

NEWS RELEASE**HCL TECHNOLOGIES REGISTERS**
19% QoQ REVENUE GROWTH

- **Organic software revenues rebound –grow 12% sequentially**
- **New Dividend Policy announced - Interim dividend declared at 100%**

For immediate publication**New Delhi, October 31, 2003**

First Quarter Results analysis based on unaudited financial results for the first quarter of FY 2003-04 (US GAAP consolidated)

Executive Summary***Financial Performance Review***

The highlights of financial performance for the **Quarter ended September 30, 2003** are:

- Revenues register 19% QoQ growth to aggregate Rs.5.6 bn
- Organic software revenues grow 12% sequentially to Rs.3.36 bn, reflecting a healthy rebound
- Revenue growth, excluding contribution of acquired business from HCL Infosystems, at 12% QoQ
- EBIDTA up by 28% QoQ; margins up 130bps
- Reversal of declining margins trend due to tight control on Opex compounded with healthy revenue growth
- Other Income for the quarter at Rs. 432.6mn as compared to Rs.564mn last quarter.
- Net income at Rs.946 mn, down 1% sequentially
- New Dividend Policy announced considering payout of quarterly dividends
- Interim dividend declared at 100% (Rs. 2 per share) in line with plan to increase dividend payouts in current fiscal year.

Operational Review for Quarter ended September 30, 2003

- 36 new customers added during the quarter, taking the total to 414. Includes 47 Fortune 500 clients and 83 clients with a run rate in excess of \$ 1 million
- Offshore centric business holds steady - contributes 81% to consolidated revenues.
- Balanced client concentration - Top 5, Top 10 and Top 20 customers growing well with contributions at 31%, 43% and 54% respectively
- Revenues from Europe remain steady at 19%; Asia Pacific contribution grows to 21%
- Portfolio rebalancing exercise continues - end user applications contribute 41% to Q1 revenues
- Employee addition remains strong with 1,962 employees added this quarter, taking total manpower strength to 12,003
- HCL T's BPO operations register healthy 19% sequential growth in revenues; 2 large clients added during the quarter
- Infrastructure Services business continues upward trend, registering an 11% QoQ growth in revenues
- Government practice reflects good sequential growth of 12%, sustaining the turnaround in revenues started last quarter

Highlights for the Quarter ended September 30, 2003

- HCL Tech's **software services business** grew 20% sequentially with EBIDTA increasing by 23%
- **Organic Software business** (excluding contributions from division acquired from HCL Infosystems) recorded an upward trend, driven by a sharp increase in volumes, growing 12% sequentially.
 - Key clients added during the quarter include Akibia Consulting, Adtech, Axcelis amongst others.
 - New projects were bagged from existing clients viz Citi Financial and Mortgage Company (CFMC), KANA and NCR.
- Initiatives towards **rebalancing of services portfolio** continued to yield good results with end-user applications contributing 41% to revenues

- **36 new customers** were added during the quarter. Significant new engagements commenced with a premier provider of voice-empowered mobile solutions; a leading provider of network technology for enterprises, carriers and service providers; a global supplier of integrated circuits; a performance enhancement software development company; Akibia Consulting, Adtech and Axcelis amongst others.

- HCL T continued to undertake cutting edge projects for diverse global customers during Q1. Some of these include:
 - Developing customer specific voice enabled solutions for a premier provider of voice-empowered mobile solutions, using the client's infrastructure for Telecom and end customers.

 - For a global supplier of integrated circuits for the personal and networked computer and communications market, HCL T is providing voice support for integrated circuits in the US and UK regions.

 - An "Offshore Development Partner" relationship has been forged with Akibia Consulting – a well regarded planning, integration, and management services firm. Akibia will handle onsite implementation, whilst the offshore customization & configuration, will be the responsibility of HCL T.

- **The BPO business** witnessed good traction, recording a revenue growth of 19% QoQ, contributing 8.8% to total revenues.
 - New clients added include a performance enhancement software development company, a global supplier of integrated circuits for the personal and networked computer and communications markets, amongst others.

 - Several pilot projects as well as proofs of concept initiated for diverse prospects.

 - 394 employees added during the quarter taking the permanent manpower strength in this segment to 1860.

- The **Infrastructure Services business** recorded a QoQ revenue growth of 11%, contributing 9% to total revenues. Pioneers in the Remote Infrastructure Management space, the company has secured early success in global markets and continues to aggressively invest in market access, IPR creation and service delivery infrastructure.
 - This quarter saw a drop in gross margins due to:
 - Ramp up in sales and marketing expenditure to address global markets
 - Front loaded costs of migrating Infrastructure Management from onsite to offshore. This is charged off as expense at the time expenditure is incurred, rather than amortized across contract period.
 - Investments made in creating unique service products including "My Dashboard" and "Smart Manage", providing HCL Tech a distinct competitive advantage over global competitors.
 - Net addition of 110 people taking total employee strength in this segment to 724.

- **Government business** began to show result of continued efforts and logged 12% sequential revenue growth as well as positive gross margins. Further ramp-ups and tight cost control measures, should lead to improved profitability metrics in forthcoming quarters.

- Several **marketing and technology initiatives** were undertaken during the quarter including:
 - Principal Sponsorship of the SAE India National Conference on Automotive Infotronics at IIT Chennai in August
 - Development and implementation of custom built in-house and proprietary tools for delivery of high quality software, further enhancing the company's sophisticated tool chest. Some of these specialized tools help in efficient portfolio analysis prior to outsourcing, reduce delivery time and add to the robustness of the software under development, leading to a significant enhancement of the overall customer experience.

- In pursuance of HCL T's program to impart and expand the **business domain knowledge** of its engineers, a certification program has been

- initiated. As a consequence, several engineers have already been certified and achieved the Associate designation (ACS – Associate, Customer Service) from the Life Office Management Association (LOMA) and INS Certification from the American Institute of Chartered Property and Casualty Underwriters (AICPCU).
- In the area of **Human Resources**, HCL T witnessed a healthy growth and added 2,299 people (Gross). The net employee addition stood at 1,962 during the quarter, of which 1,478 were added in the software services business. Currently, the headcount of the company (including subsidiaries) stands at 12,003, up from 10,041 last quarter. The current annualized attrition rate is 8.1%.
 - Rs. 477 mn was spent on **capital expenditure** during the quarter and the seat capacity for the organic software business grew to 7,015.

New Dividend Policy Announced

In view of the improving strength of the balance sheet, supported by a better visibility of revenues / cash flow streams, the Board has initiated a practice of considering quarterly dividends, subject to adequacy of profits and compliance with all applicable legal requirements. This is also in line with the growing expectations of investors world-wide for regular distribution of cash dividends.

Commenting on the company’s performance, Mr. Shiv Nadar, Chairman, President and CEO, HCL Technologies, said:

“The surge in HCL T’s organic software numbers coupled with the strong growth trends demonstrated by our other business divisions, is a telling endorsement of our strategy and efforts. During the last several quarters we had undertaken a major derisking and diversification program in line with emerging global trends and I believe, we are now well on the path towards constructing a durable enterprise.”

Key Operational Metrics

ORGANIC SOFTWARE	
REVENUE BREAKUP	(\$'000)
O	52,804
O	20,413
BILLING RATES METRICS	
Efforts billed (manmonths)	
O	11,817
O	2,064
Subcontracted Efforts	216
Capacity Utilisation (%)	
O	74.8
O	93.6
BillRates (\$'000/Manmonth)	
O	4.47
O	9.89
REVENUE BREAK UP (%)	
Location	
O	81
O	19
Service Offerings (%)	
Technology Development Services	25.3
Software Product Engg Services	16.1
Applications Services	40.8
Infrastructure Services	9.0
BPO Services	8.8
Geography (%)	
US	60.0
Europe	19.1
Asia Pacific	20.9
Repeat Business (%)	78
CLIENT CONCENTRATION	
T	414
N	83
N	14
N	47
% Contribution from:	
Top 5 clients	31.0
Top 10 clients	43.1
Top 20 clients	54.1

Manpower Details

	As on June 30,2003	As on Sep 30,2003
TOTAL	10,041	12,003
Software Services		
Total	7,793	9,271
Organic	6,443	6,881
Technical	5,677	6,170
Offshore	5,070	5,461
Onsite	607	709
Support	766	711
Sales and Marketing	107	104
Others	659	607
Offshore	600	553
Onsite	166	158
Non-organic	1,350	2,390
Technical	1,191	2,108
Support	159	282
Organic	614	724
Technical	383	451
Support	231	273
BPO		
Total	1,466	1,860
Organic	1,418	1,678
Non-organic	48	182
Government		
Non-organic	168	148
Technical	124	109
Support	44	39
Annualised Attrition(>1 yr)	8.2%	8.1%

Financials

(First Quarter analysis based on the unaudited US GAAP financial results for Q1 FY 2003-04)

Consolidated Income Statement (as per US GAAP)

in Rs.mn

	Quarterly details			Growth	
	JAS'02	AMJ'03	JAS'03	Δ QoQ	Δ YoY
Gross Revenues	4424.4	4709.8	5607.8	19%	27%
Direct Costs	2582.0	3030.5	3633.6		
Gross Profits	1842.4	1679.3	1974.2	18%	7%
SG & A	827.4	892.4	996.0		
Foreign Exchange Gains/ (Loss)	(13.7)	24.5	60.9		
EBIDTA	1001.3	811.4	1039.1	28%	4%
Depreciation & Amortisation	204.9	233.0	266.4		
EBIT	796.4	578.4	772.7	34%	-3%
Other Income, net	80.8	564.0	432.6		
EBT	877.2	1142.4	1205.3	6%	37%
Provision for Tax	128.5	89.6	160.0		
EAT	748.7	1052.8	1045.2	-1%	40%
Share from equity investments	63.6	60.3	72.5		
Share of (income) / loss of minority shareholders	(49.5)	(144.4)	(162.2)		
Net Income	762.8	968.6	955.6	-1%	25%
Stock based sales incentive (Non Cash)	(2.2)	(11.2)	(9.6)		
Extraordinary Provision	0.0	0.0	0.0		
Net Income (after sales incentive and provisions)	760.6	957.4	946.0	-1%	24%

Key Ratios

	Quarterly details		
	JAS'02	AMJ'03	JAS'03
Gross Margin	42%	36%	35%
Opex/Gross revenue	19%	19%	18%
EBIDTA Margin	23%	17%	19%
Net income/Gross revenue	17%	20%	17%

Note :

The Company has reclassified certain costs for the quarters JAS'02 and AMJ'03 between cost of revenues and selling, general & administrative expenses to conform to the requirements under US GAAP. This reclassification has no impact on the profit numbers as reported.

Consolidated Balance Sheet (as per US GAAP)

in Rs.mn

	AS ON		
	30th SEP'02	30th JUNE'03	30th SEP'03
ASSETS			
a. Cash and cash equivalents	1,663	1,153	1,261
b. Accounts receivable, net	3,975	2,790	3,881
c. Treasury Investments	11,033	14,693	15,730
d. Other current assets	2,060	2,091	2,605
A. Total current assets (a+b+c+d)	18,730	20,726	23,477
B. Property and equipment, net	2,498	2,919	3,123
C. Intangible assets, net	2,177	2,168	2,154
D. Investments in Venture Funds / Equity investees	2,506	2,466	2,630
E. Other Assets	328	486	403
Total assets (A+B+C+D+E)	26,239	28,766	31,787
LIABILITIES AND STOCKHOLDERS' EQUITY			
e. Total current liabilities	3,250	3,641	4,668
f. Long -term debt	-	464	1,376
g. Other liabilities	141	179	176
E. Total liabilities (e+f+g)	3,391	4,285	6,221
F. Minority Interest	379	627	767
G. Total Stockholders equity	22,470	23,855	24,799
Total liabilities and stockholders equity (E+F+G)	26,239	28,766	31,787

Revenue breakup between various business categories in Rs.mn

	Software Services			BPO Services		
	AMJ'03	JAS'03	QoQ	AMJ'03	JAS'03	QoQ
Gross Revenues	3903.3	4699.2	20%	416.7	494.2	19%
Direct Costs	2402.0	2933.8		370.1	419.0	
Gross Profits	1501.3	1765.4	18%	46.6	75.2	62%
SG & A	677.3	789.4		97.4	75.0	
Foreign Exchange Gains/ (Loss)	9.2	51.8		15.0	9.6	
EBIDTA	833.1	1027.9	23%	(35.8)	9.9	
Depreciation & Amortisation	140.7	167.1		53.1	65.0	
EBIT	692.5	860.7	24%	(88.9)	(55.2)	
Interest & Other Income, net	552.7	436.4		2.4	(3.8)	
EBT	1245.2	1297.1	4%	(86.5)	(59.0)	
Provision for Tax	85.1	162.4		1.5	(3.0)	
EAT	1160.1	1134.7	-2%	(88.0)	(56.0)	

Note : JAS'03 software services revenues include Rs309.5 on account of business acquired from HCL Infosystems consolidated for the first time. The corresponding net income for the quarter was Rs6.5mn.

	Infrastructure Services			Govt. Practice		
	AMJ'03	JAS'03	QoQ	AMJ'03	JAS'03	QoQ
Gross Revenues	455.2	504.9	11%	85.5	95.8	12%
Direct Costs	296.6	384.6		112.7	82.5	
Gross Profits	158.7	120.3	-24%	(27.2)	13.3	
SG & A	87.8	104.4		29.9	27.3	
Foreign Exchange Gains/ (Loss)	1.4	(0.1)		(1.1)	(0.4)	
EBIDTA	72.3	15.8		(58.3)	(14.4)	
Depreciation & Amortisation	26.3	28.7		13.0	5.6	
EBIT	46.0	(12.9)		(71.2)	(19.9)	
Interest & Other Income, net	7.2	1.0		1.7	(1.0)	
EBT	53.2	(11.9)		(69.6)	(20.9)	
Provision for Tax	11.6	0.6		(8.6)	0.1	
EAT	41.6	(12.5)		(61.0)	(21.0)	

Inter Co Adjustment	
AMJ'03	JAS'03
(150.9)	(186.2)
(150.9)	(186.2)

Key Ratios

	Software Services		BPO Services		Infrastructure Services	
	AMJ'03	JAS'03	AMJ'03	JAS'03	AMJ'03	JAS'03
Gross Margin	38%	38%	11%	15%	35%	24%
Opex/Gross revenue	17%	17%	23%	15%	19%	21%
EBIDTA Margin	21%	22%	-9%	2%	16%	3%
Net income/Gross revenue	30%	24%	-21%	-11%	9%	-2%

	Govt. Practice	
	AMJ'03	JAS'03
Gross Margin	-32%	14%
Opex/Gross revenue	35%	28%
EBIDTA Margin	-68%	-15%
Net income/Gross revenue	-71%	-22%

\$ Assumptions

The financials are based on the closing US\$ rates for the last day of the quarter:

- US\$1 = Rs.45.87 for JAS'03
- US\$1 = Rs.46.43 for AMJ'03
- US\$1 = Rs.48.47 for JAS'02

About HCL Technologies

HCL Technologies is one of India's leading global IT services and product engineering companies, providing value-added, software-led IT solutions and services to large and medium-scale organisations. Founded in 1991, HCL Technologies focuses on technology as well as R&D outsourcing, with the objective of working with clients in areas at the core of their business. HCL Technologies delivers these services through an extensive offshore software development infrastructure and a vast global marketing network that enables scalable, flexible and cost-effective delivery. The company's well defined business strategy has enabled it to build domain expertise across a host of chosen verticals including among others banking, funds management, insurance, petrochemicals, pharmaceuticals, aerospace, automotives, semi-conductors and retail. As of 30 September 2003, HCL Technologies Limited, along with its subsidiaries, had 12,003 employees. The HCL Technologies team today has operations spanning 26 locations in 14 countries — covering over 80% of the world IT market. Together with its knowledge of embedded systems, core technologies and application development expertise, HCL Technologies is positioned, as a composite solutions provider equipped to cater to the entire gamut of IT needs. For more information, visit HCL Technologies at www.hcltech.com

Forward Looking Statements

Certain statements in this release are forward-looking statements, which involve a number of risks, and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. The risks and uncertainties relating to these statements include, but are not limited to, risks and uncertainties regarding fluctuations in earnings, our ability to manage growth, intense competition in IT services including those factors which may affect our cost advantage, wage increases in India, our ability to attract and retain highly skilled professionals, time and cost overruns on fixed-price, fixed-time frame contracts, client concentration, restrictions on immigration, our ability to manage our international operations, reduced demand for technology in our key focus areas, disruptions in telecommunication networks, our ability to successfully complete and integrate potential acquisitions, liability for damages on our service contracts, the success of the companies/ entities in which we have made strategic investments, withdrawal of governmental fiscal incentives, political instability, legal restrictions on raising capital or acquiring companies outside India, and unauthorized use of our intellectual property and general economic conditions affecting our industry. The company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the company.

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