

# **HCL Technologies Limited and Subsidiaries**

## **Condensed Consolidated Financial Statements**

**For The Three Months Ended June 30, 2016 and 2015**

**With Review Report of Independent Auditors**

# HCL Technologies Limited and Subsidiaries

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## Review Report of Independent Auditors

The Board of Directors  
HCL Technologies Limited

We have reviewed the condensed consolidated financial information of HCL Technologies Limited and subsidiaries, which comprise the condensed consolidated balance sheet as of June 30, 2016, and the related condensed consolidated statements of income, comprehensive income and cash flows for the three-month periods ended June 30, 2015 and 2016.

### Management's Responsibility for the Financial Information

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

### Auditor's Responsibility

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

### Conclusion

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

### Report on Condensed Balance Sheet as of March 31, 2016

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of HCL Technologies Limited and subsidiaries as of March 31, 2016, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the nine months ended March 31, 2016 (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 28, 2016. In our opinion, the accompanying condensed consolidated balance sheet of HCL Technologies Limited and subsidiaries as of March 31, 2016, is consistent, in all material respects, with the consolidated balance sheet from which it has been derived.

*Ernst & Young Associates LLP*

Gurgaon, India  
August 3, 2016

# HCL Technologies Limited and Subsidiaries

## Condensed Consolidated Balance Sheets

Amount in thousands, except share and per share data

	As of	
	March 31,	June 30,
	2016	2016
		(Unaudited)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$110,069	\$183,685
Term deposits with banks	1,298,073	1,277,499
Deposits with corporation	299,615	296,213
Accounts receivable, net	1,165,295	1,266,660
Unbilled revenue	452,971	349,128
Investment securities, available for sale	80,959	112,360
Inventories	39,913	52,593
Other current assets	323,839	316,695
<b>Total current assets</b>	<b>3,770,734</b>	<b>3,854,833</b>
Deferred income taxes	279,964	286,102
Investments in affiliates	24,434	22,533
Other investments	-	1,866
Property and equipment, net	652,407	984,197
Intangible assets, net	60,643	54,878
Goodwill	908,120	886,954
Other assets	305,406	286,803
<b>Total assets (a)</b>	<b>\$6,001,708</b>	<b>\$6,378,166</b>

See accompanying notes.

# HCL Technologies Limited and Subsidiaries

## Condensed Consolidated Balance Sheets

*Amount in thousands, except share and per share data*

	As of	
	March 31, 2016	June 30, 2016 (Unaudited)
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Current portion of capital lease obligations	\$14,955	\$11,950
Accounts payable	137,013	233,988
Short term borrowings	32,359	7,299
Current portion of long term debt	5,950	11,239
Accrued employee costs	241,974	278,194
Deferred revenue	167,961	189,352
Income taxes payable	157,129	188,993
Other current liabilities	715,952	787,567
<b>Total current liabilities</b>	<b>1,473,293</b>	<b>1,708,582</b>
Long term debt	108,566	98,592
Capital lease obligations, net of current portion	2,729	1,065
Deferred income taxes	16,015	19,441
Accrued employee costs	108,483	115,923
Deferred revenue	50,461	46,772
Other liabilities	12,989	85,053
<b>Total liabilities (a)</b>	<b>\$1,772,536</b>	<b>\$2,075,428</b>
<b>Commitments and contingencies (Note 21)</b>		
<b>HCL Technologies Limited Shareholders' Equity</b>		
Equity shares, ₹ 2 par value, authorized 1,500,000,000 shares		
Issued and outstanding 1,410,381,314 and 1,410,756,354 shares as of March 31, 2016 and June 30, 2016, respectively	57,286	57,297
Additional paid-in capital	711,027	711,481
Shares application money pending allotment	7	3
Retained earnings	4,098,241	4,251,608
Accumulated other comprehensive loss	(669,298)	(746,195)
<b>HCL Technologies Limited Shareholders' Equity</b>	<b>4,197,263</b>	<b>4,274,194</b>
Noncontrolling interest	31,909	28,544
<b>Total equity</b>	<b>4,229,172</b>	<b>4,302,738</b>
<b>Total liabilities and equity</b>	<b>\$6,001,708</b>	<b>\$6,378,166</b>

(a) Consolidated assets at March 31, 2016 and June 30, 2016 include assets totaling \$29,317 and \$32,821, respectively, of certain variable interest entities (VIE's) that can only be used to settle the liabilities of those VIEs. Consolidated liabilities at March 31, 2016 and June 30, 2016, include liabilities of certain VIEs for which the VIEs creditors do not have recourse to HCL Technologies Limited and Subsidiaries (See Note 8).

See accompanying notes.

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

	<b>Three months ended</b>	
	<b>June, 30 (Unaudited)</b>	
	<b>2015</b>	<b>2016</b>
<b>Revenues</b>	<b>\$1,537,514</b>	<b>\$1,690,651</b>
Cost of revenues (exclusive of depreciation and amortization)	1,012,676	1,109,662
<b>Gross profit</b>	<b>524,838</b>	<b>580,989</b>
Selling, general and administrative expenses	196,592	205,025
Depreciation and amortization	19,550	28,018
Other (income) expenses, net	(36,785)	(41,950)
Finance cost	3,383	4,202
<b>Income before income taxes</b>	<b>342,098</b>	<b>385,694</b>
Provision for income taxes	63,468	80,942
<b>Net income</b>	<b>278,630</b>	<b>304,752</b>
Net income (loss) attributable to noncontrolling interest	(30)	(489)
<b>Net income attributable to HCL Technologies Limited shareholders</b>	<b>278,660</b>	<b>\$305,241</b>
<b>Earnings per equity share</b>		
Basic	\$0.20	\$0.22
Diluted	\$0.20	\$0.22
<b>Weighted average number of equity shares used in computing earnings per equity share</b>		
Basic	1,405,802,745	1,410,601,422
Diluted	1,412,640,360	1,412,206,169

See accompanying notes.

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

	Three months ended June 30, (Unaudited)	
	2015	2016
<b>Net income attributable to HCL Technologies Limited shareholders</b>	<b>\$278,660</b>	<b>\$305,241</b>
Add : Non controlling interest	(30)	(489)
<b>Other comprehensive income (loss) net of taxes:</b>		
Change in unrealized gain (loss) on cash flow hedges, net of taxes \$602 and (\$1,057) for the three months ended June 30, 2015 and 2016, respectively.	(2,393)	4,520
Change in unrealized loss on securities available for sale, net of taxes (\$237) and (\$92) for the three months ended June 30, 2015 and 2016, respectively.	478	245
Change in unrealized gain (loss) on defined benefit plan, net of taxes (\$321) and (\$713) for the three months ended June 30, 2015 and 2016, respectively.	1,118	(763)
Change in foreign currency translation	(22,229)	(80,899)
<b>Other comprehensive (loss)</b>	<b>(23,026)</b>	<b>(76,897)</b>
Add: Comprehensive loss attributable to non-controlling interest	-	(2,876)
<b>Total comprehensive income</b>	<b>\$255,604</b>	<b>\$224,979</b>

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

	Three months ended June 30, (Unaudited)	
	2015	2016
<b>Cash flows from operating activities</b>		
<b>Net income</b>	<b>\$278,630</b>	<b>\$304,752</b>
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>		
Depreciation and amortization	19,550	28,018
Deferred income taxes	(23,558)	(7,998)
Gain on sale of property and equipment	194	(206)
Stock based compensation expense, net	1,028	-
Gain on divestment of stake in affiliate	2,040	-
Excess tax benefit related to stock options exercise	(2,256)	(477)
Gain on sale of investment securities	(1,142)	(1,599)
Equity in earnings (loss) of affiliates	(525)	903
Others, net	(7,985)	2,609
<b>Changes in assets and liabilities, net of effects of acquisitions</b>		
Accounts receivable and unbilled revenue	45,108	(22,065)
Other assets	58,052	2,311
Accounts payable	20,328	(7,327)
Accrued employee costs	47,169	49,733
Other liabilities	13,901	114,056
<b>Net cash provided by operating activities</b>	<b>450,534</b>	<b>462,710</b>
<b>Cash flows from investing activities</b>		
Investment in term deposit with banks	(642,120)	(601,651)
Proceeds from term deposit with banks on maturity	503,447	598,466
Increase in entrusted loan receivable	(645)	-
Decrease in entrusted loan receivable	-	3,821
Investment in term deposits with corporation	1,272	(2,088)
Proceeds from term deposits with corporation on maturity	523	-
Purchase of property and equipment	(38,700)	(181,800)
Proceeds from sale of property and equipment	284	14,808
Purchase of investment securities	(315,592)	(327,257)
Proceeds from sale of investment securities	228,833	296,107
Purchase of other investment	-	(1,970)
Acquisition of business, net of cash acquired	-	(426)
Proceeds from sale of equity investments	1,600	-
<b>Net cash used in investing activities</b>	<b>(261,098)</b>	<b>(201,990)</b>
<b>Cash flows from financing activities</b>		
Payment of principal under capital lease obligations	(1,126)	(1,070)
Proceeds from short term borrowings	1,046	29,637
Repayment of short term borrowings	(10,066)	(50,652)
Proceeds from entrusted loan	645	-
Repayment of entrusted loan	-	(3,821)
Proceeds from long term debt	12,924	1,680
Repayment of long term debt	(1,313)	(2,256)
Repayment of redeemable secured non – convertible debentures	533	-
Proceeds from issuance of equity shares	(29)	4
Proceeds from subscription of shares pending allotment	30	3
Dividend paid	(106,367)	(151,831)
Excess tax benefit related to stock options exercise	2,256	477
<b>Net cash used in financing activities</b>	<b>(101,467)</b>	<b>(177,829)</b>
Effect of exchange rate changes on cash and cash equivalents	(9,741)	(9,275)
Net increase in cash and cash equivalents	78,228	73,616
Cash and cash equivalents at the beginning of the period	134,114	110,069
<b>Cash and cash equivalents at the end of the period</b>	<b>\$212,342</b>	<b>\$183,685</b>

See accompanying notes.



**HCL Technologies Limited and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2016**  
**(Unaudited)**

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

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**1. ORGANIZATION AND NATURE OF OPERATIONS**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

The accompanying unaudited condensed consolidated financial statements include the accounts of HCL Technologies Limited and its subsidiaries prepared on the basis of U. S. generally accepted accounting principles ("U.S. GAAP") for interim financial reporting to reflect the financial position and results of operations of the Group. Certain information and disclosures normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. Accordingly, these unaudited interim condensed financial statements should be read in conjunction with the Group's historical annual consolidated financial statements and accompanying notes. The unaudited interim condensed consolidated financial statements reflect all adjustments (of a normal and recurring nature) which the management considers necessary for a fair presentation of such statements for these periods. The results for the interim periods presented are not necessarily indicative of the results that may be expected for the full year or for any subsequent period.

The accompanying balance sheet as of March 31, 2016 is derived from audited financial statements but does not include all of the financial information and footnotes required by US GAAP for complete financial statements.

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

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

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

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

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

**HCL Technologies Limited and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2016**  
**(Unaudited)**

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

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*(b) Use of estimates*

The preparation of financial statements in conformity with US GAAP requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs, expenses and other comprehensive income that are reported and disclosed in the consolidated financial statements and accompanying notes. These estimates are based on the management's best knowledge of current events, historical experience, actions that the Group may undertake in the future and on various other assumptions that are believed to be reasonable under the circumstances. Significant estimates and assumptions are used, but not limited to accounting for costs expected to be incurred to complete performance under IT service arrangements, allowance for uncollectible accounts receivables and unbilled revenue, accrual of warranty costs, income taxes, valuation of share-based compensation, future obligations under employee benefit plans and performance incentives, the useful lives of property, equipment and intangible assets, impairment of property, equipment, intangibles and goodwill, estimates used to determine the fair value of assets acquired, including intangible assets and goodwill, and liabilities assumed in business combinations, valuation allowances for deferred tax assets, and other contingencies and commitments. Changes in estimates are reflected in the financial statements in the period in which the changes are made. Actual results could differ from those estimates.

*(c) Functional currency and translation*

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

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

*(d) Revenue recognition*

*Contracts involving provision of services*

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

*Time-and-material contracts*

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

*Fixed Price contracts*

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

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

**HCL Technologies Limited and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2016**  
**(Unaudited)**

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

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Revenue related to other fixed price contracts is recognized in accordance with the proportionate performance method. The input (efforts expended) method is used to measure progress towards completion, as there is a direct relationship between input and productivity. Costs are recorded as incurred over the contract period. . Any revision in cost to complete would result in increase or decrease in revenue and income and such changes are recorded in the period in which they are identified. Provisions for estimated losses, if any, on contracts-in-progress are recorded in the period in which such losses become probable based on the current contract estimates. Contract losses are determined to be the amount by which the estimated total cost to complete exceeds the estimated total revenues that will be generated by the contract and are included in Cost of revenues and classified in Other accrued liabilities.

In arrangements involving sharing of customer revenues, revenue is recognized when the amounts are known and the right to receive is established. Incremental revenue from existing contracts arising on future sales to the customers is recognized when it is earned and collectability is reasonably assured.

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

Revenue from product sales are shown net of sales tax and applicable discounts and allowances. Revenue related to product with installation services that are critical to the product is recognized when installation of product at customer site is completed and accepted by the customer. If the revenue for a delivered item is not recognized for non receipt of acceptance from the customer, the cost of the delivered item is also deferred. Revenue from maintenance services is recognized ratably over the period of the contract.

*Multiple-element arrangements*

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

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

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

Revenue from activities in transition services not having standalone value in outsourcing arrangements is deferred and recognized over the period of the arrangement. Direct and incremental costs in relation to such an arrangement are also deferred to the extent of revenue. Certain upfront nonrecurring incremental

**HCL Technologies Limited and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2016**  
**(Unaudited)**

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

contract acquisition costs incurred in the initial phases of outsourcing contracts are deferred and amortized usually on a straight line basis, over the term of the contract unless revenues are earned and obligations are fulfilled in a different pattern. The undiscounted cash flows from the arrangement are periodically estimated and compared with the unamortized costs. If the unamortized costs exceed the undiscounted cash flow, a loss is recognized.

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

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

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

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

Revenue from sales-type leases is recognized when risk of loss has been transferred to the client and there are no unfulfilled obligations that affect the final acceptance of the arrangement by the client. Revenue from operating leases is accounted on a straight-line basis as service revenue over the rental period. Interest attributable to sales-type leases and direct financing leases included therein is recognized on an accrual basis using the effective interest method.

*(e) Inventories*

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

*(f) Property and equipment*

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

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

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

**HCL Technologies Limited and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2016**  
**(Unaudited)**

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

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useful life of the asset. The cost of software obtained for internal use is capitalized and amortized over the estimated useful life of the software.

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

*(g) Leases*

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

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

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

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

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

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

*(i) Investment securities*

Investment securities consist of available-for-sale debt securities and other investments.

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

Other investments for which sufficient more recent information to measure fair value are not available are measured at cost.

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

*(j) Research and development*

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

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

The Group considers all highly liquid investments with an original maturity of three months or less, at the date of purchase/investment, to be cash equivalents. Restricted cash represents margin money deposits against guarantees, letters of credit and bank balance earmarked towards unclaimed dividend (See Notes 12 and 13 for additional information). Restrictions on margin money deposits are released on the expiry of the term of guarantees and letters of credit.

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

*(l) Income taxes*

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

*(m) Earnings per share*

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

*(n) Stock based compensation*

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

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

*(o) Employee benefits*

Defined contribution plan

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

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Defined benefit plan

Provident fund:

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

Gratuity:

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

Compensated absences:

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

*(p) Dividend*

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

*(q) Derivative and hedge accounting*

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

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

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

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

See Note 10 for additional information.

*(r) Goodwill and intangibles*

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Goodwill is not amortized but is reviewed for impairment annually or more frequently if indicators arise. Goodwill is tested annually on March 31, for impairment, or sooner when circumstances indicate impairment may exist, using a fair-value approach at the reporting unit level. A reporting unit is the operating segment, or a business, which is one level below that operating segment (the "component" level) if discrete financial information is prepared and regularly reviewed by the management at that level. Components are aggregated as a single reporting unit if they have similar economic characteristics. In accordance with ASC topic 350, "Intangibles - Goodwill and Other", all assets and liabilities of the acquired businesses including goodwill are assigned to reporting units. The evaluation is based upon a comparison of the estimated fair value of the reporting unit to which the goodwill has been assigned with the sum of the carrying value of the assets and liabilities for that reporting unit. The fair value used in this evaluation is estimated based upon discounted future cash flow projections for the reporting unit. These cash flow projections are based upon a number of estimates and assumptions.

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

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

*(s) Recently issued accounting pronouncements*

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers", which will replace most existing revenue recognition guidance in U.S. GAAP. The core principle of the ASU is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. The ASU requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and therefore could affect the timing of revenue recognition for certain transactions of the Group. The ASU will be effective for the Group for annual reporting periods beginning after March 31, 2018, including interim periods within that reporting period, using either one of two methods: (i) retrospectively to each prior reporting period presented with the option to elect certain practical expedients as defined in the ASU, or (ii) retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application and providing certain additional disclosures as defined in



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the ASU. Early adoption is permitted for annual reporting periods beginning after March 31, 2017. The Group is currently in the process of evaluating the impact of adopting ASU 2014-09 on its consolidated financial statements, the implementation approach to be used, changes to its accounting system and processes, and additional disclosure requirements that may be necessary.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01 (ASU 2016-01) "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." This guidance makes targeted improvements to existing US GAAP for financial instruments, including requiring equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; requiring entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset and requiring entities to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option. ASU 2016-01 is effective for annual reporting periods, and interim periods within those years beginning after March 31, 2018. Early adoption of the own credit provision is permitted. The Group is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (ASU 2016-02) "Leases (Topic 842)". ASU 2016-02 requires the identification of arrangements that should be accounted for as leases by Lessees. In general, for lease arrangements exceeding a twelve month term, these arrangements must now be recognized as assets and liabilities on the balance sheet of the lessee. Under ASU No. 2016-02, a right-of-use asset and lease obligation will be recorded for all leases, whether operating or financing, while the income statement will reflect lease expense for operating leases and amortization/interest expense for financing leases. The balance sheet amount recorded for existing leases at the date of adoption of ASU No. 2016-02 must be calculated using the applicable incremental borrowing rate at the date of adoption. In addition, ASU No. 2016-02 requires the use of the modified retrospective method, which will require adjustment to all comparative periods presented in the consolidated financial statements. The new standard is effective for annual reporting period beginning after March 31, 2019, including interim periods within those fiscal years. The Group is currently evaluating the impact that the adoption of this new standard will have on its consolidated financial statements and the implementation approach to be used.

In March 2016, the FASB issued Accounting Standards Update No. 2016-05 (ASU 2016-05) "Derivatives and Hedging - Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships". The term novation, as it relates to derivative instruments, refers to replacing one of the parties to a derivative instrument with a new party. The amendments in this guidance clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The amendments in this guidance are effective for financial statements issued for fiscal years beginning after March 31, 2017, and interim periods within those fiscal years. An entity has the option to apply ASU 2016-05 on either a prospective basis or a modified retrospective basis. Early adoption is permitted. The Group is currently in the process of evaluating the impact that adoption of this standard will have on its consolidated financial statements and the implementation approach to be used.

In March 2016, the FASB issued Accounting Standards Update No. 2016-07 (ASU 2016-07) "Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting". Among other things, the amendments in ASU 2016-07 eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after March 31, 2017.

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The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier application is permitted. The Group is currently in the process of evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-08 (ASU 2016-08) "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)". ASU 2016-08 clarifies the implementation guidance on principal versus agent considerations. The amendments in this guidance do not change the core principle of the guidance in Topic 606. The amendments are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations, including indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customer. The amendments in this Update affect the guidance in Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements of Update 2014-09. The Group is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09 (ASU 2016-09) "Compensation—Stock Compensation (Topic 718)" as part of its Simplification Initiative. ASU 2016-09 identifies areas for simplification involving several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. The amendments are effective for annual periods beginning after March 31, 2017, and interim periods within those annual periods. Early adoption is permitted but all of the guidance must be adopted in the same period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Group is currently in the process of evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13 (ASU 2016-13) "Financial Instruments—Credit Losses" which require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is to be deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The amendments are effective for annual periods beginning after March 31, 2020, and interim periods within those annual periods. The amendment should be applied through a modified retrospective approach. Early adoption is permitted starting first quarter of the fiscal 2020. The Group is currently in the process of evaluating the impact that adoption of this standard will have on its consolidated financial statements.

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

Financial instruments that potentially subject the Group to concentration of credit risk consist principally of cash equivalents, short term deposits with banks and corporations, accounts receivables, unbilled revenue, finance lease receivable, investment securities and derivative instruments. The cash resources of the Group are invested with mutual funds, banks, financial institutions and corporations after an evaluation of the credit risk. By their nature, all such financial instruments involve risks, including the credit risk of non-performance by counterparties. In the management's opinion, as of March 31, 2016 and June 30, 2016, there was no significant risk of loss in the event of non-performance of the counterparties to these financial instruments, other than the amounts already provided for in the financial statements.

The customers of the Group are primarily corporations based in the United States of America and Europe and accordingly, trade receivables and finance lease receivables are concentrated in the respective countries. The Group periodically assesses the financial reliability of customers, taking into account the financial condition, current economic trends, analysis of historical bad debts and ageing of accounts receivable.

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**4. TRANSFER OF FINANCIAL ASSETS**

The Group has revolving accounts receivables based facilities of \$125,000 permitting it to sell certain accounts receivables to banks on a non-recourse basis in the normal course of business. The aggregate maximum capacity utilized by the Group at any time during the nine months ended March 31, 2016 and the three months ended June 30, 2016 was \$26,201 and \$24,874, respectively. Gains or losses on sale are recorded at the time of transfer of these accounts receivables and are immaterial. The Group has retained servicing obligations, which are limited to collection activities related to the non-recourse sales of accounts receivables. The Group has immaterial outstanding service obligation.

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

**5. ACQUISITIONS/ARRANGEMENTS IN PREVIOUS PERIOD**

***Trygstad Technical Services Inc.***

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

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

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

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

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

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

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

As at June 30, 2016, the earn out liability has been fair valued at \$3,000 with finance expense of \$348 on reassessment of fair valuation recognized in statement of income.

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

In October 2015, the Group acquired 100% equity interest of a Bengaluru-based engineering services firm, Concept to Silicon Systems (C2SiS). With this strategic acquisition, the Group is able to leverage C2SiS's capability in areas such as system-on-chip and physical design.

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Purchase consideration payable for the acquisition was \$1,884 out of which \$1,765 has been paid till March 31, 2016 and the balance has been paid during the three months period ended June 30, 2016.

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

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

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

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

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

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

***Powerteam LLC***

In October 2015, the Group acquired 100% equity interest of Minneapolis-based Power team LLC - a North American professional services firm providing service, support, education and add-ons for Microsoft Dynamics CRM. This acquisition enables the Group to take advantage of the rapidly-growing global CRM market.

Total purchase price for the acquisition was \$41,356 which includes deferred earn-out component of \$13,500 dependent on achievement of certain specified performance obligations as set out in the agreement and is payable in tranches over a three year period ending June 2018. The Group has paid, \$27,856 through June 30, 2016.

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

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

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

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

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

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As at June 30, 2016, the earn out liability has been fair valued at \$8,848 with finance expense of \$691 on reassessment of fair valuation recognized in statement of income.

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

**Arrangement with Computer Science Corporation (CSC)**

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

The Group owns 51% interest in Celeritifintech Limited and is obligated to contribute \$32,045 over a period of two years. As at June 30, 2016, the Group has contributed \$3,437 in cash. CSC has contributed right to exploit and sub license its core banking, cards, payments and default management solutions and its existing business and customers in exchange for 49% interest. The fair value of CSC's contribution has been allocated to intangibles of \$23,331, with the residual \$9,257 accounted for as goodwill. The resultant goodwill is not tax deductible and has been allocated to the software segment.

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

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

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

The Group owns a 49% interest in Celeritifintech Services Limited and is obligated to contribute \$21,363 over a period of two years. As at June 30, 2016, the Group has contributed \$2,292 in cash. CSC has contributed right to exploit and sub license its core banking, cards, payments and default management solutions, and its existing business and customers in exchange for 51% interest.

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

**Point to Point (P2P)**

In January 2016, the Group has acquired 100% equity interest of Point to Point Limited and Point to Point Products Limited (jointly referred as Point to Point or P2P), UK's leading end-user cloud solutions design, implementation and delivery specialists.

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

The total purchase consideration is \$10,033 out of which \$9,021 has been paid and the balance \$1,012 is payable as at June 30, 2016.

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

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

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

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

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

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

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

In February 2016, the Company acquired 100% equity interest of HCLTSS for total purchase consideration of \$355. The acquisition enables the Company to supplement its capabilities in hiring of trained resources.

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

***IT Division of Volvo***

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

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

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

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

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

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

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

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

The purchase price allocation remains preliminary because the valuation of property, plant and equipment is not final.

As per shareholders agreement, certain items of working capital including employee obligations, unbilled revenue etc. will also be transferred to the Group. All these alongwith certain leases that have not yet been novated to the Group are not part of the purchase consideration. These are likely to be finalized during the current year.

## 6. PROPERTY AND EQUIPMENT

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

	<u>March 31, 2016</u>	<u>June 30, 2016</u>
Freehold land	\$8,316	\$8,182
Buildings	328,843	337,931
Computer and networking equipment	341,281	331,014
Software	112,542	460,677
Furniture, fixtures and office equipment	105,308	103,571
Plant and equipment	240,784	240,878
Vehicles	15,891	15,791
Capital work-in-progress	99,574	90,921
	<b>1,252,539</b>	<b>1,588,965</b>
Accumulated depreciation and amortization	(600,132)	(604,768)
<b>Property and equipment, net</b>	<b>\$652,407</b>	<b>\$984,197</b>

Depreciation expense was \$17,676 and \$25,141 for the three months period ended June 30, 2015 and 2016, respectively.

## 7. GOODWILL AND INTANGIBLES

The changes in the carrying value goodwill balances by reportable segment, for the three months ended June 30, 2016, are as follows:

	<u>Software Services</u>	<u>Infrastructure services</u>	<u>Business process outsourcing services</u>	<u>Total</u>
Opening balance as at March 31, 2016	<b>\$ 784,027</b>	<b>\$100,931</b>	<b>\$ 23,162</b>	<b>\$908,120</b>
Effect of exchange rate changes	(16,575)	(4,162)	(429)	(21,166)
Closing balance as at June 30, 2016	<b>\$767,452</b>	<b>\$96,769</b>	<b>\$22,733</b>	<b>\$886,954</b>

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The components of intangible assets are as follows:

	March 31, 2016			June 30, 2016		
	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Intellectual property rights	\$520	(\$520)	\$-	\$520	(\$520)	\$-
Technology	22,753	(7,613)	15,140	21,500	(7,564)	13,936
Customer related intangibles	146,534	(105,510)	41,024	139,188	(102,198)	36,990
Customer contracts	7,333	(4,035)	3,298	6,909	(3,992)	2,917
Non-compete agreements	3,102	(2,657)	445	2,997	(2,637)	360
Brand and contractors database and others	3,716	(2,980)	736	3,518	(2,843)	675
	<b>\$183,958</b>	<b>(\$123,315)</b>	<b>\$60,643</b>	<b>\$174,632</b>	<b>(\$119,754)</b>	<b>\$54,878</b>

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

Year ending March 31,	
2017	\$9,142
2018	12,962
2019	10,178
2020	5,663
2021	4,265
Thereafter	12,668
	<b>\$54,878</b>

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

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

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

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

	March 31, 2016	June 30, 2016
<b>Current assets</b>		
Cash and cash equivalents	\$1,347	\$1,808
Short term deposits with banks	6,023	10,356
Accounts receivables, net	6,920	5,374
Unbilled revenue	2,565	2,450
Other current assets	1,701	1,522
<b>Total Current Assets</b>	<b>\$18,556</b>	<b>\$21,510</b>
Deferred income taxes	3,023	3,619
Property and Equipment, net	6,234	6,406
Intangible assets, net	423	337
Other assets	1,081	949
<b>Total Assets</b>	<b>\$29,317</b>	<b>\$32,821</b>



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<b>Current liabilities</b>		
Accounts payable	\$897	\$1,052
Accrued employee costs	1,283	1,486
Deferred revenue	153	42
Other current liabilities	2,263	2,305
<b>Total current liabilities</b>	<b>\$4,596</b>	<b>\$4,885</b>
Accrued employee costs	220	272
<b>Total liabilities</b>	<b>\$4,816</b>	<b>\$5,157</b>

- a) Assets and liabilities exclude all intercompany accounts and transactions, which are eliminated in consolidation.
- b) For the three months period ended June 30, 2015 and 2016, total revenues from VIEs were \$8,111 and \$11,885, respectively.

**9. INVESTMENT SECURITIES**

Available for sale investment securities consist of the following:

As of March 31, 2016:

	<u>Carrying value</u>	<u>Gross unrealized holding gains</u>	<u>Fair value</u>
Mutual fund units - debt	\$80,698	\$261	\$80,959
<b>Total</b>	<b>\$80,698</b>	<b>\$261</b>	<b>\$80,959</b>

As of June 30, 2016:

	<u>Carrying value</u>	<u>Gross unrealized holding gains</u>	<u>Fair value</u>
Mutual fund units – debt	\$111,763	\$597	\$112,360
<b>Total</b>	<b>\$111,763</b>	<b>\$597</b>	<b>\$112,360</b>

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

The maturity profile of the investments classified as available for sale as of June 30, 2016 is set out below:

	<u>Fair value</u>
Less than one year	\$112,360
One to five years	-
	<b>\$112,360</b>

Proceeds from the sale of available-for-sale securities was \$228,833, and \$296,107, for the three months period ended June 30, 2015 and, 2016, respectively.

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

The table summarizes the transactions for available for sale securities:

	<u>March 31 2016</u>	<u>June 30, 2016</u>
Net realised gain	\$3,722	\$1,599
Net unrealized gain included in statements of other comprehensive income.	\$261	\$597
Reclassification in to earnings on maturity out of other comprehensive income	\$767	\$261

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**10. DERIVATIVE FINANCIAL INSTRUMENTS**

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

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

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

	Notional principal amounts		Balance sheet exposure Asset (Liability)	
	March 31, 2016	June 30, 2016	March 31, 2016	June 30, 2016
Foreign exchange forward denominated in:				
USD /INR	\$275,250 (Sell)	\$182,340 (Sell)	(\$7,061)	(\$6,388)
GBP/ INR	£2,816 (Sell)	- (Sell)	(19)	-
EUR / USD	€ 10,950 (Sell)	€ 29,450 (Sell)	(195)	560
EUR/ INR	€ 2,000 (Sell)	- (Sell)	335	-
NOK/ USD	- (Sell)	NOK 75,000 (Sell)	-	(30)
AUD/INR	AUD 4,350 (Sell)	- (Sell)	(9)	-
AUD/USD	- (Sell)	AUD 7,000 (Sell)	-	(37)
SEK/USD	SEK 13,880 (Sell)	SEK 63,000 (Sell)	(63)	(19)
ZAR/USD	ZAR 112,000 (Sell)	ZAR 50,000 (Sell)	(268)	(43)
SGD/USD	- (Sell)	SGD 5,000 (Sell)	-	(8)
CHF/USD	CHF 370 (Sell)	CHF 5,000 (Sell)	(1)	82
CHF/ INR	CHF 9,599 (Sell)	CHF 14,500 (Sell)	86	267
MXN/USD	MXN 70,000 (Sell)	MXN 120,000 (Sell)	(98)	251
RUB/USD	RUB 100,000 (Sell)	RUB 45,000 (Sell)	(88)	(22)
SEK/INR	SEK 108,000 (Sell)	SEK 35,000 (Sell)	(114)	188
NOK/USD	- (Buy)	NOK 20,000 (Buy)	-	(21)
CAD/USD	CAD 19,000 (Buy)	CAD 21,000 (Buy)	602	(232)
SGD/USD	SGD 1,000 (Buy)	- (Buy)	29	-
JPY/USD	JPY 510,000 (Buy)	JPY 2,716,000 (Buy)	53	1461
GBP/USD	£13,380 (Buy)	£37,630 (Buy)	267	(3258)
CHF/USD	CHF 1,000 (Buy)	CHF 1,000 (Buy)	9	6
ZAR/USD	- (Buy)	ZAR 45,000 (Buy)	-	113
MYR/USD	MYR 26,000 (Buy)	MYR 34,500 (Buy)	448	(49)
DKK/USD	DKK 16,000 (Buy)	DKK 16,000 (Buy)	24	(56)
NOK/INR	NOK 37,000 (Sell)	- (Sell)	(26)	-
CNY/USD	CNY 105,000 (Sell)	CNY 95,000 (Sell)	(149)	8
			<b>(\$6,238)</b>	<b>(\$7,227)</b>

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

	Notional principal amounts		Balance sheet exposure Asset (Liability)	
	March 31, 2016	June 30, 2016	March 31, 2016	June 30, 2016
<b>Range Forward</b>				
USD/INR	\$481,955	\$567,270	\$7,298	\$5,451
EUR/INR	€ 82,300	€ 117,940	215	2,499
GBP/INR	£36,920	£59,030	4,311	9,093
AUD/INR	AUD 25,950	AUD 44,850	(317)	100
CHF/INR	CHF 1,235	-	15	-
<b>PUT</b>				
USD/INR	\$24,000	\$12,000	47	3
<b>Seagull</b>				
USD/INR	\$8,000	-	149	-
EUR/INR	€ 4,000	-	(44)	-
			<b>\$11,674</b>	<b>\$17,146</b>

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

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

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

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

**March 31, 2016**

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

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**June 30, 2016**

	Other Current Assets	Other Non - Current Assets	Other Current Liabilities	Other Non - Current Liabilities	Total Fair Value
<b>Derivatives designated as hedging instruments:</b>					
Foreign exchange contracts in an asset position	\$13,242	\$4,376	\$2,504	\$74	\$20,195
Foreign exchange contracts in an liability position	(2,504)	(74)	(4,633)	(2,119)	(9,329)
<b>Net asset (liability)</b>	<b>\$10,738</b>	<b>\$4,302</b>	<b>(\$2,129)</b>	<b>(\$2,045)</b>	<b>\$10,866</b>
<b>Derivatives not designated as hedging instruments:</b>					
Foreign exchange contracts in an asset position	\$3,146	\$-	\$1,722	\$-	\$4,868
Foreign exchange contracts in an liability position	(1,722)	-	(4,093)	-	(5,815)
<b>Net asset (liability)</b>	<b>\$1,424</b>	<b>\$-</b>	<b>(\$2,371)</b>	<b>\$-</b>	<b>(\$947)</b>
<b>Total Derivatives at fair value</b>	<b>\$12,162</b>	<b>\$4,302</b>	<b>(\$4,500)</b>	<b>(\$2,045)</b>	<b>\$9,919</b>

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

**Derivatives designated as hedging instruments:**

	<b>March 31, 2016</b>	<b>June 30, 2016</b>
Unrealized gain on financial instruments classified under current assets	\$6,296	\$10,738
Unrealized gain on financial instruments classified under non current assets	1,979	4,302
Unrealized loss on financial instruments classified under current liabilities	(1,546)	(2,129)
Unrealized loss on financial instruments classified under non-current liabilities	(2,703)	(2,045)
	<b>\$4,026</b>	<b>\$10,866</b>

**Derivatives not designated as hedging instruments:**

	<b>March 31, 2016</b>	<b>June 30, 2016</b>
Unrealized loss on financial instruments classified under current liabilities	(\$326)	(\$2,371)
Unrealized gain on financial instruments classified under current assets	1,736	1,424
	<b>\$1,410</b>	<b>(\$947)</b>

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The following tables summarize the activities in the consolidated statement of income during the three months period ended June 30, 2015

Derivatives in Cash flow Hedging Relationships	Amount of Gain or (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion) and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Foreign Exchange Contracts	(\$3,649)	Other Income (Expense),net	(\$479)	Other Income (Expense),net	Nil
	<u><b>(\$3,649)</b></u>		<u><b>(\$479)</b></u>		<u><b>Nil</b></u>
Derivatives not Designated as Hedging		Location of Gain or (Loss) recognized in Income on Derivatives		Amount of Gain or (Loss) recognized in Income on Derivatives	
Foreign exchange contracts		Other Income (Expense),net		<u><b>(\$5,217)</b></u>	

The following tables summarize the activities in the consolidated statement of income during the three months period ended June 30, 2016

Derivatives in Cash flow Hedging Relationships	Amount of Gain or (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion) and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Foreign Exchange Contracts	\$6,734	Other Income (Expense),net	\$1,068	Other Income (Expense),net	Nil
	<u><b>\$6,734</b></u>		<u><b>\$1,068</b></u>		<u><b>Nil</b></u>
Derivatives not Designated as Hedging		Location of Gain or (Loss) recognized in Income on Derivatives		Amount of Gain or (Loss) recognized in Income on Derivatives	
Foreign exchange contracts		Other Income (Expense),net		<u><b>\$1,848</b></u>	

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

	<b>June 30,</b>	
	<u><b>2015</b></u>	<u><b>2016</b></u>
Balance as at the beginning of the period	(\$4,923)	\$1,506
Unrealized gain (loss) on cash flow hedging derivatives during the period	(3,649)	6,734
Net loss (gain) reclassified into net income on occurrence of hedged transactions	479	(1,068)
Effect of exchange rate fluctuations	175	(89)
Balance as at the end of the period	<u><b>(\$7,918)</b></u>	<u><b>\$7,083</b></u>
Deferred tax	1,526	(1,343)
	<u><b>(\$6,392)</b></u>	<u><b>\$5,740</b></u>

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As of June 30, 2016, the estimated net amount of existing gain that is expected to be reclassified into the income statement from AOCI within the next twelve months is \$5,696.

**11. INVENTORY**

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

	<u>March 31, 2016</u>	<u>June 30, 2016</u>
Finished goods	\$39,913	\$52,552
Stores and spares	-	41
	<u><b>\$39,913</b></u>	<u><b>\$52,593</b></u>

**12. OTHER CURRENT ASSETS**

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

	<u>March 31, 2016</u>	<u>June 30, 2016</u>
Prepaid expenses	\$73,876	\$77,303
Prepaid rentals for leasehold land	\$463	486
Interest receivable	15,948	14,654
Prepaid/advance taxes	13,230	12,599
Deposits	14,349	15,793
Deferred cost	79,652	80,140
Employee receivables	18,091	12,228
Derivative financial instruments	8,032	12,162
Advance to suppliers	8,240	9,895
Entrusted loan receivable	3,871	-
Finance lease receivable	35,287	31,769
Restricted cash	4,365	4,324
Others	48,435	45,342
	<u><b>\$323,839</b></u>	<u><b>\$316,695</b></u>

**13. OTHER ASSETS**

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

	<u>March 31, 2016</u>	<u>June 30, 2016</u>
Deposits	\$24,953	\$23,424
Deferred cost	114,750	110,706
Prepaid expenses	18,479	18,962
Prepaid rentals for leasehold land	38,169	37,332
Advance to suppliers	12,941	12,705
Finance lease receivable	50,062	42,361
Restricted cash	2,533	2,532
Others	43,519	38,781
	<u><b>\$305,406</b></u>	<u><b>\$286,803</b></u>

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**14. DEBTS**

**SHORT TERM LOANS**

The Group has availed unsecured short term loan amounting to \$500 as of March 31, 2016 at effective interest rates of 4.10% which have been repaid during the three months period ended June 30, 2016.

The Group has availed an unsecured bank line of credit from its bankers amounting to \$27,988 and \$7,299 as of March 31, 2016 and June 30, 2016, respectively, at effective interest rates ranging from 0.33% to 17.33%.

**Entrusted loan receivable/payable**

During the year ended June 30, 2015, two wholly owned subsidiaries in the Group, namely, HCL Technologies (Shanghai) Limited and Axon Solutions (Shanghai) Co. Limited, entered into an entrusted loan arrangement in which HCL Technologies (Shanghai) Limited acts as the entrusted party (the principal), the bank acts as the agent (charging commission of 0.20% p.a.) and Axon Solutions (Shanghai) Co. Limited acts as the borrower (the "Entrusted Loan"). The entrusted loan receivable included under other current assets and the entrusted loan payable included under short term loans which cannot be set off and bears interest of 5% p.a., were repayable on demand within one year. Amount outstanding as of March 31, 2016 of \$3,871 has been repaid during the three months period ended June 30, 2016.

**LONG TERM DEBT**

	<b>March 31, 2016</b>	<b>June 30, 2016</b>
From banks	\$111,164	\$105,968
Other	3,352	3,863
Less: Current portion	(5,950)	(11,239)
	<b>\$108,566</b>	<b>\$98,592</b>

The scheduled principal repayments are as follows:

	<b>June 30, 2016</b>
Within one year	\$11,239
One to two years	27,122
Two to three years	26,452
Three to five years	45,018
	<b>\$109,831</b>

The Group's borrowings are subject to certain financial and non financial covenants. At June 30, 2016, the Group was in compliance with all such covenants.

**Long term debts from banks include:**

An unsecured Long term loan of \$101,910 and \$97,676 as of March 31, 2016 and June 30, 2016, respectively is borrowed by a subsidiary in Sweden at STIBOR + 1.15%, (currently at an effective interest rate of 0.71%) repayable over 20 quarterly installements beginning June 2017.

Term loans of \$6,357 and \$6,326 as of March 31, 2016 and June 30, 2016, respectively, at interest rates ranging from 9.85% to 10.50% per annum and secured by hypothecation of vehicles with a book value of \$14,507 and \$14,419 as of March 31, 2016 and June 30, 2016, respectively.

Term loans of \$2,897 and \$1,966 as of March 31, 2016 and June 30, 2016, respectively, at effective interest rate of 2.95% per annum, respectively.

**Other long term debts include:**

Unsecured long term loans from a vendor of \$3,352 and \$3,863 as of March 31, 2016 and June 30, 2016, respectively, at nil interest.

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**15. OTHER CURRENT LIABILITIES**

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

	<u>March 31, 2016</u>	<u>June 30, 2016</u>
Advances from customers	\$6,710	\$6,248
Sales tax and other taxes payable	68,897	124,287
Accrued liabilities and expenses	365,908	394,108
Supplier's credit*	217,698	199,477
Due to related parties	881	720
Payable towards equity interest in affiliate	19,072	17,811
Derivative financial instruments	1,872	4,500
Others	34,914	40,416
	<u><b>\$715,952</b></u>	<u><b>\$787,567</b></u>

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

**16. EQUITY SHARES**

The Company has only one class of capital stock referred to herein as equity shares. Par value of each equity share outstanding as of June 30, 2016 is \$0.03 ( ` 2.00 ).

*Voting*

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

*Dividends*

Dividends declared and paid by the Company are in Indian Rupees. Dividends payable to equity stockholders are based on the net income available for distribution as reported in the standalone financial statements of the Company prepared in accordance with Ind- AS. Indian law on foreign exchange governs the remittance of dividends outside India. Such dividend payments are subject to applicable taxes.

*Liquidation*

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

*Stock options*

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

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

For the three months period ended June 30, 2015 and 2016, other income/ (expenses), net consist of:

	<u>Three months ended June 30</u>	
	<u>2015</u>	<u>2016</u>
Interest income	\$30,507	\$30,987
Loss on divestment of stake in affiliates	(2,040)	-
Gain on sale of investment securities and other investments, net	1,142	1,599
Foreign exchange gain (loss) , net	5,913	9,862
Equity in earning (loss) of affiliates	525	(903)
(Loss) Gain on sale of property and equipment	(194)	206
Miscellaneous income	932	199
<b>Other income, net</b>	<u><b>\$36,785</b></u>	<u><b>\$41,950</b></u>



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**18. INCOME TAXES**

The effective tax rate for the Group for the three months period ended June 30, 2015 and 2016 is 18.55% and 20.99%, respectively. The higher effective tax rate in three months ended June 30, 2016 is mainly on account of higher tax expense in India owing to partial expiry of Special Economic Zone (SEZ) tax benefits on certain units.

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

	<b>March 31, 2016</b>	<b>June 30, 2016</b>
Balance at the beginning of the period	\$104,918	\$113,394
Increase due to tax position taken during the current period	11,043	519
Decrease due to tax position taken during the prior period	-	-
Effect of exchange rate fluctuations	(2,567)	(1,336)
Balance at the end of the period	<b>\$113,394</b>	<b>\$112,577</b>

**19. EARNINGS PER EQUITY SHARE**

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

	<b>Three months period ended June 30,</b>	
	<b>2015</b>	<b>2016</b>
Weighted average number of equity shares outstanding used in computing basic EPS	1,405,802,745	1,410,601,422
Dilutive effect of stock options	6,837,615	1,604,747
Weighted average number of equity and equity equivalent shares outstanding used in computing diluted EPS	<u>1,412,640,360</u>	<u>1,412,206,169</u>

For the three months ended June 30, 2015 and 2016, there were no options respectively to purchase equity shares of common stock with exercise price greater than the average market value of our stock that would have been anti-dilutive.

**20. EMPLOYEE BENEFIT PLANS**

**India operations**

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

***Defined benefit Plan***

***Gratuity***

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

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Net gratuity cost for the three months period ended June 30, 2015 and, 2016, comprise the following components:

	<b>Three months ended June 30,</b>	
	<b>2015</b>	<b>2016</b>
Service cost	\$2,081	\$2,118
Interest cost	839	936
Amortization of unrecognized actuarial loss	(1,567)	(17)
<b>Net gratuity cost</b>	<b>\$1,353</b>	<b>\$3,037</b>

***Provident fund***

In accordance with Indian law, all employees receive benefits from a provident fund, which is a defined benefits plan. Under this plan, the employer and employee make monthly contributions to a fund managed by certain employees of the Group ("Trust"). The employees contribute 12% of their basic compensation, which is matched by an equal contribution by the employer. The Group contributes two-third of the contribution to the Government administered pension fund subject to a maximum of \$0.02 (₹ 1250/-) and the remaining portion is contributed to the Trust. The rate at which the annual interest is payable to the beneficiaries by the Trust is administered by the government. The Group has an obligation to fund any shortfall on the yield of the Trust's investments over the administered interest rates. The funds contributed to the Trust are invested in specific securities as mandated by law and generally consist of federal and state government bonds, debt instruments of government-owned corporations and other eligible market securities.

Total contributions made by the Group in respect of this plan for the three months period ended June 30, 2015 and 2016 are \$3,414 and \$3,634, respectively

Total contributions made by the Group towards Employees Pension Scheme for the three months period ended June 30, 2015 and 2016 are \$3,497 and \$3,241, respectively.

***Defined Contribution Plan***

***Superannuation***

In respect of superannuation, a defined contribution plan for eligible employees who contribute to a recognized Trust under schedule IV, Part B of Income Tax 1961, Trust funds are administered on its behalf by an appointed fund manager and such contributions for each year of service rendered by the employees are charged to the statement of profit and loss. The Group has no further obligations to the superannuation plan beyond its contributions. Total contributions made in respect of this plan for the three months period ended June 30, 2015 and, 2016, \$67 and \$61, respectively.

***Others***

Total contributions made by the Group in respect of other foreign defined contribution plan for the three months period ended June 30, 2015 and, 2016 are \$11,320 and \$13,570, respectively.

**21. COMMITMENTS AND CONTIGENCIES**

***Capital commitments***

As of June 30, 2016, the Group had contractual commitments for capital expenditure of \$78,519.

***Other commitments***

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

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*Other Contingencies*

The Group is involved in various lawsuits, claims and proceedings that arise in the ordinary course of business, the outcome of which is inherently uncertain. Certain of these matters include speculative and frivolous claims for substantial or indeterminate amounts of damages. The Group records a liability when it is both probable that a loss has been incurred and the amount can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount. The Group reviews these provisions at least quarterly and adjusts these provisions accordingly to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and updated information. The Group believes that the amount or estimable range of reasonably possible loss, will not, either individually or in the aggregate, have a material adverse effect on its business, consolidated financial position, results of operations, or cash flows with respect to loss contingencies for legal and other contingencies as of June 30, 2016.

**22. SEGMENT REPORTING**

The Group's operations predominantly relate to providing a range of IT & BPO services targeted at Global 2000 companies spread across America, Europe & Rest of the World. IT services include software services & IT infrastructure management services. Within software services, the Group provides application development & maintenance, enterprise application, next generation SAAS (Software As A Service) application services and engineering and R&D (Research and Development) services to several global customers. Infrastructure management services involve managing customer's IT assets effectively. Business process outsourcing services include the traditional contact centre & help desk services and the next generation services around platform BPO & BPAAS ( Business Process As A Service) delivered through a global delivery model.

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

Information on reportable segments for the three months period ended June 30, 2015 is as follows:

	<b>Software services</b>	<b>Infrastructure management services</b>	<b>Business process outsourcing services</b>	<b>Total</b>
<b>Revenue</b>	\$916,002	\$542,080	\$79,432	\$1,537,514
Depreciation and amortization	11,688	6,098	1,764	19,550
<b>Segment earnings</b>	<b>\$186,272</b>	<b>\$113,953</b>	<b>\$8,471</b>	<b>\$308,696</b>

Information on reportable segments for the three months period ended June 30, 2016 is as follows:

	<b>Software services</b>	<b>Infrastructure management services</b>	<b>Business process outsourcing services</b>	<b>Total</b>
<b>Revenue</b>	\$947,746	\$673,159	\$69,746	\$1,690,651
Depreciation and amortization	13,480	12,815	1,723	28,018
<b>Segment earnings</b>	<b>\$203,506</b>	<b>\$137,869</b>	<b>\$6,571</b>	<b>\$347,946</b>

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

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

	<b>Three months ended June 30,</b>	
	<b>2015</b>	<b>2016</b>
Segment earnings	\$308,696	\$347,946
Foreign exchange (loss)	5,913	9,862
Finance cost	(3,383)	(4,202)
Other income, net	30,872	32,088
Income before income taxes	<b>\$342,098</b>	<b>\$385,694</b>

**23. FAIR VALUE MEASUREMENT**

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

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

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

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

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

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

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

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

Cost approach – Replacement cost method.

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

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

The following table discloses the assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 and the basis for that measurement:

	Fair value	Level 1 inputs	Level 2 inputs	Level 3 inputs
<b>Assets</b>				
Deposits with banks, having maturities less than three months	\$12,356	\$12,356	-	-
Term deposits with banks	\$1,281,656	-	\$1,281,656	-
Deposits with corporation	\$297,296	-	\$297,296	-
Investment securities, available for sale	\$112,360	\$112,360	-	-
Derivative contracts	\$16,464	-	\$16,464	-
<b>Liabilities</b>				
Derivative contracts	(\$6,545)	-	(\$6,545)	-

*Valuation Methodologies*

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

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

Derivative financial instruments: The Group's derivative financial instruments consist of foreign currency forward exchange contracts. Fair values for derivative financial instruments are based on broker quotations and are classified as Level 2. See note 12 for further details on Derivative financial instruments.

Fair value of earn-out consideration: The fair value measurement of earn-out consideration is determined using Level 3 inputs. The Group earn-out consideration represents a component of the total purchase consideration for its acquisition of Trygstad Technical Services Inc and Powerteam LLC. The measurement is calculated using unobservable inputs based on the Company's own assessment of achievement of certain performance goals by Trygstad Technical Services Inc and Powerteam LLC. The Group estimated the total fair value of the earn out consideration to be \$11,848. See Note 5 for further details

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

Certain assets are measured at fair value on a non-recurring basis and therefore are not included in the

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recurring fair value table above. The assets and liabilities consist primarily of long term debt and other non financial assets such as goodwill and intangible assets. Goodwill and intangible assets are measured at fair value initially and subsequently when there is an indicator of impairment, the impairment is recognized.

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

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

	<b>Three months ended June 30</b>	
	<b>2015</b>	<b>2016</b>
<b>Unrealized gain on securities available for sale:</b>		
Opening balance (net of tax)	\$55	\$214
Unrealized gains	712	597
Reclassification adjustments into other (income) expenses, net	-	(261)
Income tax benefit (expense)	(237)	(92)
Portion attributable to non controlling interest	-	-
Effect of exchange fluctuations	3	1
Closing balance (net of tax)	<b>\$533</b>	<b>\$459</b>
<b>Unrealized loss on cash flow hedges:</b>		
Opening balance (net of tax)	(\$3,999)	\$1,220
Unrealized gain (loss)	(3,649)	6,734
Reclassification adjustments into other (income) expenses, net	479	(1,068)
Income tax benefit (expense)	602	(1,057)
Portion attributable to non controlling interest	-	-
Effect of exchange fluctuations	175	(89)
Closing balance (net of tax)	<b>(\$6,392)</b>	<b>\$5,740</b>
<b>Acturial loss on defined benefit plan:</b>		
Opening balance (net of tax)	(\$130)	\$2,754
Acturial gain (loss)	1,437	-
Reclassification adjustments into employee benefit expenses <sup>1</sup>	-	-
Income tax benefit (expense)	(321)	(713)
Portion attributable to non controlling interest	-	-
Effect of exchange fluctuations	2	(50)
Closing balance (net of tax)	<b>\$988</b>	<b>\$1,991</b>
<b>Foreign currency translation:</b>		
Opening balance	(\$510,936)	(\$673,486)
Foreign currency translation	(22,229)	(80,899)
Portion attributable to non controlling interest	-	(2,876)
Reclassification adjustments into other (income) expenses, net	-	-
Closing balance	<b>(\$533,165)</b>	<b>(\$757,261)</b>

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

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

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

	<u>March 31,2016</u>	<u>June 30,2016</u>
Unrealized gain on securities available for sale	\$214	\$459
Unrealized loss on cash flow hedges	1,220	5,740
Unrealized loss on defined benefit plan	2,754	1,991
Foreign currency translation	(673,486)	(757,261)
	<u><b>(\$669,298)</b></u>	<u><b>(\$749,071)</b></u>

**26. SUBSEQUENT EVENTS**

On August 3,2016 the Group announced an interim dividend of ` 6 per share amounting to ` 8,465 million (\$125,403).

The Group has evaluated all the subsequent events through August 3, 2016, which is the date on which these financial statements were issued, and no events have occurred from the balance sheet date through that date that would have material impact on the condensed consolidated financial statements.