HCL Technologies Limited and Subsidiaries

Consolidated Financial Statements
June 30, 2009 and 2008

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INDEPENDENT AUDITORS' REPORT

To,
The Board of Directors of HCL Technologies Limited

In our opinion, the accompanying Consolidated Balance Sheets and the related Consolidated Statements of Income, of Stockholders' Equity and Comprehensive Income and of Cash Flows present fairly, in all material respects, the financial position of HCL Technologies Limited and its subsidiaries at June 30, 2009 and June 30, 2008, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2009 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Price Waterhouse

Price Waterhouse

Gurgaon, India
August 25, 2009

HCL Technologies Limited and Subsidiaries

Consolidated balance sheets

June 30, 2009 and 2008

(in thousands of dollars except per share data and as stated otherwise)

	As of June 30,	
	2008	2009
ASSETS		
Current assets		
Cash and cash equivalents	$108,154	$87,741
Short term deposit with banks	125,505	303,949
Accounts receivables, net of allowances	364,303	449,746
Unbilled revenue	72,994	113,620
Investment securities, available for sale	335,564	4,841
Due from related parties	2,815	2,039
Inventories	17,668	36,156
Employee receivables	13,958	8,210
Deferred income taxes	13,384	44,049
Other current assets	60,732	134,944
Total current assets	**1,115,077**	**1,185,295**
Employee receivables	304	292
Deferred income taxes	70,027	79,635
Investment securities, held to maturity	2,788	4,175
Investments in affiliates	2,354	3,520
Property and equipment, net	309,453	331,145
Intangible assets, net	8,472	125,043
Goodwill	214,246	821,191
Other assets	47,323	99,788
Total assets	**$1,770,044**	**$2,650,084**

The accompanying notes are an integral part of these consolidated financial statements

HCL Technologies Limited and Subsidiaries
Consolidated balance sheets
June 30, 2009 and 2008
(in thousands of dollars except per share data and as stated otherwise)

	As of June 30,	
	2008	2009
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of capital lease obligations	$2,393	$3,135
Accounts payable	43,607	96,710
Due to related parties	1,446	2,120
Short term loans	4,962	610,642
Accrued employee costs	63,953	106,307
Deferred revenue	45,074	88,453
Deferred income taxes	1,255	10,649
Income taxes payable	31,463	48,097
Other current liabilities	222,318	326,672
Total current liabilities	**416,471**	**1,292,785**
Long term debt	1,390	10,885
Capital lease obligations, excluding current portion	4,040	5,029
Deferred income taxes	3,272	34,518
Other liabilities	131,138	119,829
Total liabilities	**556,311**	**1,463,046**
Commitments and Contingencies (refer note 27)		
Minority interest	**1,313**	**343**
Stockholders' equity		
Equity shares, 750,000,000 and 750,000,000 equity shares authorized		
Issued and outstanding 666,340,272 and 670,256,600 equity shares as of June 30, 2008 and 2009 respectively	33,166	33,336
Additional paid-in capital	548,072	568,589
Share application money pending allotment	397	99
Retained earnings	682,627	784,345
Accumulated other comprehensive (loss) income	(51,842)	(199,674)
Total stockholders' equity	**1,212,420**	**1,186,695**
Total liabilities, minority interest and stockholders' equity	**$1,770,044**	**$2,650,084**

The accompanying notes are an integral part of these consolidated financial statements

HCL Technologies Limited and Subsidiaries
Consolidated statements of income
Years ended June 30, 2009, 2008 and 2007
(in thousands of dollars except per share data and as stated otherwise)

	Year ended June 30,		
	2007	2008	2009
Revenues	**$1,389,577**	**$1,860,873**	**$2,179,540**
Costs, expenses and other income			
Cost of revenues	874,915	1,163,144	1,353,762
Selling, general and administrative expenses	230,265	323,573	367,225
Depreciation and amortization	58,316	74,612	92,245
Income from operations	**226,081**	**299,544**	**366,308**
Other (income) expenses, net	(101,870)	11,331	66,172
Income before income taxes, share of equity in earnings of affiliates and minority interest	**327,951**	**288,213**	**300,136**
Income taxes	32,939	29,453	51,848
Income before share of equity in earnings of affiliates and minority interest	**295,012**	**258,760**	**248,288**
Equity in (losses) earnings of affiliates	(229)	130	506
Minority interest	(1,263)	(647)	36
Net income	**$293,520**	**$258,243**	**$248,830**
Earnings per equity share			
Basic	$0.45	$0.39	$0.37
Diluted	$0.43	$0.38	$0.37
Weighted average number of equity shares used in computing earnings per equity share			
Basic	652,626,782	664,424,330	669,016,035
Diluted	675,290,388	682,748,596	674,009,042

The accompanying notes are an integral part of these consolidated financial statements

HCL Technologies Limited and Subsidiaries
Consolidated statements of stockholders' equity and comprehensive income
Years ended June 30, 2009, 2008 and 2007

(in thousands of dollars except per share data and as stated otherwise)

	Equity shares		Additional paid-in capital	Share application money pending allotment	Retained earnings	Accumulated other comprehensive income	Total
	Shares	Amount					
Balances as of June 30, 2006	**323,442,350**	**$17,402**	**$453,680**	**$290**	**$422,517**	**$(12,788)**	**$881,101**
Issuance of equity shares on exercise of options	14,786,848	677	51,529	(290)			51,916
Stock split effected in the form of stock dividend	325,453,918	14,957	(14,957)				-
Stock based compensation			23,451				23,451
Income tax benefit on exercise of stock options			2,763				2,763
Cash dividend					(134,833)		(134,833)
Comprehensive income							
Net income					293,520		293,520
Other comprehensive income							
— Unrealized gain on available for sale securities, net						9,788	
— Adjustments on adoption of SFAS 158, net of tax						(1,979)	
— Gain on foreign currency translation						105,252	
Total other comprehensive income						113,061	113,061
Balances as of June 30, 2007	**663,683,116**	**$33,036**	**$516,466**	**$-**	**$581,204**	**$100,273**	**$1,230,979**

The accompanying notes are an integral part of these consolidated financial statements

HCL Technologies Limited and Subsidiaries
Consolidated statements of stockholders' equity and comprehensive income
Years ended June 30, 2009, 2008 and 2007
(in thousands of dollars except per share data and as stated otherwise)

	Equity shares		Additional paid-in capital	Share application money pending allotment	Retained earnings	Accumulated other comprehensive income	Total
	Shares	Amount					
Balances as of June 30, 2007	**663,683,116**	**$33,036**	**$516,466**	**$-**	**$581,204**	**$100,273**	**$1,230,979**
Issuance of equity shares on exercise of options	2,657,156	130	7,331				7,461
Share application money pending allotment				397			397
Stock based compensation			23,904				23,904
Income tax benefit on exercise of stock options			371				371
Cash dividend					(156,820)		(156,820)
Comprehensive income							
Net income					258,243		258,243
Other comprehensive income							
— Unrealized loss on available for sale securities, net						(195)	
— Unrealized loss on cash flow hedges, net						(95,700)	
— Actuarial loss, net						(472)	
— Loss on foreign currency translation						(55,748)	
Total other comprehensive income						(152,115)	(152,115)
Balances as of June 30, 2008	**666,340,272**	**$33,166**	**$548,072**	**$397**	**$682,627**	**($51,842)**	**$1,212,420**

The accompanying notes are an integral part of these consolidated financial statements

HCL Technologies Limited and Subsidiaries

Consolidated statements of stockholders' equity and comprehensive income

Years ended June 30, 2009, 2008 and 2007

(in thousands of dollars except per share data and as stated otherwise)

	Equity shares		Additional paid-in capital	Share application money pending allotment	Retained earnings	Accumulated other comprehensive income	Total
	Shares	Amount					
Balances as of June 30, 2008	**666,340,272**	**$33,166**	**$548,072**	**$397**	**$682,627**	**($51,842)**	**$1,212,420**
Issuance of equity shares on exercise of options	3,916,328	170	4,154	(397)			3,927
Share application money pending allotment				99			99
Stock based compensation			16,260				16,260
Income tax benefit on exercise of stock options			103				103
Cash dividend					(147,112)		(147,112)
Comprehensive income							
Net income					248,830		248,830
Other comprehensive income							
— Unrealized loss on available for sale securities, net						(16,719)	
— Unrealized loss on cash flow hedges, net						(38,494)	
— Actuarial gain, net						268	
— Loss on foreign currency translation						(92,887)	
Total other comprehensive income						(147,832)	(147,832)
Balances as of June 30, 2009	**670,256,600**	**$33,336**	**$568,589**	**$99**	**$784,345**	**($199,674)**	**$1,186,695**

The accompanying notes are an integral part of these consolidated financial statements

HCL Technologies Limited and Subsidiaries
Consolidated statements of cash flows
Years ended June 30, 2009, 2008 and 2007
(in thousands of dollars except per share data and as stated otherwise)

	Year ended June 30,		
	2007	2008	2009
Cash flows from operating activities			
Net income	**$293,520**	**$258,243**	**$248,830**
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	58,316	74,612	92,245
Deferred income taxes	(14,949)	(28,634)	(15,105)
(Gain) loss on sale of property and equipment	(98)	481	(118)
Stock based compensation	23,451	23,904	16,260
Excess tax benefits from employee stock based compensation	(2,763)	(371)	(103)
Other non cash charges	5,450	7,785	7,773
Profit on sale of investment securities	(18,029)	(28,185)	(24,491)
Equity in losses (earnings) of affiliates	229	(130)	(506)
Minority interest	1,263	647	(36)
Changes in assets and liabilities, net			
Accounts receivable	(75,940)	(151,817)	(53,481)
Other assets	(76,327)	8,497	(127,724)
Accounts payable	2,161	18,907	41,611
Accrued employee costs	15,950	24,595	22,713
Other liabilities	37,886	141,962	(1,953)
Net cash provided by operating activities	**250,120**	**350,496**	**205,915**
Cash flows from investing activities			
Short term deposit with banks	(55,765)	(52,210)	(191,061)
Purchase of property and equipment	(88,885)	(136,886)	(112,637)
Proceeds from sale of property and equipment	483	1,838	3,455
Purchase of investments	(994,130)	(1,305,906)	(158,508)
Proceeds from sale of investments	1,002,664	1,373,718	461,546
Proceeds from sale of stake in equity affiliates(net of expenses)	144	-	-
Acquisition of Minority interest	-	(3,411)	-
Acquisition of business, net of cash acquired	-	(37,155)	(703,753)
Net cash used in investing activities	**(135,489)**	**(160,012)**	**(700,958)**
Cash flows from financing activities			
Payment of principal under capital lease obligations	(1,948)	(4,656)	(180)
(Repayment of) proceeds from short term borrowings	(306)	(2,387)	603,389
Proceeds from issuance of long term debt	-	1,833	13,585
Repayment of long term debt	(2,560)	(1,775)	(1,822)
Proceeds from issuance of equity shares, net of expenses	52,206	7,461	4,324
Proceeds from subscription of shares pending allotment, net	-	397	99
Dividends paid	(134,833)	(156,820)	(147,112)
Distribution to minority shareholders	-	(2,557)	(934)
Excess tax benefits from employee stock based compensation	2,763	371	103
Net cash (used in)provided by financing activities	**(84,678)**	**(158,133)**	**471,452**
Effect of exchange rate changes on cash and cash equivalents	5,718	(12,246)	3,178
Net increase (decrease) in cash and cash equivalents	35,671	20,105	(20,413)
Cash and cash equivalents at the beginning of the year	52,378	88,049	108,154
Cash and cash equivalents at the end of the year	**$88,049**	**$108,154**	**$87,741**
Supplemental disclosures of noncash activities			
Property and equipment acquired under capital lease obligation	$9,004	$5,830	$4,989
Cash payments for interest	$1,186	$3,309	$12,877
Cash payments for income taxes (net)	$10,591	$52,813	$55,549

The accompanying notes are an integral part of these consolidated financial statements

1. ORGANIZATION AND NATURE OF OPERATIONS

Company Overview

HCL Technologies Limited ("the Company" or "the parent company") and its consolidated subsidiaries and associates, (hereinafter collectively referred to as "the Group") are primarily engaged in providing a range of information technology, business process outsourcing and infrastructure services. The Company was incorporated in India in November 1991 and focuses on technology and R&D outsourcing, working with clients in areas at the core of their business. The 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 & Logistics.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation and principles of consolidation

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

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

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

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

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

The Company has evaluated all subsequent events till August 23, 2009, which is the date on which these financial statements were issued.

(b) Use of estimates

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

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

(c) Functional currency and translation

The consolidated financial statements are reported in US Dollars ("USD"). The functional currency of each entity in the Group is its respective local currency except certain subsidiaries not having any business operation whose functional currency is determined to be same as that of the parent company. The functional currency of the parent company is Indian rupees ("INR"). The translation from functional currency into US Dollars (the reporting currency)for assets and liabilities is done using the exchange rates in effect at the balance sheet date, and for revenue, expenses and cash flows is done using an appropriate monthly weighted average exchange rate for the respective periods. The gains or losses resulting from such translation are reported as a component of other comprehensive income (loss), within stockholders' equity.

Transactions in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the balance sheet date. The resultant exchange gains or losses are included in the consolidated statements of income, except gains or losses arising from the remeasurement of available for sales security which are recorded in OCI, net of taxes, until realised.

(d) Revenue recognition

The Company derives revenues primarily from

- software services;
- business process outsourcing services; and
- infrastructure services

Software Services:

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

Certain revenue contracts involve delivery, often through multiple workforces in different countries. In a number of these arrangements, we hire client employees and become responsible for certain client obligations. In such cases, revenues are recognized as the amounts become billable in accordance with the contract terms.

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 Company 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 income from time-and-material and fixed price contracts. Revenue with respect to time-and-material contracts is recognized as related services are performed. Revenue with respect to fixed price contracts is recognized in accordance with the percentage of completion method.

Revenue from sale of products is recognized when persuasive evidence of an arrangement exists, risk and reward of ownership has been transferred to the customer, the sales price is fixed or determinable and collectibility is reasonably assured. Revenue from product sales are shown net of sales tax and applicable discounts and allowances. Revenue from bandwidth and other services is recognized upon actual usage of such services by customers based on either the time for which these services are provided or volume of data transferred or both and excludes service tax. Revenue from installation services is recognized when installation of networking equipment at customer site is completed and accepted by the customer. Revenue from maintenance services is recognized ratably over the period of the contract.

The Company also provides networking equipment to its customers in the infrastructure management arrangements. Such arrangements are evaluated under EITF 01-08, Determining Whether an Arrangement Contains a Lease, to determine whether they contain embedded leases. Upon the satisfaction of the test under EITF 01-08, guidance in SFAS 13 is applied for determining the classification of the lease. Revenue from sales-type leases is recognized when risk of loss has transferred to the customer and there are no unfulfilled Company 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.

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

Revenue from fixed-price network building contracts is recognized in accordance with SOP No. 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts," under the percentage-of-completion (POC) method. Under the POC method, revenue is recognized based on the efforts/ labor 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

The Company enters into multiple-element revenue arrangements, which may include any combination of services, software, hardware and/or financing. To the extent that a deliverable in a multiple element arrangement is subject to specific guidance, such as, leased hardware which is subject to Statement of financial Accounting Standards (SFAS) No. 13, "Accounting for Leases," or software which is subject to the American Institute of Certified Public Accountants (AICPA) *Statement of Position (SOP) No. 97-2,* or

"Software Revenue Recognition," or networking/ construction type contracts subject to *SOP No. 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts"* on whether and/or how to separate multiple deliverable arrangements into separate units of accounting (separability) and how to allocate the arrangement consideration among those separate units of accounting (allocation), that deliverable is accounted for in accordance with such specific guidance. For all other deliverables in multiple-element arrangements, the guidance below is applied for separability and allocation.

A multiple-element arrangement is separated into more than one unit of accounting if all of the following criteria are met:

- The delivered item(s) has value to the client on a stand-alone basis;
- There is objective and reliable evidence of the fair value of the undelivered item(s); and
- If the arrangement includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Company.

If these criteria are not met, the arrangement is accounted for as one unit of accounting and revenue is recognized on a proportional performance basis, or deferred until the earlier of when such criteria are met or when the last undelivered element is delivered.

If these criteria are met for each element and there is objective and reliable evidence of fair value for all units of accounting in an arrangement, the arrangement consideration is allocated to the separate units of accounting based on each unit's relative fair value. There may be cases, however, in which there is objective and reliable evidence of fair value of the undelivered item(s) but no such evidence for the delivered item(s). In those cases, the residual method is used to allocate the arrangement consideration. Under the residual method, the amount of consideration allocated to the delivered item(s) equals the total arrangement consideration less the aggregate fair value of the undelivered item(s). The revenue policies are then applied to each unit of accounting, as applicable.

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 Company periodically estimates the undiscounted cash flows from the arrangement and compares it with the unamortized costs. If the unamortized costs exceed the undiscounted cash flow, a loss is recognized.

Revenue from services is recognized when persuasive evidence of an arrangement exists, the sale price is fixed or determinable and collectability is reasonably assured.

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

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

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

Cost and earnings in excess of billings are classified as unbilled revenue, while billing in excess of cost and earnings are classified as deferred revenue.

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

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

(e) Inventory

Inventory 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. Inventory held with customer care organization are depreciated over a period of 4 years.

(f) Property and equipment

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

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

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

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

(g) Leases

The Company takes plant, property and equipment on lease. Such agreements are evaluated to determine whether they are capital or operating leases in accordance with Statement of Financial Accounting Standards ("SFAS") No. 13, "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 SFAS No. 13, 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 Company'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 Company also provides networking equipment to its customers in the infrastructure arrangements. Such arrangements are evaluated under EITF 01-08, Determining Whether an Arrangement Contains a Lease, to determine whether they contain embedded leases. Upon the satisfaction of the test under EITF 01-08, guidance in SFAS 13 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 Company 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.

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

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

(i) Start-up-costs

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

(j) Investment securities

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

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

Held-to-maturity securities are carried at amortized cost. 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 amortized cost 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 fair value as a new cost basis and the amount of the write-down is included in earnings (that is, accounted for as a realized loss). The new cost basis is not changed for subsequent recoveries in fair value. Subsequent increases in the fair value of available-for-sale securities are included in other comprehensive income; subsequent decreases in fair value, if not an other-than-temporary impairment, also are included in other comprehensive income.

(k) Other investments

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

(l) Research and development

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

Research and development expenses for the year ended June 30, 2007, June 30, 2008 and June 30, 2009 were $2,763, $5,686 and $11,557 respectively.

(m) Software product development

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

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

The Company considers all highly liquid investments with 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.

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

(o) Income taxes

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

The Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109 (FIN 48) effective July 1, 2007. FIN 48 clarifies the accounting and reporting for uncertainties in income tax by prescribing a minimum recognition threshold for a tax

position taken or expected to be taken in a tax return that is required to be met before being recognized in the financial statements. Upon adoption of FIN 48, the Company continued the policy to include interest and penalties within income taxes.

(p) Earnings per share

In accordance with SFAS No. 128, *Earnings Per Share* (EPS), basic earnings per share are computed using the weighted average number of equity shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of equity and dilutive equity equivalent shares outstanding during the period, using the treasury stock method for options and warrants, except where results would be anti-dilutive.

(q) Stock based compensation

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

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

In conjunction with the adoption of SFAS 123(R), the Company changed its method of attributing the value of stock based compensation to expense from the accelerated multiple options approach to the straight line single option approach. Compensation expense for all stock based compensation awards granted on or prior to June 30, 2005 will continue to be recognized using the accelerated multiple option approach while compensation expense for all stock based compensation awards granted subsequent to June 30, 2005 is recognized using straight line single option method.

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

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

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

(r) Employee benefits

Contributions to defined contribution plans are charged to statements of income in the period in which they accrue. The liability in respect of defined benefit plans is calculated annually by independent actuaries using the projected unit credit method in accordance with SFAS No. 87, *Employers' accounting*

for pensions. Actuarial gains and losses arising from experience, adjustments, change in actuarial assumptions and amendments to defined benefit plans are charged or credited to statements of income over the average remaining service lives of the employees.

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

(s) 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.

(t) Derivative and hedge accounting

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

In accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS No. 133, the Company recognizes all derivatives as assets or liabilities measured at their fair value, regardless of the purpose or intent of holding them. Changes in fair value for derivatives not designated in hedge accounting relationship are marked to market at each reporting date and the related gains/losses are recognized in consolidated statements of income as foreign exchange gain/ (losses).

The foreign exchange forward contracts in respect of forecasted transactions which meet the hedging criteria are designated as cash flow hedges. Changes in the derivative fair values that are designated as effective cash flow hedges under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities are deferred and recorded as component of accumulated other comprehensive income until the hedged transaction occurs and are then recognized in the consolidated statement of Income. Such exchange gains/(losses) were recognised under the same category as of the hedged item till June 30 2008. Effective July 1 2008, these exchange gains/(losses) are recognised under the head "Other Income, Net." Previous period figure have also been reclassified to conform to current presentation. The ineffective portion of hedging derivative is immediately recognized in consolidated statement of income.

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

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

(u) Net investment hedging

Foreign currency differences arising on the translation of a financial liability designated as a hedge of a net investment in foreign operations are recognised directly in equity as a component of foreign currency reserve to the extent the hedge is effective. Changes in fair value relating to the ineffective portion of the hedge are recognized in the profit and loss account as they arise. Hedge accounting is discontinued from the last testing date when the hedging instrument expires or is terminated, or is repaid, or no longer qualifies for hedge accounting. Cumulative gain or loss on such hedging instrument shall be recognised in the profit and loss account upon sale or disposal of related foreign operation.

(v) Business combinations, goodwill and intangibles

In accordance with the requirements of SFAS No. 141, *Business Combinations,* purchase method of accounting is used for all business combinations. Intangible assets acquired in a business combination are recognized separately from goodwill in accordance with SFAS No. 141.

Goodwill and Other Intangible Assets have been accounted for as per SFAS No. 142, Goodwill and Other Intangible Assets. The Company does not amortize goodwill but instead tests goodwill for impairment. Goodwill is tested for impairment using a fair-value approach at the reporting unit level, annually or sooner when circumstances indicate impairment. The Group follows the two-step impairment recognition and measurement guidance in accordance with SFAS 142.

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

Employee workforce, in an asset acquisition	5 years
Customer relationships	1 to 10 years
Existing customer contracts	0.5 to 6 years
Technology	2.5 to 5 years
Non-compete agreements	3 to 5 years
Intellectual property rights	4 years
Others*	2 to 5 years

* Others include brand and contractors database

(w) Recently issued accounting pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 141 (revised 2007), Business Combinations ("SFAS 141R"), which replaced SFAS 141. SFAS 141R retains the fundamental requirements of SFAS 141, but revises certain principles, including the definition of a business combination, the recognition and measurement of assets acquired and liabilities assumed in a business combination, the accounting for goodwill, and financial statement disclosure. This statement applies to the Company prospectively to business combinations for which the acquisition date is on or after July 1, 2009. Early adoption of SFAS 141R is prohibited. The Company will adopt this statement in fiscal year 2010 and its effect on future periods will depend on the nature and significance of any acquisitions that are subject to this statement.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51 ("SFAS 160"). SFAS 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a non-controlling interest (minority interest) as equity in the consolidated financial statements, and separate from the parent's equity. The amount of net income attributable to the non-controlling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent's ownership

interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the non-controlling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its non-controlling interest. Early adoption of SFAS 160 is prohibited. SFAS 160 will be applied prospectively from fiscal year beginning on July 1, 2009. However, the presentation and disclosure requirements would be applied retrospectively for all periods presented in fiscal year 2010. The Company is currently evaluating the impact of the adoption of SFAS No. 160 on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities ("SFAS 161"). SFAS 161 requires disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. It also requires more information about an entity's liquidity by requiring disclosure of derivative features that are credit risk–related. Finally, it requires cross-referencing within footnotes to enable location of important information about derivative instruments. SFAS 161 is effective from fiscal year beginning on July 1, 2009 to the Company. The Company is in the process of evaluating the impact SFAS 161 will have on the disclosures.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140 ("SFAS 166"). SFAS 166 removes the concept of a qualifying special-purpose entity, modifies the financial-components approach used in SFAS 140, establishes the conditions for reporting a transfer of a portion (or portions) of a financial asset as a sale, and requires enhanced disclosures amongst other changes. SFAS 166 is effective from fiscal year beginning on July 1, 2010 to the Company. The Company is currently evaluating the impact of the adoption of SFAS 166 on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) ("SFAS 167"). SFAS 167 eliminates the exemption previously granted to qualifying special-purpose entities from being consolidated. Further it amends Interpretation 46(R) to replace the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity and require additional disclosures about an enterprise's involvement in variable interest entities. SFAS 167 is effective from fiscal year beginning on July 1, 2010 to the Company. The Company is in the process of evaluating the impact, if any, this statement will have on its financial position, results of operations.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement FASB Statement No. 162 ("SFAS 168"). The FASB Accounting Standards Codification (Codification) will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. Following this statement, 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. FASB will not consider Accounting Standards Updates as authoritative in their own right. Accounting Standards Updates will serve only to update the Codification, provide background information about the guidance, and provide the bases for conclusions on the change(s) in the Codification. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009.

In April 2008, the FASB issued FSP SFAS 142-3, "Determination of the Useful Life of Intangible Assets" (FSP 142-3). This guidance is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R

when the underlying arrangement includes renewal or extension of terms that would require substantial costs or result in a material modification to the asset upon renewal or extension. Companies estimating the useful life of a recognized intangible asset must now consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension as adjusted for SFAS 142's entity-specific factors. FSP 142-3 is effective for the Company beginning July 1, 2009. The Company would be required to adopt this FSP prospectively for all assets acquired after July 1, 2009 and early adoption is prohibited. Its effects on future periods will depend on the nature and specific facts of assets acquired subject to SFAS No. 142

In December 2008, the FASB issued FSP SFAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets" (FSP 132(R)-1). This guidance amends SFAS No. 132(R), "Employers' Disclosures about Pensions and Other Postretirement Benefits", to require more detailed disclosures about the fair value measurements of employers' plan assets including (a) investment policies and strategies; (b) major categories of plan assets; (c) information about valuation techniques and inputs to those techniques, including the fair value hierarchy classifications (as defined by SFAS No. 157) of the major categories of plan assets; (d) the effects of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets; and (e) significant concentrations of risk within plan assets. The disclosures required by the FSP is effective for the Company beginning July 1, 2009. This statement does not impact the consolidated financial results as it is disclosure-only in nature.

(x) Reclassifications

Certain reclassifications have been made to conform prior period data to current presentation. The Company during the year changed its choice of hedge accounting release from Revenue line item to Other Income. The impact of the same resulted in decrease in revenue and corresponding increase in other income by $ 17,992 in year 2008.Further, the Company netted off advance taxes with taxes payable for respective years within a particular jurisdiction. The impact of the same is decrease in other current assets & Income taxes payable by $96,724 for the year 2008. The reclassifications had no impact on the reported net income or stockholders' equity.

3. FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents, short tem deposits with banks, trade receivables, investment securities, and derivative instruments. The cash resources of the Company are invested with mutual funds, banks, financial institutions and corporations after an evaluation of the credit risk. By their nature, all such financial instruments involve risk including the credit risk of non-performance by counter parties. In management's opinion, as of June 30, 2008 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 Company are primarily corporations based in the United States and United Kingdom and accordingly, trade receivables are concentrated in the respective countries. To reduce the risk, the Company performs ongoing credit evaluation of customers.

Further, a single customer accounted for 10.9% and 8.3% and top five customers accounted for 21% and 18.7% of the receivable balance of the Company as of June 30, 2008 and 2009 respectively.

4. CASH AND CASH EQUIVALENTS

The cash and cash equivalents as of June 30, 2008 and 2009 are as follows:

	2008	2009
Deposits with banks	$18,926	$6,755
Other cash and bank balances	89,228	80,986
	$108,154	**$87,741**

5. SHORT TERM DEPOSITS

The Company has short term deposits with banks amounting to $125,505 and $303,949 as of June 30, 2008 and 2009. As on June 30, 2008 and 2009 short term deposits of $ Nil and $122,538, have been pledged with banks as security of short term loan and $ 495 and $ 2,617 for guarantees and letter of credit.

6. PROPERTY AND EQUIPMENT

As of June 30, 2008 and 2009, property and equipment comprises the following:

	2008	2009
Freehold Land	$18,638	$17,795
Lease hold Land	25,976	23,338
Buildings	45,144	71,160
Computer and networking equipment	147,765	174,957
Plant and Equipment	96,670	105,708
Software	71,638	85,425
Office furniture and equipment	87,831	93,456
Vehicles	12,812	12,761
Capital work-in-progress	99,575	101,673
	606,049	**686,273**
Accumulated depreciation and amortization	(296,596)	(355,128)
Property and equipment, net	**$309,453**	**$331,145**

Depreciation expense was $49,809, $62,318 and $60,170 for the years ended June 30, 2007, 2008 and 2009 respectively. Accumulated depreciation and amortization includes accumulated amortization for software of $35,794, $47,133 and $54,451 as of June 30, 2007, 2008 and 2009 respectively. Amortization expense for software for the years ended June 30, 2007, 2008 and 2009 was $7,678, $11,259 and $12,863 respectively.

Computer and networking equipment as of June 30, 2007, 2008 and 2009 includes certain equipment given on operating lease costing $396, $345 and $310 respectively. The accumulated depreciation on these equipment as of June 30, 2007, 2008 and 2009 amounts to $271, $316 and $305 respectively.
As of June 30, 2008 and 2009 property and equipment includes assets, held under capital leases, which comprise:

	2008	2009
Computer and networking equipment	$232	$2
Vehicles	11,305	11,460
Office furniture and equipment	39	15
	11,576	**11,477**
Accumulated depreciation	(4,054)	(4,393)
	$7,522	**$7,084**

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

During the year ended June 30 2008, the Company has purchased the said land and building at a value of $5,291 which has resulted in an adjustment to the values of land and building capitalized earlier on the basis of fair values.

During the year ended June 30, 2009, the Company has taken a long tem loan of $13,430 from Cisco against hypothecation of assets of $13,655.

7. LEASES

The Company has taken computer equipment, vehicles and office furniture and equipment on capital leases. Future minimum lease payments under capital leases as of June 30, 2009 are as follows:

Year ending June 30,	
2010	$4,184
2011	2,997
2012	1,958
2013	1,034
Total minimum payments	**10,173**
Less: Amount representing future interest	2,009
Present value of minimum payments	**8,164**
Less: Current portion	3,135
Long term capital lease obligation	**$5,029**

The Company has taken on lease office facilities under non-cancellable operating lease agreements. Future minimum lease payments as of June 30, 2009 for such non-cancelable operating leases are as follows:

Year ending June 30,	
2010	$40,688
2011	32,889
2012	28,219
2013	22,683
2014	16,652
Thereafter	74,185
Total minimum payments	**$215,316**

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

Rental expenses under operating leases are amortized on the straight line method. The expense for the year ended June 30, 2007, 2008 and 2009 amounts to $28,080, $45,693 and $46,798 respectively.

The Company 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, 2009	Interest included in minimum lease payments receivables	Present value of minimum lease payments receivables
Not later than one year	$7,425	$1,492	$5,933
Later than one year but not later than five years	22,327	2,357	19,970
	$29,752	**$3,849**	**$25,903**

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

The Company has given networking equipment to its customers on non-cancellable operating lease for a maximum period of three years. The lease rental income recognized in the profit and loss account for the year ended June 30, 2007, 2008 and 2009 are $266, $119 and $Nil respectively.

8. GOODWILL

The following table presents the changes in goodwill during the year ended June 30, 2008 and 2009:

	2008	**2009**
Opening Balance	$189,857	$214,246
Goodwill relating to business combinations consummated during the year	32,481	623,284
Effect of exchange rate changes	(8,092)	(16,339)
Closing Balance	**$214,246**	**$821,191**

Goodwill has been allocated to the following operating segments:

	2008	**2009**
Software services	$203,650	$792,811
Infrastructure services	1,409	1,266
Business process outsourcing services	9,187	27,114
	$214,246	**$821,191**

9. INTANGIBLE ASSETS

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

	June 30, 2008			**June 30, 2009**		
	Gross carrying amount*	**Accumulated amortization***	**Net**	**Gross carrying amount***	**Accumulated amortization***	**Net**
Intellectual property rights	$350	($350)	$-	$350	($350)	$-
Technology	4,133	(310)	3,823	14,028	(3,072)	10,956
Employee workforce	235	(235)	-	235	(235)	-
Customer related intangibles	18,673	(14,061)	4,612	142,812	(31,758)	111,054

Non-compete agreements	169	(132)	37	1,648	(400)	1,248
Others	-	-	-	3,285	(1,500)	1,785
	$23,560	**($15,088)**	**$8,472**	**$162,358**	**($37,315)**	**$125,043**

* includes effect of exchange rate changes

Amortization expense for other intangible assets for the year ended June 30, 2007, 2008 and 2009 is $3,487, $4,174 and $21,943 respectively. Amortization expense is included in depreciation and amortization other than $2,658 , $3,139 and $2,731 which is reported as a reduction of revenue during the year ended June 30, 2007, 2008 and 2009 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, 2009 the Company has unamortized Customer related intangibles of $698 which will be amortized in future periods and reported as a reduction from revenue. The estimated amortization schedule for the intangible assets on a straight-line basis is set out below:

Year ending June 30,	
2010	$26,649
2011	15,547
2012	12,803
2013	11,858
2014	10,918
Thereafter	47,268
	$125,043

10. BUSINESS COMBINATIONS

Acquisitions in fiscal 2009

HCL Insurance BPO Services Limited

On September 1, 2008, the Company acquired 100% interest in 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 acquisition would help the Group in providing value based back office services to its customers in insurance vertical.

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

	Amount
Net tangible assets (liabilities)	$(10,957)
Restructuring costs	(4,234)
Chesnara Compensation	7,057
Intangibles	6,721
Goodwill	5,022
Total purchase consideration	**$3,609**

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

HCL Expense Management Services Inc.

On September 15, 2008, the Company, through its wholly owned subsidiary HCL Bermuda Limited acquired HCL Expense Management Services Inc.("EMS") (previously known as Control Point Solutions Inc, "CPS"), for a cash consideration of $ 22,473, including direct transaction cost of $ 886. HCL Expense Management Services Inc provides Telecom Expense Management services to enterprise and carrier clients in US.

The transaction was accounted for by following the purchase method and resulted in intangibles and goodwill aggregating to $ 3,000 and $ 14,786 respectively.

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

	Amount	Life(Years)
Customer relationship	$390	5.8
Customer contract	560	5.8
Technology	2,050	2.5 to 5.0
Total Intangibles	**$3,000**	

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

	Amount
Net assets/ (liabilities)	$4,687
Customer relationship	390
Customer contract	560
Technology	2,050
Goodwill	14,786
Total purchase consideration	**$22,473**

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

Axon Group Limited

On December 15, 2008, the Company 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 would strengthen the Group's position as a significant player in SAP implementation and consultancy services.

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).

Direct transaction costs include investment banking, legal and other external costs directly related to the acquisition.

The purchase price allocations as of the date of the acquisition in the table below reflects various preliminary estimates, including preliminary work performed by third party valuation specialists and are subject to change during the purchase price allocation period (generally one year from the acquisition date) as valuations are finalized.

	Amount
Net tangible assets/(liabilities)	($1,311)
Deferred tax liability, net	(22,759)
Intangibles assets	122,206
Goodwill	589,361
Total purchase consideration	**$687,497**

Of the total purchase price, $122,206 has been allocated to amortizable intangible assets acquired. These intangible assets are being amortized on a straight line basis over their estimated useful life as follows:-

	Amount	Life (years)
Customer relationship	$96,070	10
Order Backlog	17,451	1
Brand	4,439	2
Software and development cost	3,399	3
Others	847	3 to 9
Total intangibles	**$122,206**	

The goodwill has been allocated to Software services segment.

HCL has evaluated and continues to evaluate certain pre-acquisition contingencies relating to Axon that existed as of the acquisition date. Additional information, which existed as of the acquisition date but was at that time unknown to HCL, may become known to HCL during reminder of the purchase price allocation period, and may result in goodwill adjustments. If these pre-acquisition contingencies become probable in nature an estimable after the end of the purchase price allocation period amounts would be recorded for such matters in HCL's results of operations.

Unaudited pro forma financial information

The following table provides pro forma results of operations for the year ended June 30, 2008 and 2009 as if IBS, EMS and Axon had been acquired as of the beginning of each of the fiscal years presented. The proforma results exclude effect of certain material non recurring charge of $23,527 incurred solely in connection with acquisition transaction (stock compensation charge on immediate vesting and exercise of stock options). The proforma amounts are not necessarily indicative of the results that would have been achieved if the acquisition had occurred on dates indicated or that may result in the future.

	2008	2009
Revenue	$2,425,439	$2,409,434
Net income	$297,043	$244,439
Basic Net Income per share	0.45	0.37
Diluted net income per share	0.44	0.36

For the acquisitions consummated during the year, the purchase consideration has been allocated on a preliminary basis based on management's estimates. The Company is in the process of making a final determination of the carrying value of assets and liabilities, which may result in changes in the carrying value of net assets recorded. Finalization of the purchase price allocation may result in certain adjustments to the above allocation.

Restructuring Charges

Fiscal 2009 Restructuring Plan

In connection with HCL's acquisition of Axon on December 15, 2008, HCL's management initiated and approved a restructuring plan to align the two businesses and bring in operational synergies in workforce

and other overhead areas. In this respect, a liability of approximately $14,341 has been recorded as allocation to the purchase consideration. The liability mainly consists of severance costs, costs to vacate duplicate facilities and costs associated with early termination of certain contractual obligations.

The Management has begun the process of implementing the plan and will continue to implement the plan in next financial year.

All restructuring costs associated with pre-acquisition Axon are reflected in the goodwill of Axon in accordance with EITF 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination." These costs are subject to change based on the actual costs incurred. Changes to these estimates could increase or decrease the amount of the goodwill.

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

Capital Stream Inc.

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

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

The acquisition will enhance the Group's ability to provide end-to-end solutions through product and multi-service delivery capability to commercial and retail financial institutions.
The purchase consideration has been allocated to the acquired assets and liabilities as follows:

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

The goodwill has been allocated to software segment.

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

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

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

In the current year, HCL EAI merged with HCL America Inc. w.e.f July01, 2008.

Jones Apparel Group Inc.

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

During December 2007, the Company and Jones have entered into an agreement ("Termination Agreement ") to terminate the joint venture agreement entered in June 2002. As a part of the termination agreement, a subsidiary of the Company has obtained binding commitments for the provision of software services to Jones, with an aggregate contract value of $22,500 upto 2012. The Joint venture entity in Bermuda has been dissolved during current year, while entity in Delaware continues to exist at the year end.

11. INVESTMENTS IN AFFILIATES

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

- *50% interest in Axon Balance LLC and 49% interest in Axon Puerto Rico Inc*

Along with acquisition of 100% equity interest in Axon (refer note 10) the Company has acquired 50% interest in Axon Balance LLC ("ABL") and 49% interest in Axon Puerto Rico Inc. ("APR") held by Axon. The carrying value of investments in Axon Balance LLC and Axon Puerto Rico Inc., on the date of acquisition is $Nil and $840.

The Company accounts for its interest in ABL and APR Inc.by equity method and for the year ended June 30, 2009 the equity in the gain/ (loss) of ABL and APR is $Nil and ($32) respectively. The carrying value of investment as of June 30, 2009 is $Nil and $808 respectively.

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

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

The Company accounts for its interest in NECH by equity method and for the year ended June 30, 2007 and June 30, 2008 and June 30, 2009 the equity in the gain/ (loss) of NECH is ($229), $130 and $538 respectively. The carrying value of investment as of June 30, 2008 and June 30, 2009 is $2,354 and $2,712 respectively.

- *50% interest in HCL Answerthink Inc.*

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

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

ended June 30, 2007.

12. INVESTMENT SECURITIES

Investment securities, available for sale consist of the following:

As of June 30, 2008:

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

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**

Proceeds from the sale of securities, available for sale, during the years ended June 30, 2007, 2008 and 2009 were $1,002,664, $1,373,718 and $461,546 respectively. Dividend income earned from these investments during the years ended June 30, 2007, 2008 and 2009 was $2,078, $2,525 and $1,093 respectively.

The table summarizes the transactions for available for sale securities:

	2007	2008	2009
Gross realized gains	$18,036	$28,276	$24,496
Gross realized loss	(7)	(91)	(5)
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)	17,214	15,468	471
The amount of gains and (losses) reclassified out of accumulated other comprehensive income into earnings for the period.	9,025	15,680	16,305

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

On December 31, 2004, as per the agreement between Zamba and Technology Solution Company Inc. ("TSC"), Zamba was acquired by TSC and 0.15 equity shares of TSC were allotted for every share of Zamba held by the Company. Accordingly, TSC issued 149,571 equity shares and warrants to purchase 92,250 equity shares of TSC at $4.07 to the Company. The warrants were exercisable at any time till February 21, 2007. During the year ending 30 June 2007, TSC went for reverse stock split and issued 7,478 equity shares and equivalent warrants to purchase 4,613 equity shares. The warrants have expired unexercised. As quoted market prices are available for the common stock of TSC, the common stock is

classified as available-for-sale. The Company has sold 2,000 shares during the year ended June 30,2007, realizing $21 and making a gain /(loss) of ($7).

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

In relation to a settlement agreement with the customer, American Commercial Lines Inc., the Company has received 883 equity shares and an additional 6,907 equity shares due to equity share splits from time to time till June 30, 2007. The Company holds 7,790 equity shares as of June 30, 2008 and June 30, 2009

Investments held-to-maturity as on June 30, 2008 and June 30, 2009 are $2,788 and $4,175. The maturity profile of the investments held-to-maturity as of June 30, 2009 is set out below:

	Carrying value
Less than one year	$-
One to five years	4,175
	$4,175

Interest income earned from these investments during the years ended June 30, 2007, 2008 and 2009 was $840, $222 and $548 respectively.

13. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

	Notional principal amounts		Balance sheet exposure Asset (Liability)	
As of June 30,	2008	2009	2008	2009
Foreign exchange forward and options contracts denominated in:				
United States Dollars	$1,853,620 (Sell)	$773,256 (Sell)	($152,526)	($126,396)
Great Britain Pounds	£41,233 (Sell)	£12,828 (Sell)	(5,809)	(1,848)
Euros	€ 41,659 (Sell)	€ 12,029 (Sell)	(197)	(753)
Australian Dollars	$6,400 (Sell)	-	(659)	-
			($159,191)	**($128,997)**

1. The notional amount is a key element of derivative financial instrument agreements. However, notional amounts do not represent the amount exchanged by counter parties and do not measure the Company's exposure to credit risk as these contracts are settled at their fair values at the maturity date.
2. The balance sheet exposure denotes the fair value of foreign exchange forward and option contracts at the reporting date and is presented in United States Dollars.

In connection with cash flow hedges, the Company has recorded $114,006 and $161,813 of net losses (net of tax $95,700 and $134,194) as a component of accumulated other comprehensive income within stockholders' equity as at June 30, 2008 and 2009 respectively, including $42,087(net of tax $34,903) as

at June 30, 2009 in respect of forward contracts cancelled during the year which will be reclassified into net income on occurrence of hedged transactions.

The following table summarizes activity in the accumulated other comprehensive loss within stockholders' equity related to all derivatives classified as cash flow hedges during the years ended June 30, 2008 and 2009 :

	2008	2009
Balance as at the beginning of the year	$-	($114,006)
Unrealized gain (losses) on cash flow hedging derivatives during the year	(96,014)	(123,510)
Net gains reclassified into net income on occurrence of hedged transactions	17,992	(51,038)
Net gains/(loss) reclassified into net income as hedged transactions are not likely to occur	-	(13,086)
Effect of exchange rate fluctuations	-	(11,578)
Balance as at the end of the year	**(114,006)**	**(161,814)**
Deferred tax	18,306	27,620
	($95,700)	**($134,194)**

As at June 30, 2009 the estimated net amount of existing loss that is expected to be reclassified into earnings within the next twelve months is $127,210.

During the year, the Company has changed its choice of hedge accounting release from Revenue line item to Other Income. Accordingly, the Company has reclassified the previous year hedging release from Revenue line item to Other Income and the hedging gain/(loss) of $17,992 and ($51,038) has been presented under Other Income for the year ended June 30, 2008 and June 30, 2009.

14. NET INVESTMENT HEDGING

The Risk management objective is to hedge the risk of variation in the foreign currency translation arising on the net investment in subsidiaries in United States of America by HCL Bermuda Limited and HCL EAS Limited.

The Company has a natural economic hedge as the variability in cash flows arising from foreign exchange movements on translation is matched by the foreign exchange movement arising from borrowings in the same currency. The foreign currency movements (USD/INR) arising from the net investment in the subsidiaries amounting to $465,000 have been hedged with those of the USD denominated $465,000 loans. Consequently, $7,766 being the foreign exchange gain on effective portion of the hedge have been recognized under cumulative translation reserve.

15. OTHER CURRENT ASSETS

As of June 30, 2008 and 2009, other current assets comprise the following:

	2008	2009
Prepaid expenses	$22,586	$30,396
Interest receivable	5,714	15,730
Prepaid/advance taxes	-	8,285
Deposits	2,259	2,504
Restricted cash	936	3,093
Deferred Cost	20,116	39,094
Finance lease receivables	-	5,933
Others	9,121	29,909
	$60,732	**$134,944**

As of June 30, 2008 and 2009, other assets comprise the following:

	2008	2009
Deposits	$29,372	$27,757
Deferred Cost	14,879	46,608
Finance lease receivables	-	19,970
Others	3,072	5,453
	$47,323	**$99,788**

16. ALLOWANCES FOR ACCOUNTS RECEIVABLE

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

The movement in allowance for accounts receivable is given below:

	2008	2009
Balance at the beginning of the year	$7,425	$11,424
Additional provision on account of acquisition	-	12,646
Additional provision during the year	4,646	20,308
Deductions on account of write offs and collections*	(647)	(10,836)
Balance at the end of the year	**$11,424**	**$33,542**

* includes effect of exchange rate changes

17. SHORT TERM LOANS

The Group has fund based and non-fund based credit facilities from its bankers in India aggregating to $140,814 towards its working capital requirements. These facilities carry interest ranging from 8.85% to 16% per annum. As of June 30, 2008 and 2009, the Group has availed fund-based credit to the extent of $4,519 and $ 49,942 respectively and non-fund based credit to the extent of $29,310 and $ 42,762 respectively. Some of these credit facilities are secured by a charge on certain current and noncurrent assets of the Company and subsidiaries in India.

The Group has obtained a revolving line of credit facility from its bankers in the US subject to an overall ceiling of $ 2,000 towards its working capital requirements. This facility carried interest in the range of 1.75% to 2.50% per annum. As of June 30, 2008 and 2009, the Group has availed credit to the extent of $1,979 and $ Nil respectively. The credit facility is secured by a corporate guarantee furnished by the Company.

The Group has fund based (including revolving line of credit) and non-fund based credit facilities from its bankers in UK subject to an overall ceiling of $ 44,300. These facilities carry interest rate ranging from 2.5% to 3.5% per annum. As of June 30, 2008 and 2009, the Group has availed fund- based credit to the extent of $Nil and $ 5,312 respectively. The credit facility is secured by a corporate guarantee furnished by the Company and contains financial covenants and restrictions on indebtedness.

The Group has availed a bridge loan of $585,000 during December 2008 from its bankers to fund the acquisition of Axon at an effective interest rate ranging from 4% to 5%. The loan is repayable within a maximum period of one year. The loan is secured by pledge of the Group's investment in Axon and a corporate guarantee from the Company. The Company has repaid $85,000 by June 30, 2009.

The Company has borrowed funds from its bankers against pledge of its fixed deposits. As of June 30, 2008 and June 30, 2009 outstanding against the same are $Nil and $20,238 respectively. These borrowings carry interest between 8.5% to 10.9% and are repayable within a maximum period of one year.

During the year ended June 30, 2009 the Company has borrowed funds on commercial paper which caries interest at 4.25% and are repayable within a period of three months. As of June 30, 2009 commercial paper outstanding is $ 31,315.

Non fund based facilities include guarantees and letters of credit.

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18. LONG TERM DEBT

The Group has availed unsecured loans of $1,833 and $1,290 as of June 30, 2008 and June 30, 2009. These are repayable over the period of next five years:

	2008	2009
Secured loan	$-	$13,430
Other Loan	1,833	1,290
Less : Current portion	(443)	(3,835)
	$1,390	**$10,885**

The scheduled principal repayments are as follows:

	2008	2009
Within one year	$443	$3,835
One to two years	389	2,728
Two to three years	422	2,917
Thereafter	579	5,240
	$1,833	**$14,720**

The interest expense on account of these loans is $ 673.

19. OTHER LIABILITIES

As of June 30, 2008 and 2009, other current liabilities comprise the following:

	2008	2009
Advances from customers	$14,232	$17,625
Sales tax and Other taxes payable	18,978	22,140
Unclaimed dividend	446	483
Accrued liabilities and expenses	94,995	138,785
Warranty obligations / provision	339	623
Derivative financial instruments	61,759	101,824
Others*	31,569	45,192
	$222,318	**$326,672**

*Include book overdraft.

The movement in warranty obligation is given below:

	2008	2009
Balance at the beginning of the year	$324	$339
Additional provision on account of acquisition	-	689
Additional provision during the year	215	133
Reduction due to utilizations*	(200)	(538)
Balance at the end of the year	**$339**	**$623**

* includes effect of exchange rate changes

As of June 30, 2008 and 2009, other liabilities comprise the following:

	2008	2009
Accrued Employee Costs	$26,106	$26,285
Derivative financial Instruments	97,432	27,173
Deferred Revenue	4,425	34,917
Others	3,175	31,454
	$131,138	**$119,829**

20. 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, 2009 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 will be 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 reserve. Further, Indian law on foreign exchange governs the remittance of dividends outside India. Such dividend payments are also subject to applicable taxes. The Company declared a cash dividend (including dividend tax, if any) of $134,833, $156,820 and $147,112 during the years ended June 30, 2007, 2008 and 2009 respectively. The dividend per share was $0.18, $0.18 and $0.15 during the years ended June 30, 2007, 2008 and 2009 respectively.

Stock Split (in the form of stock dividend)

On February 12, 2007, the shareholders of the Company approved a one-for-one stock split (in the form of stock dividend) which was effective on March 16, 2007. Consequently during the year ended June 30, 2007, the Company capitalized an amount of $14,957 from its additional paid-in capital to common stock. All references in the financial statements to number of shares, per share amounts, stock option data, and market prices of the Company's equity shares have been retroactively restated to reflect the stock split unless otherwise noted.

Liquidation

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

Stock options

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

During the year, one of the subsidiaries in the Group redeemed the preference shares issued to the Company and created a restricted reserve (not available for distribution other than stock split) as per the Indian laws.

21. OTHER INCOME, NET

For the years ended June 30, 2007, 2008 and 2009 interest and other income comprises the following:

	2007	2008	2009
Interest income	$3,016	$14,656	$28,152
Dividend income from investments	2,078	2,525	1,093
Profit/ (loss) on sale of investment securities and other investments, net	18,029	28,185	24,491
Profit/ (loss) on divestment of stake in affiliates	(12)	-	-
Foreign exchange gains/(losses), net	79,181	(53,335)	(99,929)
Miscellaneous income	1,410	1,023	1,806
Interest and other finance costs	(1,832)	(4,385)	(21,785)
Other income/(expense), net	**$101,870**	**($11,331)**	**($66,172)**

22. INCOME TAXES

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

Income tax expense consists of:

	2007	2008	2009
Current -			
Indian taxes	$19,068	$34,540	$36,790
Foreign taxes	28,820	23,547	30,163
Total	**47,888**	**58,087**	**66,953**
Deferred -			
Indian taxes	(13,411)	(21,791)	(7,522)
Foreign taxes	(1,538)	(6,843)	(7,583)
Total	**(14,949)**	**(28,634)**	**(15,105)**
Total taxes	**$32,939**	**$29,453**	**$51,848**

The tax on the group's income before taxes differs from the theoretical amount that would arise using the Indian statutory income tax rate as follows:

	2007	2008	2009
Income before taxes, equity in earnings of affiliates and minority interest	$327,951	$288,213	$300,136
Average enacted tax rate in India	33.74%	33.99%	33.99%
Expected tax expense	110,659	97,964	102,016
Non-taxable export income	(96,703)	(75,877)	(73,230)
Non-taxable other income	(5,858)	(8,408)	(11,688)
Income taxed at a lower / higher rate	6,793	1,068	14,556
Differences between Indian and Foreign tax rates	(342)	(881)	8,653
Employee stock compensation cost	7,164	7,084	4,879
Increase (decrease) in valuation allowance including losses of subsidiaries	95	(790)	477
Provision for deemed branch taxes	9,002	8,429	6,202
Others (net)	2,129	864	(17)
Total taxes	**$32,939**	**$29,453**	**$51,848**

Profits from the Company'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 units of the Company 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 fiscal year 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, 2007, 2008 and 2009 are as follows:

	2007	2008	2009
Income Tax from Continuing operations	$32,939	$29,453	$51,848
Stockholder's equity for:-			
Tax benefits received on exercise of employee stock options reflected as part of additional paid in capital	(2,763)	(371)	(103)
Unrealized holding (losses) gains on available for sale investment securities	(1,593)	(17)	(2,190)
Unrealized (loss) /gain on cash flow hedge	-	(18,306)	(9,659)
Unrealized actuarial (loss)/ gain	-	(713)	291
Effect of exchange rate fluctuations	360	2,446	4,707
	$28,943	**$12,492**	**$44,894**

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 seven subsequent years. The Company foresees that an additional tax burden will arise due to the expiry of tax holiday period by 2010. Accordingly, the Company has recognized deferred tax assets for such tax credit amounting to $21,177 and $16,154 in the year ended June 30, 2008 and 2009 respectively.

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 Company recognizes income tax liability that it believes will ultimately result from the proceedings.

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

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

	2008	2009
Balance at the beginning of the year	$ 14,507	$39,835
Increase due to tax position taken during the current year	26,118	26,472
Increase due to tax position taken during the prior year	9,848	7,852
Decrease related to prior year tax positions	(9,648)	(406)
Effect of exchange rate fluctuations	(990)	(1,692)
Balance at the end of the year	**$39,835**	**$72,061**

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. As of July 1, 2007 and as of June 30, 2008 and June 30 2009, the Group had recognized $3,624, $8,964 and $13,078 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. Further, U.S. federal returns pertaining to fiscal year 2008 onwards are open to examination in accordance with the statute of limitation prescribed by the relevant authorities.

The components of the deferred tax balances as of June 30, 2008 and 2009 are as follows:

	2008	2009
Deferred tax assets:		
Business losses	$17,683	$21,665
Allowance for accounts receivable	1,914	5,790
Accrued employee costs	12,857	16,228
Property and equipment	15,191	23,897
Minimum Alternate Tax	21,177	16,154
Employee Stock Compensation	1,734	4,453
Unrealized loss on derivative financial instruments	18,306	27,965
Other temporary differences	4,708	$13,796
	93,570	**129,948**
Less: Valuation allowance	(10,159)	(6,264)
Total deferred tax assets	**$83,411**	**$123,684**
Deferred tax liabilities:		
Unrealized gains on investment securities	$2,190	$-
Intangibles	1,510	35,620
Others	827	9,547
Total deferred tax liabilities	**$4,527**	**$45,167**
Net deferred tax assets	**$78,884**	**$78,517**

The components of valuation allowance as of June 30, 2008 and 2009 are as follows:

	2008	2009
Business losses	($10,159)	($6,264)

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

Business loss carry forwards of the Company's subsidiaries for tax purposes amount to approximately $52,075 and $ 64,344 as of June 30, 2008 and 2009 respectively and are available as an offset against future taxable income.

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

During the years ended June 30, 2007, 2008 and 2009, the US based subsidiary of the Company received excess tax benefit aggregating to $2,763, $371 and $103 respectively upon exercise of employee stock options which was recognized in equity. As of June 30, 2009 the Company recognized a deferred tax assets amounting to $4,453 on the stock compensation expense expected to be realized on exercise of stock options in future periods.

Undistributed earnings of the subsidiaries in India aggregated to approximately $87,046 and $107,457 as of June 30, 2008 and 2009 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.

23. EARNINGS PER EQUITY SHARE

The following is the reconciliation of the weighted average number of equity shares used in the computation of basic and diluted EPS for the years ended June 30, 2007, 2008 and 2009:

	2007	2008	2009
Weighted average number of equity shares outstanding used in computing basic EPS	652,626,782	664,424,330	669,016,035
Dilutive effect of stock options and other contingently issuable shares	22,663,606	18,324,266	4,993,007
Weighted average number of equity and equity equivalent shares outstanding used in computing diluted EPS	675,290,388	682,748,596	674,009,042

Options to purchase 3,601,632, 943,919 and 18,323,030 equity shares during the years ended June 30, 2007, 2008 and 2009 respectively were not included in the computation of diluted EPS as these options were anti-dilutive.

24. STOCK BASED COMPENSATION PLANS

STOCK OPTION PLANS

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

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

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

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

Changes in number of shares representing the outstanding stock options during the years ended June 30, 2007, 2008 and 2009 are given below:

1999 Plan	**Shares arising out of option**			**Weighted average exercise price**		
	Year ended June 30,			**Year ended June 30,**		
	2007	**2008**	**2009**	**2007**	**2008**	**2009**
Outstanding at beginning of the year	23,657,444	13,769,156	11,289,720	$3.87	$4.71	$4.50
Granted	-	-	-	-	-	-
Forfeited	(2,079,980)	(982,752)	(317,120)	$4.25	$3.95	$3.43
Expired	(1,549,988)	(761,200)	(943,804)	$4.39	$5.38	$4.99
Exercised	(6,258,320)	(735,484)	(429,256)	$3.66	$3.69	$3.39
Outstanding at the end of the year	13,769,156	11,289,720	9,599,540	$4.71	$4.50	$3.99
Exercisable at the end of the year	3,629,972	4,645,620	6,695,700	$5.85	$5.21	$4.19
Weighted-average grant date fair value of grants during the year	-	-	-	-	-	-
Grant date fair value of options vested during the year	$689	$491	$601	-	-	-

2000 Plan	Shares arising out of option			Weighted average exercise price		
	Year ended June 30,			Year ended June 30,		
	2007	2008	2009	2007	2008	2009
Outstanding at beginning of the year	33,814,104	20,164,528	16,365,764	$3.55	$4.04	$3.76
Granted	-	-	-	-	-	-
Forfeited	(3,592,548)	(1,435,184)	(626,720)	$3.90	$3.57	$3.21
Expired	(1,315,832)	(1,294,480)	(919,040)	$6.03	$4.83	$3.72
Exercised	(8,741,196)	(1,069,100)	(926,864)	$3.69	$3.81	$3.06
Outstanding at the end of the year	20,164,528	16,365,764	13,893,140	$4.04	$3.76	$3.39
Exercisable at the end of the year	3,793,612	4,012,404	8,430,280	$4.82	$4.24	$3.47
Weighted-average grant date fair value of grants during the year	-		-	-	-	-
Grant date fair value of options vested during the year	$1,734	$806	$1,756	-	-	-

2004 Plan	Shares arising out of option			Weighted average exercise price		
	Year ended June 30,			Year ended June 30,		
	2007	2008	2009	2007	2008	2009
Outstanding at beginning of the year	10,677,600	15,011,544	13,302,172	$0.32	$0.23	$0.21
Granted	6,880,800	-	-	$0.05	-	-
Forfeited	(858,880)	(843,120)	(498,080)	$0.39	$0.32	$0.24
Expired	-	(13,680)	(62,160)	-	$3.14	$2.38
Exercised	(1,687,976)	(852,572)	(2,560,208)	$0.38	$0.14	$0.06
Outstanding at the end of the year	15,011,544	13,302,172	10,181,724	$0.23	$0.21	$0.20
Exercisable at the end of the year	4,800	1,204,344	1,986,440	$0.05	$0.35	$0.51
Weighted-average grant date fair value of grants during the year	-			$7.26	-	
Weighted-average grant date fair value of grants during the year, at less than market price	-			$7.26	-	
Grant date fair value of options vested during the year	$2,350	$2,711	$4,015	-	-	

As of June 30, 2008 and 2009, out of the total options exercised, options for 43,356 shares and 1,800 shares respectively under Plan 1999, option for 73,080 shares and 39,732 shares respectively under Plan 2000 and option for 73,800 shares and 78,576 shares respectively under Plan 2004 were pending allotment.

Intrinsic value of options exercised, being the difference between market price at exercise date and exercise price for the year ended June 30, 2007, 2008 and 2009 is $66,009, $10,422 and $11,866 respectively.

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

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

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

	Outstanding			Exercisable	
Range of exercise price	**Number of shares arising out of options**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Number of shares arising out of options**	**Weighted average exercise price**
1999 Plan					
($1.25-$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

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, 2009:

	Option vested or expected to vest		
Range of exercise price	**Number of shares arising out of options**	**Weighted average remaining contractual life**	**Weighted average exercise price**
1999 Plan			
($1.25-$3.91)	6,446,344	3.95	$3.34
($5.14-$12.76)	3,147,400	0.89	$5.33
2000 Plan			
($1.36-$2.45)	704,192	2.27	$2.13
($2.52-$4.3)	12,323,432	4.11	$3.27
($5.3-$6.85)	849,880	1.31	$6.10
2004 Plan			
($0.04-$0.04)	9,253,112	5.59	$0.04
($3.35-$3.87)	469,488	4.30	$3.57

The aggregate intrinsic value of shares for 1999, 2000 and 2004 plans are ($1,081), $6,833 and $35,681respectively. 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, 2009 and the exercise price.

	1999 Plan		2000 Plan		2004 Plan	
	Number of shares	**Weighted average grant date fair value**	**Number of shares**	**Weighted average grant date fair value**	**Number of shares**	**Weighted average grant date fair value**
Non-vested at June 30, 2008	6,644,100	$1.53	12,353,360	$1.14	12,097,828	$5.10
Granted	-	-	-	-	-	-
Vested	(3,423,140)	$1.50	(6,263,780)	$1.02	(3,404,464)	$4.23
Forfeited	(317,120)	$1.36	(626,720)	$1.24	(498,080)	$3.87
Non-vested at June 30, 2009	2,903,840	$1.24	5,462,860	$1.00	8,195,284	$4.77

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

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

No options have been granted in the current year and previous year.

As of June 30, 2009, $19,829 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 0.68 years.

Cash received from option exercises under the stock option plan for the years ended June 30, 2007, June 30, 2008 and June 30, 2009 was $52,206, $7,461 and $4,324 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 $3,066, $743 and $286 for the years ended June 30, 2007, 2008 and 2009 respectively.

In the year ended June 30, 2008 and June 30, 2009 the Company recorded $17,548 and $13,318 of stock-based compensation expense, net of tax, relating to options granted at less than fair market value.

For the year ended June 30, 2008 and June 30, 2009, stock-based compensation expense related to the stock option plans under SFAS 123(R) was allocated as follows:

	2008	2009
Cost of sales	$9,459	$6,517
Selling, general and administrative	14,445	9,743
Stock compensation cost before income tax benefit	**23,904**	**16,260**
Tax benefit	(2,233)	(648)
Stock compensation cost (net)	**$21,671**	**$15,612**

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

25. EMPLOYEE BENEFIT PLANS

India operations

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

Gratuity

In accordance with Indian law, the Company provides for gratuity, a defined benefit retirement plan (the Gratuity Plan) covering all employees 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 Company.

The following table sets forth the funded status of the plan and the amounts recognized in the Company's balance sheet as of June 30, 2008 and 2009. The measurement date used is June 30 of the relevant fiscal year.

	2008	2009
Accumulated benefit obligation	$11,743	$15,116
Change in benefit obligation		
Projected Benefit Obligation (PBO) at the beginning of the year	9,292	12,465
Service cost	2,355	2,882
Interest cost	816	1,191
Benefits paid	(761)	(735)
Actuarial (gain) loss	1,500	572
Effect of exchange rates changes	(737)	(1,259)
PBO at the end of the year	**$12,465**	**$15,116**
Changes in plan assets		
Fair value of plan assets at the beginning of the year	$-	$-
Actual return on plan assets	-	-
Employer contributions	761	72
Adjustments to plan assets	-	-
Benefits paid	(761)	(72)
Effect of exchange rates changes	-	-
Plan assets at the end of the year	**$-**	**$-**
Funded status	$-	$-
Net amount recognized	(12,465)	(15,116)
Amounts recognized in the statement of financial position consist of:		
Accrued benefit cost	**($12,465)**	**($15,116)**

	2008	2009
Amounts recognized in accumulated other comprehensive income (net of tax)		
Net loss	$2,451	$2,183

Net gratuity cost for the years ended June 30, 2007, 2008 and 2009 comprise the following components:

	2007	2008	2009
Service cost	$1,870	$2,355	$2,882
Interest cost	527	816	1,191
Expected return on assets	-	-	-
Amortization of unrecognized transition obligation	-	-	-
Amortization of unrecognized actuarial loss	120	162	567
Net gratuity cost	**$2,517**	**$3,333**	**$4,640**

The weighted average actuarial assumptions used in accounting for the benefit obligations and net gratuity cost under the Gratuity Plan as of June 30, 2007, 2008 and 2009 are given below:

	2007	2008	2009
Discount rate	9.75%	9.10%	7.85%
Expected rate of increase in salaries			
-for next year	7.5%	8.9%	6%
-thereafter	6.0%	7.0%	6%

The Company assesses these assumptions with its projected long-term plans of growth and prevalent industry standards. The mortality rates used are as published by one of the leading life insurance companies in India.

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

Year ending June 30,	
- 2010	$3,031
- 2011	2,987
- 2012	3,668
- 2013	4,273
- 2014	4,823
Thereafter	21,908
Total	**$40,690**

The expected benefits are based on the same assumptions as are used to measure the Company's benefit obligations as of June 30, 2009.

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

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

Superannuation

The superannuation plan is a defined contribution pension plan for senior employees of the Company. The Company contributes to an employees' superannuation fund with an insurance company at 15% of the employee's base compensation The Company has no further obligations to the superannuation plan beyond its monthly contributions The contributions made are recorded in the statement of income on an accrual basis. Total contributions made in respect of this plan for years ended June 30, 2007, 2008 and 2009 are $322, $231 and $460 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 Company ("Trust"). The employees contribute 12% of their base compensation, which is matched by an equal contribution by the employer. The Company contributes two-third of the contribution to the Trust. The remaining portion is contributed to the Government administered pension fund. The rate at which the annual interest is payable to the beneficiaries by the Trust is being administered by the government. The Company has an obligation to fund any shortfall on the yield of the Trust's investments over the administered interest rates.

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

Total contributions made by the Company in respect of this plan for the years ended June 30, 2007, 2008 and 2009 are $9,584, $10,884 and $10,290 respectively.

Subsidiaries in the US

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

Total contributions made to the plan by the Company, for the years ended June 30, 2007, 2008 and 2009 are $1,221, $2,557 and $2,824 respectively.

Subsidiary in Australia

As per local laws of Australia, employers must provide either a minimum level of superannuation for most employees or incur a non-tax deductible superannuation guarantee charge including interest and penalties. The required level of employer superannuation contribution is a percentage of the employee's earnings base. The Company contributes to a fund approved by the Government of Australia. Total contributions made to the plan by the Company, for the years ended June 30, 2007, 2008 and 2009 are $774, $1,279 and $1,923 respectively.

Subsidiaries in Europe

The Company has pension plans for the employees of its subsidiaries in Europe. The plans operating in Europe provide for contributions upto 5% of the basic salary by the employer and the employee. Total contributions made to the plan by the Company for the years ended June 30, 2007, 2008 and 2009 are $2,152, $1,017 and $2,992 respectively.

Subsidiaries in Asia.

As per local laws of Malaysia, Singapore and Japan, employers are required to contribute up to 13% of the basic salary of the employee of the Company. The Company contributed to a fund approved by the Government of the Country. Total contributions made to the plan by the Company, for the years ended June 30, 2007, 2008 and 2009 are $326, $639 and $2,241 respectively.

Compensated absences:

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

26. RELATED PARTY TRANSACTIONS

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

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

The related party transactions are categorized as follows:

Revenues

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

	Year ended June 30,		
	2007	2008	2009
Significant interest entities	$1,555	$1,811	$1,227
Affiliates	2,394	4,858	4,120
Total	**$3,949**	**$6,669**	**$5,347**

Cost of revenues

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

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

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

	Year ended June 30,		
	2007	2008	2009
Significant interest entities	$6,401	$5,935	$14,000
Affiliates	(359)	(352)	902
Total	**$6,042**	**$5,583**	**$14,902**

Computer equipment, software purchases and others

The Company purchases computer equipment, software and other items from certain significant interest entities. These purchases during the years ended June 30, 2007, 2008 and 2009 amount to $13,345, $9,450 and $5,263 respectively.

Subleasing of facilities

Significant interest entities have subleased a portion of their facilities to the Company. The total amount charged for the year ended June 30, 2007, 2008 and 2009 were $337, $447 and $384 respectively.

Loans to employees

The Company has advanced general purpose and housing loans to its employees at rates of interest ranging from 2% to 16% per annum. The repayment periods for these loans are fixed with the tenure of these loans extending up to six years. Employee loan balances outstanding as of June 30, 2007, 2008 and 2009 are $1,915, $2,040 and $465 respectively.

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

As of June 30, 2008	**Significant interest entities**	**Affiliates**	**Total**
Due from related parties			
Accounts receivable	$735	$899	$1,634
Unbilled receivable	628	-	628
Other receivables	553	-	553
	$1,916	**$899**	**$2,815**
Dues to related parties			
Accounts payable	282	-	282

Deferred revenue	203	-	203
Other payables	961	-	961
	$1,446	**$-**	**$1,446**

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

27. COMMITMENTS AND CONTIGENCIES

Capital commitments

As of June 30, 2009, the Company had committed to spend $66,251 under agreements to purchase property and equipment. This amount is net of capital advances paid in respect of these purchases.

Other commitments

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

Guarantees

The Company generally provides guarantees to the Excise and Custom authorities as security for compliance with local regulation and to various parties on behalf of its subsidiaries. The aggregate amount of these guarantees as of June 30, 2009 is $5,832.

Letter of Credit

As of June 30, 2009, unused letters of credit is $6,522.

Other Contingencies

As of June 30, 2009, contingencies relating to income tax, sales tax and others amounts to $6,655.

28. SEGMENT REPORTING

The Company'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 Company 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 Company has been identified as the Chief Operating Decision Maker ("CODM") as defined by SFAS No. 131.The CODM evaluates the Company's performance by business segment, comprising Software services, Infrastructure management services and Business process outsourcing services. Accordingly, the above stated business segments have been identified as operating segments for the purpose of segment reporting under SFAS 131. 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, 2007 is as follows:

	Software services	Infrastructure management services	Business process outsourcing services	Total
Revenue				
External revenue	$1,009,756	$195,720	$184,101	$1,389,577
Total	**1,009,756**	**195,720**	**184,101**	**1,389,577**
Depreciation and amortization	33,932	10,973	13,411	58,316
Earnings before interest and taxes	**194,734**	**22,886**	**31,912**	**249,532**
Capital expenditure during the year	**$68,975**	**$9,906**	**$10,004**	**$88,885**

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				
External revenue	$1,355,311	$283,262	$222,300	$1,860,873
Total	**1,355,311**	**283,262**	**222,300**	**1,860,873**
Depreciation and amortization	47,845	13,939	12,828	74,612
Earnings before interest and taxes	**242,109**	**35,983**	**45,356**	**323,448**
Capital expenditure during the year	**$119,370**	**$12,091**	**$5,425**	**$136,886**

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				
External revenue	$1,589,199	$234,399	$355,942	$2,179,540
Total	**1,589,199**	**234,399**	**355,942**	**2,179,540**
Depreciation and amortization	65,351	11,483	15,411	92,245
Earnings before interest and taxes	**302,715**	**24,334**	**55,519**	**382,568**
Capital expenditure during the year	**$89,703**	**$12,550**	**$10,384**	**$112,637**

The CODM assesses the performance of the operating segments based on a measure of Earnings before interest and taxes ("EBIT"). This measurement basis excludes the effects of stock option charge, cash flow hedge accounting gains/losses, foreign exchange gains/losses and other income.

A reconciliation of EBIT to income before income taxes, equity in earnings of affiliates and minority interest is provided as follows:

	2007	2008	2009
EBIT for operating segments	$249,532	$323,448	$382,568
Stock Option Charge	(23,451)	(23,904)	(16,260)
Foreign exchange gain (loss)	79,181	(53,335)	(99,929)
Other income, net	22,689	42,004	33,757
Income before income taxes, equity in earnings of affiliates and minority interest	**$327,951**	**$288,213**	**$300,136**

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

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

	2007	2008	2009
America	$762,558	$998,324	$1,212,747
Europe	415,532	569,855	616,086
India	96,748	121,881	125,189
Others	114,739	170,813	225,518
	$1,389,577	**$1,860,873**	**$2,179,540**

During the year ended June 30, 2007, 2008 and 2009, a single customer accounted for approximately 10%, 11% and 6.2% and top five customers accounted for 28%, 27% and 20.4% of the revenue of the Company respectively.

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

	2007	2008	2009
America	$7,734	$9,612	$16,672
Europe	9,057	10,130	17,186
India	240,011	288,173	293,274
Others	804	1,538	4,013
	$257,606	**$309,453**	**$331,145**

29. FAIR VALUE MEASUREMENT

The estimated fair values of financial assets and liabilities not measured at fair value on a recurring basis as of June 30, 2008 and 2009 were as follows:

	2008		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Short term deposits with banks	-	-	$303,949	$311,383
Restricted cash	-	-	$3,093	$3,093
Investment securities, held to maturity	-	-	$4,175	$4,286
Short term loans	-	-	$610,642	$610,393
Long term debt	-	-	$10,885	$10,885

The fair value of the Company's current assets and current liabilities, other than those disclosed in the table above, 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. The fair value of the remaining financial instruments disclosed in the table above was estimated based on the current rates offered to the Company for instruments of similar maturities.

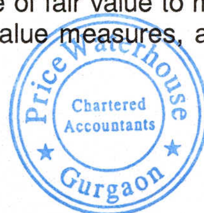
In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ("SFAS 157"). SFAS 157 applies a consistent definition to fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements.

SFAS 157 establishes a fair value measurement hierarchy to price a particular asset or liability. The fair value of the asset or liability is determined based on inputs or assumptions that market participants would use in pricing the asset or liability. These assumptions consist of (1) observable inputs—market data obtained from independent sources, or (2) unobservable inputs—market data determined using the Company's own assumptions about valuation.

SFAS 157 establishes a fair value hierarchy to prioritize the inputs to valuation techniques, with the highest priority being given to Level 1 inputs and the lowest priority to Level 3 inputs, as defined below:

- Level 1 Inputs—quoted prices in active markets for identical assets or liabilities;
- Level 2 Inputs—quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices that are observable; and inputs that are derived from or corroborated by observable market data by correlation; and
- Level 3 Inputs—unobservable inputs used to the extent that observable inputs are not available. These reflect the entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

In addition, SFAS 157 requires disclosures about the use of fair value to measure assets and liabilities to enable the assessment of inputs used to develop fair value measures, and for unobservable inputs, to determine the effects of the measurements on earnings.



Effective July 1, 2008, the Company partially adopted SFAS 157 and have applied its provisions to financial assets and liabilities that are recognized or disclosed at fair value on a recurring basis (at least annually). The Company has not yet adopted SFAS. 157 for nonfinancial assets and liabilities, in accordance with FASB Staff Position 157-2, Effective Date of FASB Statement No. 157 ("FSP 157-2"). FSP 157-2 defers the effective date of SFAS 157 to January 1, 2009, for nonfinancial assets and nonfinancial liabilities. The Company will adopt SFAS 157 in relation to nonfinancial assets and liabilities from July 1, 2009.

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:

	Fair value	Level 1 inputs	Level 2 inputs	Level 3 inputs
Investment securities, available for sale	$4,841	$4,841		
Derivative liabilities	$161,814	$161,814		

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159"). Under SFAS 159, companies may elect to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. SFAS 159 was effective for the Company beginning on July 1, 2008. The Company currently did not elect to measure any financial instrument at fair value.