

# **HCL Technologies Limited and Subsidiaries**

**Unaudited Condensed Consolidated Financial Statements**

**For The Three Months Ended June 30, 2020 and 2019**

**With Independent Auditors' Review Report**

# HCL Technologies Limited and Subsidiaries

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## Independent Auditors' Review Report

The Board of Directors  
HCL Technologies Limited:

### Report on the Financial Statements

We have reviewed the condensed consolidated financial statements of HCL Technologies Limited and its subsidiaries (the "Company"), which comprise the condensed consolidated balance sheet as of June 30, 2020, and the related condensed consolidated statements of income, comprehensive income, equity and cash flows for the three-month periods ended June 30, 2020 and 2019.

#### *Management's Responsibility*

The Company's management is responsible for the preparation and fair presentation of the condensed financial information in accordance with U.S. generally accepted accounting principles; this responsibility 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 accordance with U.S. generally accepted accounting principles.

#### *Auditors' Responsibility*

Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America 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 of America, 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 reviews, 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 accordance with U.S. generally accepted accounting principles.

### Report on Condensed Balance Sheet as of March 31, 2020

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of March 31, 2020, and the related consolidated statements of income, comprehensive income, equity, and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 7, 2020. In our opinion, the accompanying condensed consolidated balance sheet of HCL Technologies Limited and its subsidiaries as of March 31, 2020 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Gurugram, Haryana, India  
July 17, 2020

# HCL Technologies Limited and Subsidiaries

## Condensed Consolidated Balance Sheets

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

	As of	
	March 31 ,2020 (audited)	June 30,2020 (Unaudited)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$640,138	\$527,942
Term deposits with banks	16,255	11,919
Deposit with corporations	451,924	627,683
Investment securities, available for sale	923,591	784,350
Accounts receivable, net	1,867,997	1,703,682
Unbilled receivable	480,752	498,063
Inventories	12,080	17,311
Other current assets	685,676	573,944
<b>Total current assets</b>	<b>5,078,413</b>	<b>4,744,894</b>
Deferred income taxes, net	300,894	274,327
Investments in affiliates	5,022	5,022
Other investments	5,145	5,114
Property and equipment, net	825,204	829,156
Operating lease right-of-use assets	346,938	334,311
Intangible assets, net	1,732,052	1,745,199
Goodwill	2,156,195	2,163,978
Other assets	548,305	546,861
<b>Total assets (a)</b>	<b>\$10,998,168</b>	<b>\$10,648,862</b>

See accompanying notes to the condensed consolidated interim financial statements.

# HCL Technologies Limited and Subsidiaries

## Condensed Consolidated Balance Sheets

Amount in thousands, except share and per share data

	As of	
	March 31 ,2020 (audited)	June 30 ,2020 (Unaudited)
<b>LIABILITIES, REDEEMABLE NON-CONTROLLING INTERESTS AND EQUITY</b>		
<b>Current liabilities</b>		
Current portion of finance lease liabilities	\$23,034	\$24,516
Current portion of operating lease liabilities	71,537	70,755
Accounts payable	222,341	243,460
Short term borrowings	243,770	198,035
Current portion of long term debt	52,795	50,261
Accrued employee costs	420,767	393,816
Contract liabilities	356,753	310,913
Income taxes payable	141,835	185,065
Other current liabilities	1,596,113	814,545
<b>Total current liabilities</b>	<b>3,128,945</b>	<b>2,291,366</b>
Long term debt	376,382	374,449
Deferred income taxes, net	11,586	10,890
Operating lease liabilities, net of current portion	255,231	244,139
Finance lease liabilities, net of current portion	32,837	31,997
Accrued employee costs	149,927	162,070
Contract liabilities	49,250	54,796
Other liabilities	93,294	138,917
<b>Total liabilities (a)</b>	<b>\$4,097,452</b>	<b>\$3,308,624</b>
<b>Commitments and contingencies (Note 21)</b>		
<b>Redeemable non-controlling interests</b>	69,784	68,690
<b>HCL Technologies Limited Shareholders' Equity</b>		
Equity shares, ₹ 2 par value, authorized 3,000,000,000 shares as of March 31, 2020 and June 30, 2020, respectively		
Issued and outstanding 2,713,665,096 shares as of March 31, 2020 and June 30, 2020, respectively	93,788	93,788
Additional paid-in capital	412,327	412,327
Retained earnings	7,746,112	8,132,450
Accumulated other comprehensive loss	(1,426,694)	(1,373,026)
<b>HCL Technologies Limited Shareholders' Equity</b>	<b>6,825,533</b>	<b>7,265,539</b>
<b>Non-controlling interest</b>	5,399	6,009
<b>Total equity</b>	<b>6,830,932</b>	<b>7,271,548</b>
<b>Total liabilities, redeemable non-controlling interests and equity</b>	<b>\$10,998,168</b>	<b>\$10,648,862</b>

- a) Consolidated assets at March 31, 2020 and June 30, 2020 include assets of certain variable interest entities (VIEs') that can only be used to settle the liabilities of those VIEs'. Consolidated liabilities at March 31, 2020 and June 30, 2020, 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 to the condensed consolidated interim financial statements.

# HCL Technologies Limited and Subsidiaries

## Condensed Consolidated Statements of Income

Amount in thousands, except share and per share data

	Three months ended	
	June 30 (unaudited)	
	2019	2020
<b>Revenues</b>	<b>\$2,363,553</b>	<b>\$2,355,545</b>
Cost of revenues (exclusive of depreciation and amortization)	1,529,731	1,416,144
<b>Gross profit</b>	<b>833,822</b>	<b>939,401</b>
Research and development	41,531	45,114
Selling, general and administrative expenses	302,852	291,063
Depreciation and amortization	85,615	119,685
Other (income) expenses, net	(26,283)	(40,318)
Finance cost	8,018	13,153
<b>Income before income taxes</b>	<b>422,089</b>	<b>510,704</b>
Provision for income taxes	101,320	122,711
<b>Net income</b>	<b>320,769</b>	<b>387,993</b>
Net (loss) income attributable to redeemable non-controlling interest/ non-controlling interest	1,097	1,655
<b>Net income attributable to HCL Technologies Limited shareholders</b>	<b>\$319,672</b>	<b>\$386,338</b>
<b>Earnings per equity share (See note 19)</b>		
Basic	\$0.12	\$0.14
Diluted	\$0.12	\$0.14
<b>Weighted average number of equity shares used in computing earnings per equity share</b>		
Basic	2,712,557,736	2,713,665,096
Diluted	2,713,543,892	2,713,665,096

See accompanying notes to the condensed consolidated interim financial statements.

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

	<b>Three months ended June 30, (Unaudited)</b>	
	<b>2019</b>	<b>2020</b>
<b>Net income attributable to HCL Technologies Limited shareholders</b>	<b>\$319,672</b>	<b>\$386,338</b>
Add : Net (loss) income attributable to redeemable non-controlling / non-controlling interest	\$1,097	<b>\$1,655</b>
<b>Other comprehensive income (loss) net of taxes:</b>		
Change in unrealized gain (loss) on cash flow hedges, net of taxes \$557 and (\$3,131) for the three months ended June 30, 2019 and 2020, respectively.	(1,649)	15,266
Change in unrealized gain (loss) on securities available for sale, net of taxes (\$186) and (\$1,142) for the three months ended June 30, 2019 and 2020, respectively.	(28)	1,940
Change in unrealized gain (loss) on defined benefit plan, net of taxes \$65 and (\$66) for the three months ended June 30, 2019 and 2020, respectively.	74	(71)
Change in foreign currency translation	5,138	36,533
<b>Other comprehensive income (loss)</b>	<b>3,535</b>	<b>53,668</b>
Add: Comprehensive loss attributable to non-controlling interest	-	49
<b>Total comprehensive income</b>	<b>\$324,304</b>	<b>\$441,710</b>

See accompanying notes to the condensed consolidated interim financial statements.

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

	Equity shares				Retained earnings		Accumulated other comprehensive loss	Total Equity	Redeemable non-controlling interest
	Shares	Par value	Additional paid-in capital	Ordinary shares subscribed	Other unappropriated reserves	SEZ reinvestment reserve*			
<b>Balances as at March 31, 2019</b>	<b>1,356,278,868</b>	<b>\$55,743</b>	<b>\$412,327</b>	<b>\$1</b>	<b>\$6,396,399</b>	<b>\$66,319</b>	<b>(\$887,365)</b>	<b>\$6,043,424</b>	<b>\$65,695</b>
Shares issued for exercised options	-	-	-	-	-	-	-	-	-
Stock options exercised pending allotment of shares	-	-	-	2	-	-	-	2	-
Cash dividend	-	-	-	-	(45,592)	-	-	(45,592)	-
Transfer to special economic zone (SEZ) reinvestment reserve *	-	-	-	-	(23,035)	23,035	-	-	-
Transfer from special economic zone (SEZ) reinvestment reserve *	-	-	-	-	14,567	(14,567)	-	-	-
Net income	-	-	-	-	319,672	-	-	319,672	1,097
Other comprehensive income	-	-	-	-	-	-	3,535	3,535	-
<b>Balances as at June 30, 2019</b>	<b>1,356,278,868</b>	<b>\$55,743</b>	<b>\$412,327</b>	<b>\$3</b>	<b>\$6,662,011</b>	<b>\$74,787</b>	<b>(\$883,830)</b>	<b>\$6,321,041</b>	<b>\$66,792</b>

\* The Company has created SEZ Reinvestment Reserve out of profits of the eligible SEZ Units in terms of the specific provisions of Section 10AA(1) of the Income Tax Act, 1961 ("the Act"). The said reserve should be utilized by the Company for acquiring Plant and Machinery in terms of Section 10AA(2) of the Act.

See accompanying notes to the condensed consolidated interim financial statements.



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

	Equity shares			Retained earnings			HCL Technologies Limited Shareholder' Equity	Non-controlling Interest	Total Equity	Redeemable non-controlling interest
	Shares	Par value	Additional paid-in capital	Other unappropriated reserves	SEZ reinvestment reserve*	Accumulated other comprehensive loss				
<b>Balances as at March 31, 2020</b>	<b>2,713,665,096</b>	<b>\$93,788</b>	<b>\$412,327</b>	<b>\$7,641,261</b>	<b>\$104,851</b>	<b>(\$1,426,694)</b>	<b>\$6,825,533</b>	<b>\$5,399</b>	<b>\$6,830,932</b>	<b>\$69,784</b>
Dividend to redeemable non-controlling interest	-	-	-	-	-	-	-	-	-	(2,188)
Transfer to special economic zone (SEZ) reinvestment reserve *	-	-	-	(46,750)	46,750	-	-	-	-	-
Transfer from special economic zone (SEZ) reinvestment reserve *	-	-	-	13,425	(13,425)	-	-	-	-	-
Net income	-	-	-	\$386,338	-	-	\$386,338	561	386,899	1,094
Other comprehensive income	-	-	-	-	-	53,668	53,668	49	53,717	-
<b>Balances as at June 30, 2020</b>	<b>2,713,665,096</b>	<b>\$93,788</b>	<b>\$412,327</b>	<b>\$7,994,274</b>	<b>\$138,176</b>	<b>(\$1,373,026)</b>	<b>\$7,265,539</b>	<b>\$6,009</b>	<b>\$7,271,548</b>	<b>\$68,690</b>

\* The Company has created SEZ Reinvestment Reserve out of profits of the eligible SEZ Units in terms of the specific provisions of Section 10AA(1) of the Income Tax Act, 1961 ("the Act"). The said reserve should be utilized by the Company for acquiring Plant and Machinery in terms of Section 10AA(2) of the Act.

See accompanying notes to the condensed consolidated interim financial statements.

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

	Three months June 30, (Unaudited)	
	2019	2020
<b>Cash flows from operating activities</b>		
<b>Net income</b>	<b>\$320,769</b>	<b>\$387,993</b>
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>		
Depreciation and amortization	85,615	119,685
Deferred income taxes	(158)	22,013
(Gain) loss on sale of property and equipment	224	(14,378)
Gain on sale of investment securities and other investments, net	(7,710)	(5,804)
Equity in earnings of affiliates	(439)	-
Provision for doubtful accounts and bad debts, net	4,365	9,694
Others, net	1,420	6,335
	<b>404,086</b>	<b>525,538</b>
<b>Changes in assets and liabilities, net of effects of acquisitions</b>		
Accounts receivable and unbilled receivable	(174,066)	175,271
Other current, operating lease right-of-use assets and other assets <sup>(1)</sup>	(61,402)	126,558
Accounts payable	48,520	2,888
Accrued employee costs	(3,033)	(21,775)
Other current, operating lease liabilities and other liabilities	44,069	10,233
<b>Net cash provided by operating activities</b>	<b>258,174</b>	<b>818,712</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment and intangibles	(79,827)	(61,723)
Proceeds from sale of property and equipment	260	16,085
Acquisition of business, net of cash acquired	(855,625)	-
Investment in term deposit with banks	(3,455)	(7,947)
Proceeds from term deposit with banks on maturity	102,810	12,316
Investment in term deposits with corporations	(14,375)	(315,979)
Proceeds from term deposits with corporations on maturity	64,473	141,463
Purchase of investment securities	(1,045,104)	(972,178)
Proceeds from sale or maturity of investment securities	926,872	1,119,562
Purchase of other investment	(100)	-
Dividend from equity method investee	199	-
<b>Net cash used in investing activities</b>	<b>(903,872)</b>	<b>(68,401)</b>

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

	Three months	
	June 30, (Unaudited)	
	2019	2020
<b>Cash flows from financing activities</b>		
(Decrease) Increase of principal under finance lease obligations, net	2,610	(2,773)
Proceeds from short term borrowings	39,877	94,080
Repayment of short term borrowings	-	(141,515)
Proceeds from long term debt	3,152	3,607
Repayment of long term debt	(10,116)	(9,812)
Payment for deferred consideration on business acquisition	-	(813,326)
Proceeds from subscription of shares pending allotment	2	-
Dividend to redeemable non-controlling Interests	-	(2,188)
Dividend paid	(45,588)	(9)
<b>Net cash used in financing activities</b>	<b>(10,063)</b>	<b>(871,936)</b>
Effect of exchange rate changes on cash and cash equivalents and restricted cash <sup>(1)</sup>	5,544	9,427
Net increase (decrease) in cash and cash equivalents and restricted cash <sup>(1)</sup>	(650,217)	(112,198)
Cash and cash equivalents and restricted cash at the beginning of the period <sup>(1)</sup>	859,272	641,652
<b>Cash and cash equivalents and restricted cash at the end of the period</b>	<b>209,055</b>	<b>529,454</b>

(1) The Group has adopted Accounting Standards Update No. 2016-18 (ASU 2016-18) "Restricted Cash - Statement of Cash Flows (Topic 230)" effective March 31, 2020. Accordingly, for June 30, 2019, restricted cash and restricted cash equivalents movements have been reclassified from the head Other current, operating lease right-of-use assets and other assets and included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown in the condensed consolidated statements of cash flows.

See accompanying notes to the condensed consolidated interim financial statements.

**HCL Technologies Limited and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2020**  
**(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 IT and Business Services, Engineering and R&D services and Products & Platforms 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), lifesciences & healthcare, public services (oil and gas, energy and utility, travel, transport and logistics), retail and consumer products, telecom, media, publishing and entertainment.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

The accompanying unaudited condensed consolidated interim financial statements include the accounts of HCL Technologies Limited and its subsidiaries and are prepared on the basis of US generally accepted accounting principles (“US 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 US GAAP have been condensed or omitted. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the Group’s annual consolidated financial statements and accompanying notes for the year ended March 31, 2020. 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, 2020 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. Non-controlling interest in subsidiaries that is redeemable outside of the Company’s control for cash or other assets is reflected in the mezzanine section between liabilities and equity in the consolidated balance sheets at the redeemable value, which approximates fair value. Redeemable non-controlling interest is adjusted to its fair value at each balance sheet date. Any resulting increases or decreases in the estimated redemption amount are affected by corresponding charges or credits to retained earnings. Cumulative dividend payable on preference shares is reflected in net loss (gain) attributable to redeemable non-controlling interest in the consolidated statements of income.

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.

**HCL Technologies Limited and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2020**  
**(Unaudited)**

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

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The Group's equity in the profits (losses) of affiliates 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 affiliates is included in the carrying amount of the investment in the condensed consolidated balance sheet.

*(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 (loss) that are reported and disclosed in the condensed 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 receivables, accrual of warranty costs, income taxes, valuation of share-based compensation, future obligations under employee benefit plans and performance incentives, the measurement of lease liabilities and right of use assets, the useful lives of property, equipment and intangible assets, impairment of property, equipment, intangible assets 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.

In view of pandemic relating to COVID -19, the group has considered and taken into account internal and external information and has performed sensitivity analysis based on current estimates in assessing the recoverability of receivables, unbilled receivables, goodwill, intangible assets, other assets, impact on revenues and costs, impact on leases and effectiveness of its hedging relationships. However, the actual impact of COVID-19 on the Group's financial statements may differ from that estimated and the Group will continue to closely monitor any material changes to future economic conditions.

*(c) Functional currency and translation*

The functional currency of each entity in the Group is its respective local currency except for seven subsidiaries outside India. The functional currency of the 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 exchange difference in intercompany balances arising because of elimination of intercompany transactions are recorded in foreign currency translation under 'other comprehensive income (loss)'.

**HCL Technologies Limited and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2020**  
**(Unaudited)**

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

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*(d) Revenue recognition*

*Contracts involving provision of services and material*

Revenue is recognized when, or as, control of a promised service or good transfers to a client, in an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring those products or services. To recognize revenues, the following five step approach is applied: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenues when a performance obligation is satisfied. A contract is accounted when it is legally enforceable through executory contracts, approval and commitment from all parties, the rights of the parties are identified, payment terms are defined, the contract has commercial substance and collectability of consideration is probable.

*Time-and-material/Volume based/ Transaction based contracts*

Revenue with respect to time-and-material, volume based and transaction based contracts is recognized as the related services are performed through efforts expended, volume serviced, transactions processed etc. that correspond with value transferred to customer till date which is related to our right to invoice for services performed, in accordance with the practical expedient in ASC 606-10-55-18.

*Fixed Price contracts*

Revenue related to Fixed price contracts where performance obligations and control are satisfied over a period of time like technology integration, complex network building contracts, ERP implementations and Application development is recognized based on progress towards completion of the performance obligation using a cost-to-cost measure of progress (i.e., percentage-of-completion (POC) method of accounting). Revenue is recognized based on the costs incurred to date as a percentage of the total estimated costs to fulfill the contract. Any revision in cost to complete would result in increase or decrease in revenue 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 direct and incremental cost to complete exceeds the estimated future revenues that will be generated by the contract and are included in Cost of revenues and recorded in other accrued liabilities.

Revenue related to other fixed price contracts providing maintenance and support services, are recognized based on our right to invoice for services performed for contracts in which the invoicing is representative of the value being delivered, in accordance with the practical expedient in ASC 606-10-55-18. If invoicing is not consistent with value delivered, revenues are recognized as the service is performed based on the cost to cost method described above.

In arrangements involving sharing of customer revenues, revenue is recognized when the right to receive is established.

Revenue from product sales are shown net of applicable taxes, 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 continues to be in inventory.

**HCL Technologies Limited and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2020**  
**(Unaudited)**

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

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*Proprietary Software Products*

Revenue from distinct proprietary perpetual license software is recognized at a point in time at the inception of the arrangement when control transfers to the client. Revenue from proprietary term license software is recognized at a point in time for the committed term of the contract. Revenue from support and subscription (S&S) is recognized over the contract term on a straight-line basis as the company is providing a service of standing ready to provide support, when-and-if needed, and is providing unspecified software upgrades on a when-and-if available basis over the contract term. In case software are bundled with one year of support and subscription either for perpetual or term based license, such support and subscription contracts are generally priced as a percentage of the net fees paid by the customer to purchase the license and are generally recognized as revenues ratably over the contractual period that the support services are provided.

*Multiple-performance obligations*

When a sales arrangement contains multiple performance obligations, such as services, hardware and Licensed IPs (software) or combinations of each of them, revenue for each element is based on a five step approach as defined above. To the extent a contract includes multiple promised deliverables, judgment is applied to determine whether promised deliverables are capable of being distinct and are distinct in the context of the contract. If these criteria are not met, the promised deliverables are accounted for as a combined performance obligation. For arrangements with multiple distinct performance obligations or series of distinct performance obligations, consideration is allocated among the performance obligations based on their relative standalone selling price. Standalone selling price is the price at which group would sell a promised good or service separately to the customer. When not directly observable, we estimate standalone selling price by using the expected cost plus a margin approach. We establish a standalone selling price range for our deliverables, which is reassessed on a periodic basis or when facts and circumstances change. If the arrangement contains obligations related to License of Intellectual property (Software) or Lease deliverable, the arrangement consideration allocated to the Software deliverables, lease deliverable as a group is then allocated to each software obligation and lease deliverable using the guidance for recognizing Software revenue (ASC 606-10-55) and the lease 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.

Revenue from certain activities in transition services in outsourcing arrangements are not capable of being distinct or represent separate performance obligation. Revenues relating to such transition activities are classified as Contract liabilities and subsequently recognized over the period of the arrangement. Direct and incremental costs in relation to such transition activities which are expected to be recoverable under the contract and generate or enhance resources of the Company that will be used in satisfying the performance obligation in the future are considered as contract fulfillment costs classified as deferred contract cost and recognized over the period of arrangement. Certain upfront non-recurring incremental contract acquisition costs and other upfront fee paid to customers are deferred and classified as Deferred contract cost and amortized to revenue or cost, 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 future 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 in 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 being whether group controls the

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goods or services before it is transferred to customer, latitude in deciding the price being charged to customer. 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, or any other form of variable consideration is estimated using either the sum of probability weighted amounts in a range of possible consideration amounts (expected value), or the single most likely amount in a range of possible consideration amounts (most likely amount), depending on which method better predicts the amount of consideration realizable. Transaction price includes variable consideration only to the extent it is probable that a significant reversal of revenues recognized will not occur when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determination of whether to include estimated amounts in the transaction price may involve judgment and are based largely on an assessment of our anticipated performance and all information that is reasonably available to us.

Revenue recognized but not billed to customers is classified either as Contract assets or Unbilled receivable in our condensed consolidated balance sheet. Contract assets primarily relate to unbilled amounts on those contracts utilizing the cost to cost method of revenue recognition and right to consideration is not unconditional. Unbilled receivable represents contracts where right to consideration is unconditional (i.e. only the passage of time is required before the payment is due).

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.

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 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
Vehicles	5



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Leasehold improvements are amortized on a straight-line basis over the shorter of the lease period or the estimated useful life of the asset. The cost of software obtained for internal use is capitalized and amortized over the estimated useful life of the software.

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

*(g) Leases*

A lease is a contract that contains right to control the use of an identified asset for a period of time in exchange for consideration.

*Group as Lessee*

Group is Lessee in case of office space, accommodation for its employees and IT equipment. These leases are evaluated to determine whether it contains a lease and they are classified as Finance lease or Operating lease in accordance with Financial Accounting Standard Board's (FASB) guidance under ASC 842, 'Accounting For Leases'.

All leases with a term of more than 12 months are recognized as right-of-use assets along with associated lease liabilities, in the condensed consolidated balance sheet.

Right-of-use assets represent the Group's right to control the underlying assets under lease, and the lease liability is the obligation to make the lease payments related to the underlying assets under lease. Right-of-use assets are for finance lease and operating lease.

Operating lease - Right-of-use asset is measured initially based on the lease liability adjusted for any initial direct costs, prepaid rent, and lease Incentives. Right-of-use asset is depreciated based on straight line method over the lease term or useful life of right-of-use asset, whichever is less.

Finance lease – Right-of-use asset is 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. Finance 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 finance lease obligation.

Subsequently, right-of-use asset is measured at cost less any accumulated depreciation, accumulated impairment losses, if any and adjusted for any remeasurement of lease liability.

The lease liabilities are measured at the lease commencement date and determined using the present value of the minimum lease payments not yet paid and the Group's incremental borrowing rate, which approximates the rate at which the Group would borrow in the country where the lease was executed. The lease payment comprises fixed payment less any lease incentives, variable lease payment that depends on an index or a rate, exercise price of a purchase option if the Group is reasonably certain to exercise the option and payment of penalties for terminating the lease, if the lease term reflects the group exercising an option to terminate the lease. Lease Liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made and remeasuring the carrying amount to reflect any reassessment or modification, if any.

The Group has elected to not recognize leases with a lease term of 12 months or less in the condensed consolidated balance sheet, including those acquired in a business combination, and lease costs for those

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short-term leases are recognized on a straight-line basis over the lease term in the condensed consolidated statement of income. For all asset classes, the Group has elected the lessee practical expedient to combine lease and non-lease components and account for the combined unit as a single lease component in case there is no separate payment defined under the contract.

*Group as Lessor*

When substantially all the risks and rewards of property ownership have been transferred to the Group, as determined by the test criteria in FASB's guidance under ASC 842, the lease qualifies as a finance lease which is further sub classified into Sales type lease or Direct finance lease. For a sales-type lease, the net investment in the lease is measured at commencement date as the sum of the lease receivable, the estimated guaranteed and unguaranteed residual value of the equipment. Any selling profit or loss arising from a sales-type lease is recorded at lease commencement.

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

When arrangements include multiple performance obligations, the company allocates the consideration in the contract between the lease components and the non-lease components on a relative standalone selling price basis.

*(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, whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable and, if impaired, written down to fair value.

*(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 and other observable market inputs. 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 an investment by investment basis and are included in earnings.

Other Investments in equity securities are measured at fair value with changes in fair value recognized in net income and other investments in equity securities that do not have readily determinable fair values are measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions.

*(j) Research and development*

Research and development cost are expensed as incurred. Costs that are incurred to develop the finished product after technological feasibility has been established are capitalised as an intangible asset. Expenditure incurred on equipment and facilities acquired or constructed for research and development activities and having alternative future use is capitalized as property and equipment.

*(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

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against guarantees, letters of credit and bank balance earmarked towards unclaimed dividend. Restrictions on margin money deposits are released on the expiry of the term of guarantees and letters of credit.

Term deposits with banks and corporations represent term deposits earning fixed rate of interest with maturities ranging from more than three months to twenty-four months at the date of purchase/investment. Interest on term deposits with banks 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 income tax expense in the condensed consolidated statement of income. Provision for income taxes also includes the impact of provisions established for uncertain income tax positions, as well as the related interest and penalties.

*(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 and reverse treasury stock method for buy back, except where results would be anti-dilutive.

*(o) Employee benefits*

Defined contribution plan

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

Defined benefit plan

Provident fund:

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

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 accounts for liability based on actuarial valuation using the projected unit credit method at the end of each year. The Group has unfunded gratuity obligations except in respect of certain employees in India, where the Group contributes towards gratuity liabilities to the Gratuity Fund Trust, which invests the contributions in a scheme with the Life Insurance Corporation of India as permitted by law.

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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 it 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 using the projected unit credit method as the end of each year. 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 forecasted transactions denominated in certain foreign currencies, and interest rate swaps are entered to mitigate interest rate fluctuation risk on our indebtedness. 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)' and finance cost as applicable.

The foreign exchange forward contracts, options and interest rate swaps 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 'other comprehensive income (loss)' (OCI) until the hedged transaction occurs and are then recognized as 'foreign exchange gains (losses)' and 'finance cost' as applicable in the condensed consolidated statement of income. The ineffective portion of hedging derivatives is immediately recognized in the condensed consolidated statement of 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.

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 forecasted 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.

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*(r) Goodwill and intangibles*

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Goodwill is not amortized but is reviewed for impairment annually or more frequently if indicators arise. Goodwill is tested annually 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. Certain Licensed IPRs which include the right to modify, enhance or exploit are amortised in proportion to the expected benefits over the useful life which could range up to 15 years. 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 lives 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
Licensed IPRs	5 to 15
Assembled workforce	5
Non-compete agreements	3 to 5
Intellectual property rights	4 to 6
Brand and others	2 to 5

*(s) Reclassifications*

Certain reclassifications have been made to conform prior period condensed consolidated financial statements to the classification used in the current period. The Company during the three months period ended June 30, 2019 changed the functional classification within the condensed consolidated statement of income, which has resulted in separate presentation of “Research and Development” cost with corresponding decrease in “Cost of revenues” and increase in “Gross profit”. The reclassification had no impact on the reported net income, comprehensive income or shareholders’ equity.

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*(t) Recently issued accounting pronouncements*

*Adoption of new accounting principles*

In August 2018, the FASB issued Accounting Standards Update No. 2018-13 (ASU 2018-13) "Fair value measurement (Topic 820)". The amendments in this Update apply to all entities that are required, under existing GAAP, to make disclosures about recurring or nonrecurring fair value measurements. The amendments in this Update modify the disclosure requirements on fair value measurements in Topic 820, including the consideration of costs and benefits. The Group has adopted this ASU effective April 01, 2020 and the adoption did not have any material impact on its condensed consolidated financial statements.

*New accounting pronouncements*

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 the fiscal year beginning April 01, 2023 including interim periods within those fiscal years. The Group is currently in the process of evaluating the impact that adoption of this standard will have on its consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04 (ASU 2017-04) "Intangibles—Goodwill and Other (Topic 350)", Simplifying the Test for Goodwill Impairment, which eliminates Step 2 of the goodwill impairment test that had required a hypothetical purchase price allocation. Rather, entities should apply the same impairment assessment to all reporting units and recognize an impairment loss for the amount by which a reporting unit's carrying amount exceeds its fair value, without exceeding the total amount of goodwill allocated to that reporting unit. Entities will continue to have the option to perform a qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendments are effective for the fiscal year beginning April 01, 2022 including interim periods within those fiscal years. The Group is currently in the process of evaluating the impact that adoption of this standard will have on its consolidated financial statements.

In August 2017, the FASB issued Accounting Standards Update No. 2017-12 (ASU 2017-12) "Derivatives and Hedging (Topic 815)". The amendments in this Update more closely align the results of cash flow and fair value hedge accounting with risk management activities through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results in the financial statements. The amendments address specific limitations in current GAAP by expanding hedge accounting for both non financial and financial risk components and by refining the measurement of hedge results to better reflect an entity's hedging strategies. Thus, the amendments will enable an entity to include the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is presented. The amendments are effective for fiscal years beginning April 01, 2021. Early application is permitted in any interim period after issuance of the Update. 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 August 2018, the FASB issued ASU No. 2018-14, "Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans." The ASU modifies the disclosure requirements with respect to defined benefit pension plans. The ASU is effective for the Company beginning April 1, 2022. Early adoption is permitted. The Company is in the process of assessing the impact of this ASU on its consolidated results of operations, cash flows, financial position and disclosures.

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In May 2019, the FASB issued ASU No. 2019-05, “Financial Instruments—Credit Losses (Topic 326).” The ASU provides final guidance that allows entities to make an irrevocable one-time election upon adoption of the new credit losses standard to measure financial assets measured at amortized cost (except held-to-maturity securities) using the fair value option. The amendments are effective for the fiscal year beginning April 01, 2023, including interim periods within those fiscal years. The Group is currently in the process of evaluating the impact that adoption of this standard will have on its consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740). The amendments in this Update simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The ASU amendments are effective for fiscal years beginning April 01, 2022. Early adoption of the amendments 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.

### **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 receivables, finance lease receivables, investment securities and derivative instruments. The cash resources of the Group are invested with mutual funds, banks, financial institutions and corporations after an evaluation of the credit risk. By their nature, all such financial instruments involve risks, including the credit risk of non-performance by counterparties. In the management’s opinion, as of March 31, 2020 and June 30, 2020, 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, accounts receivables, unbilled 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 receivables, unbilled receivables and finance lease receivables.

#### **Impact of COVID-19 (Global pandemic)**

Accounts receivables, unbilled receivables, finance lease receivables and contract assets have been valued after making reserve for allowances based on factors like ageing, likelihood of increased credit risk and expected realizability, nature of customer verticals, considering impact of COVID – 19 on customers and related customer verticals.

### **4. TRANSFER OF FINANCIAL ASSETS**

The Group has revolving accounts receivable based facilities of \$201,000 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 three months ended June 30, 2019 and 2020 was \$120,491 and \$98,209, respectively. Outstanding utilization against this facility as of March 31, 2020 and June 30, 2020 is \$63,177 and \$48,630, respectively.

Gains or losses on the sales are recorded at the time of transfer of these receivables and are immaterial. The Group has no outstanding service obligation.

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**5. ACQUISITIONS IN PREVIOUS YEAR**

**Acquisition of Select IBM Software products**

On December 07, 2018, the Group had signed a definitive agreement to acquire business relating to select IBM software products for a consideration of \$1,775,000.

The Group has acquired these products for security, marketing, commerce, and digital solutions along with certain assumed liabilities and in scope employees. With this the Group gets 100% control on the assets being acquired and has also taken full ownership of the research and development, sales, marketing, delivery and support for these products. Through this acquisition, the Group intends to enhance its products and platforms offering to customers across a wide range of industries and markets. IBM will pay the Company for the assumed liabilities as related services are rendered, based on an agreed basis, fair value of the same has been estimated at \$505,630.

Acquisition has been consummated effective June 30, 2019. The Group has paid \$812,500 till June 30, 2019. \$812,500 is payable after one year and \$150,000 is payable in three tranches of \$50,000 each till July 30, 2021 subject to fulfilment of certain conditions as per agreement. These payables have been fair valued at \$929,929.

The Group had earlier acquired certain intellectual property rights (Licensed IPRs) from IBM for some of these products and was carrying these licensed IPRs at an unamortized value of \$427,306 as of June 30, 2019. This amount has been reduced from Licensed IPRs and included in purchase price.

The purchase price including the fair value of remaining consideration and unamortized value of Licensed IPRs of \$929,929 and \$427,306 respectively, is \$2,169,735 and has been allocated based on management estimates to the acquired assets and liabilities as follows:

	<b>Amount</b>
Recoverable from IBM (against contract liabilities)*	\$505,630
Contract liabilities*	(509,630)
Property and equipment	290
Deferred tax asset, net	1,436
Customer related intangibles	919,890
Technology	351,730
Goodwill	900,389
<b>Total purchase consideration</b>	<b>\$2,169,735</b>

\*Presented gross of \$235,630 recoverable from IBM with a corresponding contract liability for customer contracts entered by IBM for these products with service obligation commencing after June 30, 2019.

The resultant goodwill is considered tax deductible and has been allocated to the Products & Platforms segment. This goodwill is attributable mainly to Group's ability to upgrade the products and enhance the sale of products to customers in existing business of the group and targeting new customers.



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The table below shows the values and lives of intangible assets recognized on acquisition:-

	<u>Amount</u>	<u>Life (Years)</u>	<u>Basis of amortisation</u>
Customer intangibles related	\$919,890	10	In proportion of estimated revenue
Technology	351,730	7 to 10	On straight line basis over the estimated life of the respective products
<b>Total Intangible assets</b>	<b><u>\$1,271,620</u></b>		

The Group had paid first tranche of the deferred purchase price of \$40,079 during the year ended March 31, 2020 and has paid \$812,500 out of the balance purchase consideration during the three months ended June 30, 2020.

**Other Acquisitions**

- a) On April 01, 2019, the Group, through a wholly owned subsidiary, entered into an agreement to acquire 100% shareholding of a Company in US doing business in digital transformation consulting. The acquisition will enhance Group's digital consulting offerings with their strong capabilities in digital strategy development, agile program management, business transformation and organizational change management.

The total purchase price for the acquisition is \$45,005. The Group has paid \$44,058 till June 30, 2020.

Total purchase consideration of \$45,005 has been allocated based on management estimates to the acquired assets and liabilities as follows:

	<u>Amount</u>
Net working capital (including cash of \$933)	\$9,990
Deferred tax liabilities	(2,439)
Property and equipment	316
Customer relationship	8,200
Customer contracts	1,400
Brand	800
Goodwill	26,738
<b>Total purchase consideration</b>	<b><u>\$45,005</u></b>

The resultant goodwill is not considered tax deductible and has been allocated to IT and Business Services segment.

The table below shows the values and lives of intangible assets recognized on acquisition:

	<u>Amount</u>	<u>Life (Years)</u>
Customer relationship	\$8,200	9.0
Customer contracts	1,400	1.0
Brand	800	2.0
<b>Total Intangible assets</b>	<b><u>\$10,400</u></b>	

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In addition to the purchase consideration, \$5,000 is payable to certain key employees over a two-year period. Payment of this amount is in the nature of long term incentive plan to the senior managers of the operating entities that includes retention and performance based bonuses. This consideration is being accounted for as post acquisition employee compensation expense in accordance with ASC 805 on "Business combination".

- b) On October 10, 2019, the Group acquired 100% shareholding of a Company in India, which offers an integrated portfolio of services and solutions to its customers in key semiconductor domains. This acquisition offers an opportunity to combine acquiree's analog strength with Group's digital SOC (System on Chip) expertise to gain market share in Very Large Scale Integration design services market.

The total purchase price for the acquisition is \$25,995. The Group has paid \$24,822 till June 30, 2020.

Total purchase consideration of \$25,995 has been preliminarily allocated based on management estimates to the acquired assets and liabilities as follows:

	<b>Amount</b>
Net working capital (including cash of \$1,838)	\$4,639
Deferred tax liabilities	(1,033)
Property and equipment	4,773
Customer relationship	4,218
Customer contracts	1,163
Brand	462
Non-Compete Agreement	252
Goodwill	11,521
<b>Total purchase consideration</b>	<b>\$25,995</b>

The resultant goodwill is not considered tax deductible and has been allocated to Engineering and R&D services segment.

The table below shows the values and lives of intangible assets recognized on acquisition:

	<b>Amount</b>	<b>Life (Years)</b>
Customer relationship	4,218	8.5
Customer contracts	1,163	1.5
Brand	462	2.5
Non-Compete Agreement	252	3.0
<b>Total Intangible assets</b>	<b>\$6,095</b>	

The Group is in the process of making a final determination of the fair value of assets and liabilities. Finalization of the purchase price allocation may result in certain adjustments to the above allocation.

In addition to the purchase consideration, \$2,098 is payable to certain key employees over a three-year period. Payment of this amount is in the nature of long term incentive plan to the key employees of the operating entities that includes retention and performance based bonuses. This consideration is being accounted for as post acquisition employee compensation expense in accordance with ASC 805 on "Business combination".

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**6. PROPERTY AND EQUIPMENT**

As of March 31, 2020 and June 30, 2020, property and equipment comprises the following :

	<b>March 31, 2020</b>	<b>June 30, 2020</b>
Freehold land	\$11,826	\$10,505
Buildings	416,356	428,235
Computer and networking equipment	641,184	692,274
Software	197,470	203,990
Furniture, fixtures and office equipment	116,392	119,497
Plant and equipment	278,292	285,613
Vehicles	18,796	18,109
Capital work-in-progress	67,664	47,049
	<b>1,747,979</b>	<b>1,805,272</b>
Accumulated depreciation and amortization	(922,776)	(976,116)
<b>Property and equipment, net</b>	<b>\$825,204</b>	<b>\$829,156</b>

Computer and networking equipment includes assets taken on finance lease and represents right of use assets on finance lease of \$3,712 and \$3,682 as of March 31, 2020 and June 30, 2020, respectively.

**7. GOODWILL AND INTANGIBLES**

Changes in goodwill balances by reportable segment, for the year ended March 31, 2020, are as follows

	<b>IT and Business Services</b>	<b>Engineering and R&amp;D Services</b>	<b>Products &amp; Platforms</b>	<b>Total</b>
Balance as at March 31, 2019	\$738,883	\$408,197	\$190,251	\$1,337,331
Acquisitions during the year	26,738	11,521	918,864	957,123
Measurement period adjustments	-	-	(23,567)	(23,567)
Effect of exchange rate changes	(29,147)	(7,623)	(77,922)	(114,692)
Balance as at March 31, 2020	<b>\$736,474</b>	<b>\$412,095</b>	<b>\$1,007,626</b>	<b>\$2,156,195</b>

Changes in goodwill balances by reportable segment, for the three months ended June 30, 2020, are as follows:

	<b>IT and Business Services</b>	<b>Engineering and R&amp;D Services</b>	<b>Products &amp; Platforms</b>	<b>Total</b>
Balance as at March 31, 2020	\$736,474	\$412,095	\$1,007,626	\$2,156,195
Effect of exchange rate changes	5,038	441	2,304	7,783
Balance as at June 30, 2020	<b>\$741,512</b>	<b>\$412,536</b>	<b>\$1,009,930</b>	<b>\$2,163,978</b>

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The components of intangible assets are as follows:

	<u>March 31, 2020</u>	<u>June 30, 2020</u>
Intellectual property rights	\$2,115	\$2,117
Technology	391,951	392,563
Customer related intangibles	1,064,881	1,067,110
Licensed IPRs	707,705	788,007
Assembled workforce	37,187	37,450
Customer contracts	14,675	14,646
Non-compete agreements	3,498	3,496
Brand and others	3,656	3,640
	<b><u>\$2,225,668</u></b>	<b><u>2,309,029</u></b>
Accumulated amortization	<u>(\$493,616)</u>	<u>(563,830)</u>
<b>Intangibles, net</b>	<b><u>\$1,732,052</u></b>	<b><u>\$1,745,199</u></b>

Amortization expense was \$38,285 and \$69,767 for the three months ended June 30, 2019 and 2020, respectively.

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

Year ending March 31,	
2021	\$208,215
2022	255,483
2023	229,530
2024	209,488
2025	196,843
Thereafter	645,640
	<b><u>\$1,745,199</u></b>

**Impact of COVID-19 (Global pandemic)**

The Group tests goodwill for impairment annually, or more frequently when there is an indication for impairment, and tests intangible assets for impairment when there is an indication for impairment. The Group has performed an evaluation for any indicators of impairment considering the likely impact of COVID-19 on impacted industry verticals and geographies.

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

In evaluating whether the Group has the power to direct the activities of a VIE that most significantly impact its economic performance, the Group 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 affect the entity's future performance and the exercise of professional judgment in deciding which decision-making rights are most important.

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

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

	<b>March 31, 2020</b>	<b>June 30, 2020</b>
<b>Current assets</b>		
Cash and cash equivalents	\$13,539	\$31,336
Term deposits with banks	16,255	11,919
Accounts receivables, net	3,528	465
Unbilled receivables	3,366	3,700
Other current assets	8,165	8,270
<b>Total Current Assets</b>	<b>\$44,852</b>	<b>\$55,690</b>
Deferred income taxes, net	7,059	7,353
Property and equipment, net	5,690	5,666
Operating lease right-of-use assets	18,519	15,106
Other assets	16,279	15,855
<b>Total Assets</b>	<b>\$92,400</b>	<b>\$99,670</b>
<b>Current liabilities</b>		
Accounts payable	\$807	\$660
Accrued employee costs	1,968	1,817
Current portion of Operating leases liability	2,595	2,390
Other current liabilities	4,265	4,406
<b>Total current liabilities</b>	<b>\$9,635</b>	<b>\$9,273</b>
Accrued employee costs	1,562	1,717
Operating lease liabilities, net of current portion	16,785	13,801
<b>Total liabilities</b>	<b>\$27,982</b>	<b>\$24,791</b>

- a) Assets and liabilities exclude all intercompany accounts and transactions, which are eliminated in consolidation.
- b) For the three months ended June 30, 2019 and 2020, total revenues, from VIEs were \$13,992 and \$19,992, respectively (including intercompany revenues of \$7,299 and \$10,336), respectively.

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**9. INVESTMENT SECURITIES**

Available for sale investment securities consist of the following:

As of March 31, 2020:

	Carrying value	Gross unrealized holding gains	Gross unrealized holding loss	Fair value
Mutual fund units – debt	\$433,176	\$2,635	\$-	\$435,811
Corporate debt securities – bonds	488,075	-	(295)	487,780
<b>Total</b>	<b>\$921,251</b>	<b>\$2,635</b>	<b>(\$295)</b>	<b>\$923,591</b>

As of June 30, 2020:

	Carrying value	Gross unrealized holding gains	Gross unrealized holding loss	Fair value
Mutual fund units – debt	\$522,600	\$900	\$-	\$523,500
Corporate debt securities – bonds	256,327	4,523	-	260,850
<b>Total</b>	<b>\$778,927</b>	<b>\$5,423</b>	<b>\$-</b>	<b>\$784,350</b>

The gross unrealized holding gains (loss) 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, 2020 is set out below:

	Fair value
Less than one year	\$677,815
After 1 year through 5 years	92,037
After 5 years through 10 years	14,498
	<b>\$784,350</b>

Proceeds from the sale of available for sale securities was \$926,872 and \$1,119,562, for the three months ended June 30, 2019 and 2020, respectively.

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

The table summarizes the transactions for available for sale securities:

	Three months ended June 30	
	2019	2020
Net realised gain	\$7,710	\$5,804
Reclassification into earnings on maturity out of other comprehensive income	\$5,531	\$4,188

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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 and interest 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, options and interest rate swaps that are designated as cash flow hedges and the related forecasted transactions extend through May 2025.

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, 2020	June 30, 2020	March 31, 2020	June 30, 2020
	Foreign exchange forward denominated in:			
USD /INR	\$787,370 (Sell)	\$1,033,860 (Sell)	(\$35,947)	(\$20,508)
GBP/ INR	£40,540 (Sell)	£54,800 (Sell)	258	1992
GBP/USD	£95,650 (Sell)	£57,250 (Sell)	922	(196)
EUR / USD	€ 57,300 (Sell)	€ 13,500 (Sell)	242	(10)
EUR/ INR	€ 79,000 (Sell)	€ 91,000 (Sell)	3,596	2,991
AUD/INR	AUD 16,000 (Sell)	AUD 39,000 (Sell)	1,182	(393)
AUD/USD	AUD 4,250 (Sell)	AUD 4,750 (Sell)	205	(146)
SEK/INR	SEK 110,000 (Sell)	SEK 290,000 (Sell)	512	(247)
SEK/USD	- (Sell)	SEK 166,000 (Sell)	-	7
CHF/USD	CHF 17,391 (Sell)	CHF 26,000 (Sell)	105	(272)
CHF/ INR	CHF 35,500 (Sell)	CHF 39,000 (Sell)	(830)	(607)
MXN/USD	MXN 505,861 (Sell)	MXN 281,861 (Sell)	1,282	(112)
RUB/USD	RUB 290,000 (Sell)	RUB 465,000 (Sell)	773	(199)
NOK/INR	NOK 60,000 (Sell)	NOK 120,000 (Sell)	1,077	383
CNY/USD	CNY 79,000 (Sell)	CNY 44,000 (Sell)	100	(79)
NZD/USD	NZD 1,551 (Sell)	NZD 3,700 (Sell)	42	(25)
PLN/USD	PLN 30,200 (Sell)	PLN 12,100 (Sell)	219	(70)
ZAR/USD	ZAR 118,000 (Sell)	ZAR 165,983 (Sell)	777	(76)
BRL/USD	BRL 81,000 (Sell)	BRL 61,000 (Sell)	2,274	(334)
JPY/USD	JPY 870,000 (Sell)	- (Sell)	(22)	-
JPY/INR	JPY 1,910,000 (Sell)	JPY 2,060,000 (Sell)	(113)	134
CAD/INR	CAD 23,000 (Sell)	CAD 35,000 (Sell)	674	222
IDR/USD	- (Sell)	IDR 45,000,000 (Sell)	-	(294)
RON/USD	- (Sell)	RON 25,000 (Sell)	-	66
CAD/USD	CAD 25,500 (Buy)	CAD 52,000 (Buy)	(943)	282
SGD/USD	SGD 40,700 (Buy)	SGD 31,900 (Buy)	(388)	340
GBP/USD	£34,000 (Buy)	£9,500 (Buy)	70	7
EUR/USD	€ 16,500 (Buy)	€ 20,255 (Buy)	(190)	12
SEK/USD	SEK 385,000 (Buy)	SEK 491,000 (Buy)	(1,527)	1,749
JPY /USD	JPY 1,590,000 (Buy)	JPY 391,000 (Buy)	(124)	(11)
CHF /USD	CHF 1,000 (Buy)	- (Buy)	17	-

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	Notional principal amounts		Balance sheet exposure Asset (Liability)	
	March 31, 2020	June 30, 2020	March 31, 2020	June 30, 2020
	ZAR /USD	ZAR 35,000 (Buy)	- (Buy)	18
AUD/USD	- (Buy)	AUD 3,000 (Buy)	-	-
NOK /USD	NOK 202,000 (Buy)	NOK 163,500 (Buy)	(280)	88
DKK/USD	DKK 79,500 (Buy)	DKK 97,500 (Buy)	86	199
PHP/USD	PHP 275,000 (Buy)	PHP 555,000 (Buy)	(12)	129
CZK/USD	CZK 200,100 (Buy)	CZK 85,600 (Buy)	(406)	87
BGN/USD	- (Buy)	BGN 7,250 (Buy)	-	9
ILS/USD	- (Buy)	ILS 7,750 (Buy)	-	18
			<b>(\$26,351)</b>	<b>(\$14,864)</b>

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

	Notional principal amounts		Balance sheet exposure Asset (Liability)	
	March 31, 2020	June 30, 2020	March 31, 2020	June 30, 2020
	<b>Range Forward (Sell)</b>			
USD/INR	\$637,982	\$503,225	(\$12,645)	(\$3,601)
EUR/INR	€ 36,530	€ 38,030	412	(168)
GBP/INR	£15,750	£8,000	554	350
AUD/INR	AUD 8,500	AUD 8,500	418	(32)
EUR/USD	€ 2,300	-	(21)	-
SEK/INR	SEK 15,000	-	231	-
<b>Seagull (Buy)</b>				
USD/INR	\$143,500	-	4,275	-
<b>Seagull (Sell)</b>				
USD/INR	-	\$7,000	-	16
EUR/USD	€ 8,300	-	(45)	-
GBP/USD	£6,750	-	164	-
EUR/INR	-	€ 7,000	-	(193)
			<b>(\$6,657)</b>	<b>(\$3,628)</b>

The following table presents the aggregate notional principal amounts of the outstanding interest rate swaps together with the related balance sheet exposure:

	Notional principal amounts		Balance sheet exposure Asset (Liability)	
	March 31, 2020	June 30, 2020	March 31, 2020	June 30, 2020
	Interest rate swap (floating to fixed)	\$255,000	\$255,000	(\$7,133)
			<b>(\$7,133)</b>	<b>(\$7,891)</b>



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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 condensed consolidated financial statements due to the right of offset by its individual counterparties under master netting agreements.

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

**March 31, 2020**

	Other current assets	Other assets	Other current liabilities	Other liabilities	Total fair value
<b>Derivatives designated as hedging instruments:</b>					
Foreign exchange contracts in an asset position	\$7,455	\$2,908	\$7,227	\$2,908	\$20,498
Foreign exchange contracts in a liability position	(7,227)	(2,908)	(23,397)	(26,317)	(59,849)
Interest rate swap contracts in a liability position	-	-	(1,678)	(5,455)	(7,133)
<b>Net asset (liability)</b>	<b>\$228</b>	<b>\$-</b>	<b>(\$17,848)</b>	<b>(\$28,864)</b>	<b>(\$46,484)</b>
<b>Derivatives not designated as hedging instruments:</b>					
Foreign exchange contracts in an asset position	\$12,568	\$-	\$3,911	\$-	\$16,479
Foreign exchange contracts in a liability position	(3,911)	-	(6,225)	-	(10,136)
<b>Net asset (liability)</b>	<b>\$8,657</b>	<b>\$-</b>	<b>(\$2,314)</b>	<b>\$-</b>	<b>\$6,343</b>
<b>Total Derivatives at fair value</b>	<b>\$8,885</b>	<b>\$-</b>	<b>(\$20,162)</b>	<b>(\$28,864)</b>	<b>(\$40,141)</b>

**June 30, 2020**

	Other current assets	Other assets	Other current liabilities	Other liabilities	Total fair value
<b>Derivatives designated as hedging instruments:</b>					
Foreign exchange contracts in an asset position	\$6,227	\$4,074	\$5,878	\$4,074	\$20,253
Foreign exchange contracts in a liability position	(5,878)	(4,074)	(16,554)	(14,805)	(41,311)
Interest rate swap contracts in a liability position	-	-	(2,689)	(5,202)	(7,891)
<b>Net asset (liability)</b>	<b>\$349</b>	<b>\$-</b>	<b>(\$13,365)</b>	<b>(\$15,933)</b>	<b>(\$28,949)</b>
<b>Derivatives not designated as hedging instruments:</b>					
Foreign exchange contracts in an asset position	\$5,191	\$-	\$2,132	\$-	\$7,323
Foreign exchange contracts in a liability position	(2,132)	-	(2,625)	-	(4,757)
<b>Net asset (liability)</b>	<b>\$3,059</b>	<b>\$-</b>	<b>(\$493)</b>	<b>\$-</b>	<b>\$2,566</b>
<b>Total Derivatives at fair value</b>	<b>\$3,408</b>	<b>\$-</b>	<b>(\$13,858)</b>	<b>(\$15,933)</b>	<b>(\$26,383)</b>

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The following tables set forth the fair value of derivative instruments included in the condensed consolidated balance sheets as on March 31, 2020 and June 30, 2020:

**Derivatives designated as hedging instruments:**

	<b>March 31, 2020</b>	<b>June 30, 2020</b>
Unrealized gain on financial instruments classified under current assets	\$228	\$349
Unrealized gain on financial instruments classified under non current assets	-	-
Unrealized loss on financial instruments classified under current liabilities	(17,848)	(13,365)
Unrealized loss on financial instruments classified under non-current liabilities	(28,864)	(15,933)
	<b>(\$46,484)</b>	<b>(\$28,949)</b>

**Derivatives not designated as hedging instruments:**

	<b>March 31, 2020</b>	<b>June 30, 2020</b>
Unrealized gain on financial instruments classified under current assets	\$8,657	\$3,059
Unrealized loss on financial instruments classified under current liabilities	(2,314)	(493)
	<b>\$6,343</b>	<b>\$2,566</b>

The following table summarizes the activities in other comprehensive income (loss) ('OCI') and their effects on financial performance during the three months ended June 30, 2019:

Derivatives in cash flow hedging relationships	Amount of gain or (loss) recognized in OCI on derivatives (Effective portion)	Location of gain or (loss) reclassified from OCI into statement of income (Effective portion)	Amount of gain or (loss) reclassified from OCI into statement of 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	\$1,623	Other income (expense),net	\$3,866	Other income (expense),net	Nil
	<b>\$1,623</b>		<b>\$3,866</b>		<b>Nil</b>
Derivatives not designated as hedging instruments		Location of gain or (loss) recognized in statement of income on derivatives		Amount of gain or (loss) recognized in statement of income on derivatives	
Foreign exchange contracts		Other income (expense),net		\$6,903	

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The following table summarizes the activities in other comprehensive income (loss) ('OCI') and their effects on financial performance during the three months ended June 30, 2020:

Derivatives in hedging relationships	Amount of gain or (loss) recognized in OCI on derivatives (Effective portion)	Location of gain or (loss) reclassified from OCI into statement of income (Effective portion)	Amount of gain or (loss) reclassified from OCI into statement of 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	\$17,501	Other Income (Expense),net	(\$1,384)	Other Income (Expense),net	Nil
Interest rate swap contracts	(\$657)	Finance cost	(\$257)	Finance cost	Nil
	<b>\$16,844</b>		<b>(\$1,641)</b>		<b>Nil</b>

Derivatives not designated as hedging instruments	Location of gain or (loss) recognized in statement of income on derivatives	Amount of gain or (loss) recognized in statement of income on derivatives
Foreign exchange contracts	Other income (expense),net	\$8,088

The following table summarizes the activity in 'Other comprehensive income (loss)' within equity related to all derivatives classified as cash flow hedges for the three months ended June 30, 2019 and 2020, respectively:

	<b>June 30, 2019</b>	<b>June 30, 2020</b>
Balance as at the beginning of the period (before tax)	\$29,986	(\$49,390)
Unrealized gain (loss) on cash flow hedging derivatives during the period	\$1,623	16,844
Net loss (gain) reclassified into statement of income on occurrence of hedged transactions	(\$3,866)	1,641
Effect of exchange rate fluctuations	\$37	(88)
Balance as at the end of the period (before tax)	<b>\$27,780</b>	<b>(\$30,993)</b>
Tax (expense) benefit	(4,719)	5,714
	<b>\$23,061</b>	<b>(\$25,279)</b>

As of June 30, 2020, the estimated net amount of existing loss that is expected to be reclassified into the income statement from OCI within the next twelve months is (\$15,216).

**Impact of COVID-19 (Global pandemic)**

Basis the Group hedging policy, management has performed assessment of COVID- 19 pandemic's impact for any change in probability of occurrence of the forecasted transactions, counter party credit risk and own credit risk, and believes that there is no impact on effectiveness of its hedges.

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**11. OTHER CURRENT ASSETS**

As of March 31, 2020 and June 30, 2020, other current assets comprise the following:

	<b>March 31, 2020</b>	<b>June 30, 2020</b>
Prepaid expenses	\$151,552	\$140,735
Interest receivable	33,418	18,410
Prepaid/advance taxes	20,761	19,874
Deposits	14,935	14,194
Deferred contract cost	73,883	82,649
Contract assets	69,638	39,990
Employee receivables	5,224	2,568
Derivative financial instruments	8,885	3,408
Advance to suppliers	17,308	13,522
Finance lease receivable	94,092	94,800
Restricted cash	1,382	1,376
Recoverable from IBM (against Contract liabilities)	131,607	67,667
Others	62,991	74,751
	<b>\$685,676</b>	<b>\$573,944</b>

**12. OTHER ASSETS**

As of March 31, 2020 and June 30, 2020, other assets comprise the following:

	<b>March 31, 2020</b>	<b>June 30, 2020</b>
Security deposits	\$33,717	\$34,454
Deferred contract cost	171,356	179,706
Unbilled receivables	158,449	146,177
Prepaid expenses	49,941	48,446
Finance lease receivable	131,378	137,498
Recoverable from IBM (against Contract liabilities)	2,890	-
Restricted cash	132	136
Others	442	444
	<b>\$548,305</b>	<b>\$546,861</b>

**13. DEBTS**

**SHORT TERM BORROWINGS**

The Group has unsecured short term loan amounting to \$99,999 and \$99,999 as of March 31, 2020 and June 30, 2020 at effective interest of 1.72% and 1.20%, respectively.

The Group has availed an unsecured bank line of credit from its bankers amounting to \$143,771 and \$98,036 as of March 31, 2020 and June 30, 2020, respectively, at effective interest rates ranging from 0.5% to 6.9% , respectively.

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**LONG TERM DEBT**

	<u>March 31, 2020</u>	<u>June 30, 2020</u>
From banks	\$428,771	\$424,564
Other	406	146
Less: Current portion	(52,795)	(50,261)
	<u><b>\$376,382</b></u>	<u><b>\$374,449</b></u>

The scheduled principal repayments are as follows:

	<u>June 30, 2020</u>
Within one year	\$50,261
One to two years	32,984
Two to three years	324,166
Three to five years	17,299
	<u><b>\$424,710</b></u>

The Group's borrowings are subject to certain financial and non financial covenants. At June 30, 2020, the Group was in compliance with all such covenants.

**Long term debts from banks include:**

Unsecured long term loans of \$422,071 and \$418,331 as of March 31, 2020 and June 30, 2020, respectively, at effective interest rates of 0.9% to 7.9%.

Term loans of \$6,700 and \$6,233 as of March 31, 2020 and June 30, 2020, respectively, at effective interest rates of 8.5% to 9.7% and secured by hypothecation of vehicles with a gross book value of \$17,067 and \$16,392 as of March 31, 2020 and June 30, 2020, respectively.

**Other long term debts include:**

Unsecured long term loans from a vendor of \$406 and \$146 as of March 31, 2020 and June 30, 2020, respectively, at nil interest.

**14. OTHER CURRENT LIABILITIES**

As of March 31, 2020 and June 30, 2020, other current liabilities comprise the following:

	<u>March 31, 2020</u>	<u>June 30, 2020</u>
Advances from customers	\$33,288	\$36,384
Sales tax and other taxes payable	123,471	162,550
Accrued liabilities and expenses	464,137	465,610
Supplier's credit*	60,266	43,498
Due to related parties	2,999	3,272
Derivative financial instruments	20,162	13,858
Deferred consideration (including contingent consideration)	857,917	50,916
Others	33,873	38,457
	<u><b>\$1,596,113</b></u>	<u><b>\$814,545</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 9.8%.

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**15. OTHER LIABILITIES**

As of March 31, 2020 and June 30, 2020, other liabilities comprise the following:

	<u>March 31, 2020</u>	<u>June 30, 2020</u>
Accrued liabilities and expenses	\$3,746	\$3,647
Derivative financial instruments	28,864	15,933
Deferred consideration (including contingent consideration)	48,296	48,637
Others	12,388	70,700
	<u><b>\$93,294</b></u>	<u><b>\$138,917</b></u>

**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, 2020 is \$0.03 (₹ 2.00).

*Voting*

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

*Dividends*

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

*Bonus Issue*

During the year ended March 31, 2020, pursuant to the approval of the shareholders through postal ballot (including remote e-voting), the Company has allotted 1,356,832,548 bonus shares of ₹ 2/- each fully paid-up on December 10, 2019 in the proportion of 1 equity share for every 1 equity share of ₹ 2/- each held by the equity shareholders of the Company as on the record date of December 07, 2019. Consequently, the Company capitalized an amount of \$38,029 from its retained earnings (other unappropriated reserves) to common stock. All references in the financial statements to number of shares, stock option data, have been retroactively restated to reflect the bonus issue unless otherwise noted.

*Liquidation*

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

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

For the three months ended June 30, 2019 and 2020, other income (expenses), net consist of:

	<b>June 30, 2019</b>	<b>June 30, 2020</b>
Interest income	\$15,074	\$19,421
Gain on sale of investment securities and other investments, net	7,710	5,804
Foreign exchange gain (loss), net	2,656	33
Equity in earning of affiliates	439	-
Gain (loss) on sale of property and equipment	(224)	14,378
Miscellaneous income	628	682
<b>Other income, net</b>	<b>\$26,283</b>	<b>\$40,318</b>

**18. INCOME TAXES**

The effective tax rate (ETR) for the Group for the three months ended June 30, 2019 and 2020 is 24.00% and 24.03%, respectively

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

	<b>March 31, 2020</b>	<b>June 30, 2020</b>
Balance at the beginning of the period	138,524	132,894
Increase due to tax position taken during the current period	-	12,995
Increase due to tax position taken during the prior period	6,152	3,135
Effect of exchange rate fluctuations	(11,782)	272
Balance at the end of the period	<b>\$132,894</b>	<b>\$149,296</b>

**19. EARNINGS PER SHARE**

For the three months ended June 30, 2019 and 2020, following is the reconciliation of the weighted average number of equity shares used in the computation of basic and diluted earnings per equity share (EPS):

	<b>June 30, 2019</b>	<b>June 30, 2020</b>
Weighted average number of equity shares outstanding used in computing basic EPS	2,712,557,736	2,713,665,096
Dilutive effect of stock options	986,156	-
Weighted average number of equity and equity equivalent shares outstanding used in computing diluted EPS	<b>2,713,543,892</b>	<b>2,713,665,096</b>

For the three months ended June 30, 2019 and 2020, there were no options 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.

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**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 tenure of employment subject to a maximum of \$26 (₹ 2,000,000/-).

Net gratuity cost for the three months ended June 30, 2019 and 2020 comprise the following components:

	<b>Three months ended June 30,</b>	
	<b>2019</b>	<b>2020</b>
Service cost	\$3,068	\$3,900
Interest cost (net)	1,203	1,612
Expected return on plan assets	(46)	(46)
Amortization of unrecognized actuarial loss (gain)	-	15
<b>Net gratuity cost</b>	<b>\$4,225</b>	<b>\$5,480</b>

***Provident fund***

In accordance with Indian law, all employees of Indian entities receive benefits from a provident fund, which is a defined benefit 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 a stipulated percentage 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 (₹1,250/-) 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, equity and other eligible market securities.

Total contributions made by the Group in respect of this plan for the three months ended June 30, 2019 and 2020 are \$6,070 and \$5,535, respectively.

Total contributions made by the Group towards Employees Pension Scheme for the three months ended June 30, 2019 and 2020 are \$4,417 and \$4,698, respectively.

***Defined Contribution Plan***

***Superannuation***

In respect to 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 appointed fund manager and such contributions for each year of service rendered by the employees are



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charged to the condensed consolidated statements of income. 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 ended June 30, 2019 and 2020 are \$210 and \$260, respectively.

*Others*

Total contributions made by the Group in respect of other foreign defined contribution plans for the three months ended June 30, 2019 and, 2020 are \$22,426 and \$23,571, respectively.

**21. COMMITMENTS AND CONTINGENCIES**

*Capital commitments*

As of June 30, 2020, the Group had contractual commitments for capital expenditure of \$57,130.

*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, goods and services tax 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, goods and services tax and liquidated damages payable, if any, in respect of imported and indigenous capital goods and stores and spares consumed duty free, in the event that certain terms and conditions are not fulfilled.

*Other Contingencies*

- a) A wholly owned subsidiary ("WOS") with a VSAT License had received a demand from Department of Telecommunications ("DoT") in February 2015 for FY 2011-12 and FY 2013-14 for an amount of \$17,614 (₹1,330 million), including penalty, interest and interest on penalty. It had received provisional assessment orders for all the prior years with no demand. Demand is primarily due to DoT including IT Services revenues and related exchange gains in Adjusted Gross Revenue ("AGR"). The WOS had obtained stay in 2015 and its petition is pending adjudication at the Hon'ble Telecom Disputes Settlement and Appellate Tribunal ("TDSAT"). The IT Services business had been demerged from the WOS with effect from April 01, 2012. The Hon'ble Supreme Court has pronounced its ruling on the AGR matter relating to Unified Access Service License on October 24, 2019. Subsequent to this ruling, the Company has obtained legal opinion and is of the view that it should be able to defend its position in the above matter.
- b) 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. Some 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 annually 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, 2020.

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**22. SEGMENT REPORTING**

Operating segments are defined as components of an enterprise for which discrete financial information is available and whose results are reviewed regularly by the chief operating decision maker (CODM), for allocation of resources and assess performance.

The group has organized itself into the following reportable segments.

**IT and Business Services** provide a comprehensive portfolio of IT & Business Services (Application, Infrastructure and Digital Process Operations) and Digital transformation services enabled by Digital and Analytics, IoTWoRKs, Cloud native and Cybersecurity solutions including products developed within these businesses.

**Engineering and R&D Services** provides comprehensive engineering services and solutions across software, embedded, mechanical, VLSI and platform engineering that support the end to end lifecycle of products – both hardware and software across diverse industries including products developed within this business.

**Products & Platforms** includes standalone product businesses that provide modernized software products to global clients for their technology and industry specific requirements.

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.

Information on reportable segments for the three months ended June 30, 2019 is as follows:

	<b>IT and Business Services</b>	<b>Engineering and R&amp;D services</b>	<b>Products &amp; Platforms</b>	<b>Total</b>
<b>Revenue</b>	<u>\$1,779,030</u>	<u>\$400,310</u>	<u>\$184,213</u>	<u>\$2,363,553</u>
<b>Segment earnings</b>	<b>\$295,342</b>	<b>\$64,171</b>	<b>\$44,311</b>	<b>\$403,824</b>

Information on reportable segments for the three months ended June 30, 2020 is as follows:

	<b>IT and Business Services</b>	<b>Engineering and R&amp;D services</b>	<b>Products &amp; Platforms</b>	<b>Total</b>
<b>Revenue</b>	<u>\$1,652,596</u>	<u>\$377,743</u>	<u>\$325,206</u>	<u>\$2,355,545</u>
<b>Segment earnings</b>	<b>\$310,233</b>	<b>\$70,552</b>	<b>\$102,754</b>	<b>\$483,539</b>

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

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

	<b>Three months ended</b>	
	<b>June 30, 2019</b>	<b>June 30, 2020</b>
Segment earnings	\$403,824	\$483,539
Foreign exchange gain (loss)	2,656	33
Finance cost	(8,018)	(13,153)
Other income, net	23,627	40,285
Income before income taxes	<b>\$422,089</b>	<b>\$510,704</b>

### **23. DISAGGREGATE REVENUE INFORMATION**

The table below presents disaggregated revenue from contracts with the customers for the three months ended June 30, 2019 and 2020, respectively by geography and contract type.

#### *Revenues by geography*

Group operates out of various geographies and America and Europe constitute major portion of revenue accounting for over 60% and 26% and 57% and 27% for the three months period ended June 30, 2019 and 2020 respectively, rest of revenue is generated by various other geographies. Revenue and Cash flow from these geographies are consistent across various periods and are effected only in cases of specific risk with respect to any country or customer as the case maybe.

#### *Revenues by contract type*

	<b>Three months ended</b>	
	<b>June 30,</b>	
	<b>2019</b>	<b>2020</b>
Fixed price	\$1,500,534	\$ 1,567,419
Time and material	863,019	788,126
<b>Total</b>	<b>\$ 2,363,553</b>	<b>\$ 2,355,545</b>

### **Impact of COVID-19 (Global pandemic)**

The group has evaluated the impact of COVID-19 resulting from (a) increase in cost budget of fixed price projects due to additional efforts; (b) onerous projects; (c) penalties for not meeting SLAs; (d) volume discounts (e) termination/deferment of projects to ensure that revenue is recognised after considering all these impacts to the extent known and available currently. We would continue to assess COVID-19 impact as we go along due to uncertainties associated with its nature and duration.

### **24. FAIR VALUE MEASUREMENT**

The Group records certain 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

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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 Topic 820, "Fair Value Measurements and Disclosures" 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 method.

Cost approach – Replacement cost method.

The following table discloses the assets and liabilities measured at fair value on a recurring basis as of March 31, 2020 and the basis for that measurement:

	Fair value	Level 1 inputs	Level 2 inputs	Level 3 inputs
<b>Assets</b>				
Deposits with banks, corporations and debt securities having maturities less than three months	\$110,908	\$110,908	-	-
Investment securities, available for sale				
Debt linked mutual funds	\$435,811	\$435,811	-	-
Corporate debt securities	\$487,780	-	\$487,780	-
Other Investments	\$5,145	-	-	\$5,145
Derivative financial instruments	\$8,885	-	\$8,885	-
<b>Liabilities</b>				
Derivative financial instruments	\$49,026	-	\$49,026	-
Contingent consideration	\$729	-	-	\$729

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The following table discloses the assets and liabilities measured at fair value on a recurring basis as of June 30, 2020 and the basis for that measurement:

	Fair value	Level 1 inputs	Level 2 inputs	Level 3 inputs
<b>Assets</b>				
Deposits with banks, corporations and debt securities having maturities less than three months	\$30,862	\$30,862	-	-
Investment securities, available for sale				
Debt linked mutual funds	\$523,500	\$523,500	-	-
Corporate debt securities	\$260,850	-	\$260,850	-
Other Investments	\$5,114	-	-	\$5,114
Derivative financial instruments	\$3,408	-	\$3,408	-
<b>Liabilities</b>				
Derivative financial instruments	\$29,791	-	\$29,791	-
Contingent consideration	\$-	-	-	\$-

The following table provides a roll-forward of the fair value of earn-out consideration categorized as level 3 in the fair value hierarchy for the three months ended June 30, 2019 and 2020.

	<u>June 30, 2019</u>	<u>June 30, 2020</u>
<b>Opening balance</b>	<b>\$1,988</b>	<b>\$729</b>
Contingent consideration payable in connection with acquisitions	36,285	-
Payments	-	(818)
Finance cost	72	94
Effect of exchange fluctuations	(65)	(5)
<b>Closing balance</b>	<b>\$38,280</b>	<b>\$-</b>

The following table provides a roll-forward of the Other investments categorized as level 3 in the fair value hierarchy for the three months ended June 30, 2019 and 2020.

	<u>June 30, 2019</u>	<u>June 30, 2020</u>
<b>Opening balance</b>	<b>\$7,217</b>	<b>\$5,145</b>
Additional investments	100	-
Unrealized gain (loss) on fair value changes	-	-
Effect of exchange fluctuations	(223)	(31)
<b>Closing balance</b>	<b>\$7,094</b>	<b>\$5,114</b>

*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 Group 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 corporate debt securities, term deposits with banks and corporations is determined using observable markets' inputs and is classified as Level 2.

Other investments : The investment in unquoted equity securities are measured at fair value with changes recognised in net income and other investments in equity securities that do not have readily determinable

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fair values will be measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions. The re-measurement is calculated using unobservable inputs based on the Group's own assessment of third party valuations and respective company's financial performance, and is classified as Level 3.

Derivative financial instruments: The Group's derivative financial instruments consist of foreign currency forward exchange contracts, options and interest rate swaps. Fair values for derivative financial instruments are based on counter party and broker quotations and are classified as Level 2. See note 10 for further details on Derivative financial instruments.

Fair value of contingent consideration: The fair value measurement of contingent consideration is determined using Level 3 inputs. The Group's contingent consideration represents a component of the total purchase consideration for its acquisitions. The measurement is calculated using unobservable inputs based on the Company's own assessment of achievement of certain performance goals.

The fair value of the Group's current assets and current liabilities including short term deposits with Banks, corporations, and short term loans approximate their carrying values because of their short-term maturity.

Certain assets are measured at fair value on a non-recurring basis and therefore are not included in the recurring fair value table above. The assets and liabilities consist primarily of long term debt and other non 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, and an impairment is recognized.

**Impact of COVID-19 (Global pandemic)**

Assets measured using level 1 inputs primarily include investment securities in liquid debt funds and the fair value being marked to an active market factors the impact of COVID-19, and we do not expect material volatility in these financial assets.

Assets and liabilities measured using level 2 inputs which include investment in debt securities and derivative financial instruments, and financial assets measured at amortised cost which include cash and cash equivalents and deposits with banks and corporations, have been assessed basis counterparty credit risk.

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**25. 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>2019</b>	<b>2020</b>
<b>Unrealized gain on securities available for sale:</b>		
Opening balance (net of tax)	\$902	\$1,615
Unrealized gains	5,692	7,271
Reclassification adjustments into other (income) expenses, net	(5,533)	(4,188)
Income tax benefit (expense)	(186)	(1,142)
Effect of exchange fluctuations	(1)	(1)
Closing balance (net of tax)	<b>\$874</b>	<b>\$3,555</b>
<b>Unrealized gain (loss) on cash flow hedges:</b>		
Opening balance (net of tax)	\$24,710	(\$40,545)
Unrealized gain (loss)	1,623	16,844
Reclassification adjustments into other (income) expenses, net	(3,866)	1,641
Income tax benefit (expense)	557	(3,131)
Effect of exchange fluctuations	37	(88)
Closing balance (net of tax)	<b>\$23,061</b>	<b>(\$25,279)</b>
<b>Actuarial gain on defined benefit plan:</b>		
Opening balance (net of tax)	\$7,431	(\$2,626)
Actuarial gain (loss)	-	-
Reclassification adjustments into employee benefit expenses*	-	-
Income tax benefit (expense)	65	(66)
Effect of exchange fluctuations	9	(5)
Closing balance (net of tax)	<b>\$7,505</b>	<b>(\$2,697)</b>
<b>Foreign currency translation loss:</b>		
Opening balance	(\$920,408)	(\$1,385,138)
Foreign currency translation	5,138	36,533
Closing balance	<b>(\$915,270)</b>	<b>(\$1,348,605)</b>

\* Reclassification into employee benefit expenses are recognized in cost of revenues, research and development and selling, general and administrative expenses

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

The components of accumulated other comprehensive loss at March 31, 2020 and June 30, 2020 are as follows:

	<b>March 31, 2020</b>	<b>June 30, 2020</b>
Unrealized gain on securities available for sale	\$1,615	\$3,555
Unrealized gain (loss) on cash flow hedges	(40,545)	(25,279)
Unrealized gain on defined benefit plan	(2,626)	(2,697)
Foreign currency translation	(1,385,138)	(1,348,605)
	<b>(\$1,426,694)</b>	<b>(\$1,373,026)</b>

**27. SUBSEQUENT EVENTS**

- a) On July 17, 2020, the Group announced an interim dividend of ₹ 2 per share amounting to \$71,878 (₹5,427 million).
- b) The Group has evaluated all the subsequent events through July 17, 2020, which is the date on which these financial statements were issued, and no events have occurred from the balance sheet date through that date except for matters that have already been considered in the condensed consolidated financial statements.