits paid	(735)	(1,143)
Actuarial (gain) loss	572	(210)
Foreign currency translation	(1,259)	485
Obligation at the end of the year	\$15,116	\$19,463
Accumulated benefit obligation	\$15,116	\$19,463
Changes in plan assets		
Fair value of plan assets at the beginning of the year	\$-	\$-
Actual return on plan assets	-	-
Employer contributions	72	1,143
Benefits paid	(72)	(1,143)
Foreign currency translation	-	-
Plan assets at the end of the year	\$-	\$-
Funded status	\$-	\$-
Net amount recognized	(15,116)	(19,463)
Amounts recognized in the statement of financial position consist of:		
Accrued benefit cost	(\$15,116)	(\$19,463)
	2009	2010
Net actuarial loss	\$2,183	\$1,656
Net prior service cost	-	-
Net transitional obligation	-	-
Total accumulated other comprehensive income	\$2,183	\$1,656

Net gratuity cost for the years ended June 30, 2008, 2009 and 2010 comprise the following components:

	2008	2009	2010
Service cost	\$2,355	\$2,882	\$3,835
Interest cost	816	1,191	1,380
Expected return on assets	-	-	-
Amortization of unrecognized transition obligation	-	-	-
Amortization of unrecognized actuarial loss	162	567	621
Net gratuity cost	\$3,333	\$4,640	\$5,836

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The weighted average actuarial assumptions used in accounting for the benefit obligations and net gratuity cost under the Gratuity Plan as of June 30, 2008, 2009 and 2010 are given below:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Discount rate	9.10%	7.85%	7.90%
Expected rate of increase in salaries			
-for next year	8.9%	6.0%	6.0%
-thereafter	7.0%	6.0%	6.0%

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.

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

Year ending June 30,	
- 2011	\$3,029
- 2012	3,915
- 2013	4,764
- 2014	5,368
- 2015	6,327
Thereafter	<u>29,002</u>
Total	<u>\$52,405</u>

The expected benefits are based on the same assumptions as are used to measure the Group's benefit obligations as of June 30, 2010.

Superannuation

The superannuation plan is a defined contribution pension plan for senior employees of the Group. The Group contributes to an employees' superannuation fund with an insurance company at 15% of the employee's base compensation. The Group has no further obligations to the superannuation plan beyond its monthly contributions. The contributions made are recorded in the statement of income on an accrual basis. Total contributions made in respect of this plan for years ended June 30, 2008, 2009 and 2010 are \$231, \$460 and \$ 454, respectively.

Provident fund

In accordance with Indian law, all employees receive benefits from a provident fund, which is a defined contribution retirement plan. Under this plan, the employer and employee make monthly contributions to a fund managed by certain employees of the Group ("Trust"). The employees contribute 12% of their base compensation, which is matched by an equal contribution by the employer. The Group contributes two-third of the contribution to the Trust. The remaining portion is contributed to the Government administered pension fund. The rate at which the annual interest is payable to the beneficiaries by the Trust is being administered by the government. The Group has an obligation to fund any shortfall on the yield of the Trust's investments over the administered interest rates.

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

Total contributions made by the Group in respect of this plan for the years ended June 30, 2008, 2009 and 2010 are \$10,884, \$10,290 and \$15,515, respectively.

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Subsidiaries in the US

The Group has a Savings and Investment Plan under Section 401 (k) of the Internal Revenue Code. This is a defined contribution plan where employees above the age of 21 years, having completed one year of service may choose to contribute up to 100% of their compensation. The Group makes a matching contribution for employee contribution till 3%. Till June 30, 2008, the Group also contributed 67 cents to a dollar for contributions between 4% to 6%.

Total contributions made by the Group in respect of this plan for the years ended June 30, 2008, 2009 and 2010 are \$2,557, \$2,824 and \$3,540, respectively.

Subsidiary in Australia

As per local laws of Australia, employers must provide either a minimum level of superannuation for most employees or incur a non-tax deductible superannuation guarantee charge including interest and penalties. The required level of employer superannuation contribution is a percentage of the employee's earnings base. The Group contributes to a fund approved by the Government of Australia. Total contributions made by the Group in respect of this plan for the years ended June 30, 2008, 2009 and 2010 are \$1,279, \$1,923 and \$2,869, respectively.

Subsidiaries in Europe

The Group has pension plans for the employees of its subsidiaries in Europe. The plans operating in Europe provide for contributions of upto 5% of the basic salary by the employer and the employee. Total contributions made by the Group in respect of this plan for the years ended June 30, 2008, 2009 and 2010 are \$1,017, \$2,992 and \$ 5,547, respectively.

Subsidiaries in Asia

As per local laws of Malaysia, Singapore and Japan, employers are required to contribute up to 13% of the basic salary of an employee of the Group. The Group contributed to a fund approved by the Government of the Country. Total contributions made by the Group in respect of these plans for the years ended June 30, 2008, 2009 and 2010 are \$639, \$2,241 and \$4,443, respectively.

24. RELATED PARTY TRANSACTIONS

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

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

The related party transactions are categorized as follows:

Revenues

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

	Year ended June 30,		
	2008	2009	2010
Significant interest entities	\$1,811	\$1,227	\$4,162
Affiliates	4,858	4,120	3,430
Total	\$6,669	\$5,347	\$7,592

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Cost of revenues

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

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

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

	Year ended June 30,		
	2008	2009	2010
Significant interest entities	\$5,935	\$14,000	\$14,659
Affiliates	(352)	902	1,287
Total	\$5,583	\$14,902	\$15,946

Computer equipment, software purchases and others

The Group purchases computer equipment, software and other items from certain significant interest entities. These purchases during the years ended June 30, 2009 and 2010 amounted to \$5,263 and \$5,307, respectively.

Subleasing of facilities

Significant interest entities have subleased a portion of their facilities to the Group. The total amount charged for the year ended June 30, 2008, 2009 and 2010 were \$447, \$384 and \$394, respectively.

Loans to employees

The Group has advanced general purpose and housing loans to its employees at rates of interest ranging from 2% to 16% per annum. The repayment periods for these loans are fixed with the tenure of these loans extending up to six years. Employee loan balances outstanding as of June 30, 2009 and 2010 are \$465 and \$758, respectively.

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

As of June 30, 2009	Significant interest entities	Affiliates	Total
<i>Due from related parties</i>			
Accounts receivable	\$719	\$656	\$1,375
Unbilled receivable	375	-	375
Other receivables -Current	289	-	289
	\$1,383	\$656	\$2,039
<i>Dues to related parties -Current</i>			
Accounts payable	\$313	\$102	\$415
Deferred revenue	300	-	300
Other payables	1,404	-	1,404
	\$2,017	\$102	\$2,119

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As of June 30, 2010	Significant interest entities	Affiliates	Total
<i>Due from related parties</i>			
Accounts receivable	\$1,954	\$448	\$2,402
Unbilled receivable	2,206	-	2,206
Other receivables	159	-	159
	\$4,319	\$448	\$4,767
<i>Dues to related parties</i>			
Accounts payable	\$541	\$245	\$786
Deferred revenue	95	48	143
Other payables	1,720	-	1,720
	\$2,356	\$293	\$2,649

25. COMMITMENTS AND CONTINGENCIES

Capital commitments

As of June 30, 2010, the Group had committed to spend \$65,796 under agreements to purchase property and equipment. This amount is net of capital advances paid in respect of these purchases.

Other commitments

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

Guarantees

The Group generally provides guarantees to the Excise and Custom authorities as security for compliance with local regulation and to various parties on behalf of its subsidiaries. The aggregate amount of these guarantees as of June 30, 2010 is \$4,509.

Letter of Credit

As of June 30, 2010, unused letters of credit is \$10,094.

Other Contingencies

As of June 30, 2010, other contingencies have arisen in the normal course of business. Management believes that the ultimate outcome of these matters will not have a material adverse effect on its financial position, results of operations and cash flows.

26. LEASES

The Group has taken on lease office facilities under non-cancellable operating lease agreements. Future minimum lease payments as of June 30, 2010 for such non-cancelable operating leases are as follows:

Year ending June 30,	
2011	\$45,176
2012	39,257
2013	27,946
2014	20,139
2015	15,746
Thereafter	69,339
Total minimum payments	\$217,603

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

Rental expenses under operating leases are amortized on the straight line method. The expense for the years ended June 30, 2008, 2009 and 2010 amounts to \$45,693, \$46,798 and \$ 48,742, respectively.

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

	Total minimum lease payments receivables as on June 30, 2010	Interest included in minimum lease payments receivables	Present value of minimum lease payments receivables
Not later than one year	\$7,431	\$ 1,028	\$6,403
Later than one year but not later than five years	8,744	1,611	7,133
	\$16,175	\$2,639	\$13,536

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

27. SEGMENT REPORTING

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

Infrastructure management services involve the sale of networking equipment and software, installations and provision of access and maintenance services. Business process outsourcing services involve the provision of customer contact center and technical help desk services.

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

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

	Software services	Infrastructure management services	Business process outsourcing services	Total
Revenue	\$1,355,311	\$283,262	\$222,300	\$1,860,873
Depreciation and amortization	47,845	13,939	12,828	74,612
Segment earnings	\$242,109	\$35,983	\$45,356	\$323,448

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Information on reportable segments for the year ended June 30, 2009 is as follows:

	Software services	Infrastructure management services	Business process outsourcing services	Total
Revenue	\$1,589,199	\$355,942	\$234,399	\$2,179,540
Depreciation and amortization	65,351	15,411	11,483	92,245
Segment earnings	\$302,715	\$55,519	\$24,334	\$382,568

Information on reportable segments for the year ended June 30, 2010 is as follows:

	Software services	Infrastructure management services	Business process outsourcing services	Total
Revenue	\$1,918,973	\$571,702	\$213,908	\$2,704,583
Depreciation and amortization	76,994	20,587	10,007	107,588
Segment earnings	\$364,085	\$85,945	(\$4,511)	\$445,519

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:

	2008	2009	2010
Segment earnings	\$323,448	\$382,568	\$445,519
Stock compensation cost	(23,904)	(16,260)	(19,944)
Foreign exchange gain (loss)	(53,335)	(99,929)	(101,728)
Finance cost	(4,385)	(21,785)	(42,387)
Other income, net	46,519	56,048	30,875
Income before income taxes	\$288,343	\$300,642	\$312,335

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:

	2008	2009	2010
America	\$998,324	\$1,212,747	\$1,591,462
Europe	569,855	616,086	741,759
India	121,881	125,189	116,214
Others	170,813	225,518	255,148
	\$1,860,873	\$2,179,540	\$2,704,583

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During the year ended June 30, 2008, 2009 and 2010, a single customer accounted for approximately 11%, 6.2% and 6.3% and top five customers accounted for 27%, 20.4% and 17.7% of the revenue of the Group respectively.

Long-lived assets located in geographic segments are as follows:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
America	\$9,612	\$16,672	\$26,386
Europe	10,130	17,186	22,490
India	288,173	293,399	343,026
Others	1,538	4,013	6,152
	<u>\$309,453</u>	<u>\$331,270</u>	<u>\$398,054</u>

28. FAIR VALUE MEASUREMENT

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

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

Level 1 —Quoted prices for identical instruments 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 observable in active markets.

Level 3 —Valuations derived from valuation techniques, in which one or more significant inputs are unobservable.

The following table discloses the assets and liabilities measured at fair value on a recurring basis as of June 30, 2009 and the basis for that measurement:

	<u>Fair value</u>	<u>Level 1 inputs</u>	<u>Level 2 inputs</u>	<u>Level 3 inputs</u>
Assets				
Cash and cash equivalents	\$87,741	\$87,741	-	-
Short Term deposits with banks	\$303,949	\$303,949	-	-
Investment securities, held to maturity	\$4,175	\$4,175	-	-
Investment securities, available for sale	\$4,841	\$4,841	-	-
Liabilities				
Derivative Contracts	(\$128,997)	-	(\$128,997)	-

The following table discloses the assets and liabilities measured at fair value on a recurring basis as of June 30, 2010 and the basis for that measurement:

	<u>Fair value</u>	<u>Level 1 inputs</u>	<u>Level 2 inputs</u>	<u>Level 3 inputs</u>
Assets				
Cash and cash equivalents	\$100,901	\$100,901	-	-
Short Term deposits with banks	\$234,995	\$234,995	-	-
Short Term deposits with Corporation	\$21,533	\$21,533	-	-
Investment securities, held to maturity	\$10,767	\$10,767	-	-
Investment securities, available for sale	\$168,574	\$168,574	-	-
Derivative Contracts	\$786	-	\$786	-
Liabilities				
Derivative Contracts	(\$31,424)	-	(\$31,424)	-

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Valuation Methodologies

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

Derivative Financial Instrument: The Group's derivative financial instruments consist of foreign currency forward exchange contracts. Fair values for derivative financial instruments are based on broker quotations and are classified as Level 2. See Note 11 for further details on Derivative Financial Instruments.

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

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis - certain assets are measured at fair value on a nonrecurring basis and therefore are not included in the recurring fair value table above. The assets consist primarily of long term debt, Investment held till maturity and other nonfinancial assets such as goodwill and intangible assets. Goodwill and intangible assets are measured at fair value initially and subsequently when there is an indicator of impairment and the impairment is recognized. No impairment charges of goodwill and intangible assets were recorded for the year ended June 30, 2009 and 2010. See Note 8 of Notes to consolidated financial statements for additional information about goodwill and intangible assets.

29. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The classification of accumulated other comprehensive income (loss) for the years ended June 30, 2010 and 2009 is as follows:

	<u>2009</u>	<u>2010</u>
Unrealized gain on securities available for sale	\$539	\$513
Unrealized gain on forward covers	(134,194)	(19,908)
Unrealized gain on gratuity	(2,183)	(1,656)
Cumulative translation adjustment	(63,836)	(87,712)
Balance at the end of the year	<u>(\$199,674)</u>	<u>(\$108,763)</u>

30. SUBSEQUENT EVENT

On July 29, 2010 the Group announced an interim dividend of Re 1.0 per share amounting to Rs.678.7 million (\$14,616).

The Group has evaluated all the subsequent events through July 29, 2010, 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 impact the consolidated financial statements.