

# **HCL Technologies Limited and Subsidiaries**

## **Condensed Consolidated Financial Statements**

**For The Three and Nine Month Periods ended March 31, 2014 and 2013**

**With Report of Independent Auditors**

# HCL Technologies Limited and Subsidiaries

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## Review Report of Independent Auditors

The Board of Directors  
HCL Technologies Limited

We have reviewed the condensed consolidated financial information of HCL Technologies Limited and Subsidiaries, which comprises the condensed consolidated balance sheet as of March 31, 2014, and the related condensed consolidated statements of income and comprehensive income, for the three and nine months ended March 31, 2013 and 2014 and the condensed consolidated statement of cash flows for the nine months ended March 31, 2013 and 2014.

### Management Responsibility for the Financial Information

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

### Auditor's Responsibility

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

### Conclusion

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

### Report on Condensed Balance Sheet as of June 30, 2013

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of HCL Technologies Limited and Subsidiaries as of June 30, 2013, 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 opinion on those audited consolidated financial statements in our report dated July 31, 2013. In our opinion, the accompanying condensed consolidated balance sheet of HCL Technologies Limited and subsidiaries as of June 30, 2013, is consistent, in all material respects, with the consolidated balance sheet from which it has been derived.

Sd/-

Gurgaon, India  
April 17, 2014



Ernst & Young Associates

# HCL Technologies Limited and Subsidiaries

## Condensed Consolidated Balance Sheets

Amount in thousands, except share and per share data

	As of	
	June 30, 2013	March 31, 2014 (Unaudited)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$123,262	\$174,520
Term deposits with banks	482,609	964,941
Deposit with corporation	126,116	142,845
Accounts receivable, net	751,637	882,205
Unbilled revenue	288,377	357,736
Investment securities, available for sale	99,270	80,825
Investment securities, held to maturity	7,467	34,813
Inventories	38,981	18,807
Deferred income taxes	68,849	70,316
Other current assets	213,277	263,586
<b>Total current assets</b>	<b>2,199,845</b>	<b>2,990,594</b>
Deferred income taxes	137,293	154,844
Investment securities, held to maturity	8,419	-
Term deposits with banks	-	6
Investments in affiliates	1,397	2,314
Property and equipment, net	459,383	507,177
Intangible assets, net	42,153	38,732
Goodwill	792,694	812,080
Other assets	239,689	237,579
<b>Total assets (a)</b>	<b>\$3,880,873</b>	<b>\$4,743,326</b>

See accompanying notes.

# HCL Technologies Limited and Subsidiaries

## Condensed Consolidated Balance Sheets

Amount in thousands, except share and per share data

	As of	
	June 30, 2013	March 31, 2014 (Unaudited)
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Current portion of capital lease obligations	\$15,177	\$16,734
Accounts payable	84,676	94,550
Short term borrowings	21,646	56,730
Current portion of long term debt	4,889	86,700
Accrued employee costs	223,038	213,224
Deferred revenue	103,190	121,603
Deferred income taxes	10,102	7,517
Income taxes payable	124,208	129,266
Other current liabilities	541,189	689,242
<b>Total current liabilities</b>	<b>1,128,115</b>	<b>1,415,566</b>
Long term debt	90,654	5,709
Capital lease obligations, net of current portion	43,501	31,167
Deferred income taxes	13,218	15,526
Accrued employee costs	75,656	80,553
Deferred revenue	77,989	103,083
Other liabilities	44,755	33,132
<b>Total liabilities (a)</b>	<b>\$1,473,888</b>	<b>\$1,684,736</b>
<b>Commitments and contingencies (Note 19)</b>		
<b>HCL Technologies Limited Shareholders' Equity</b>		
Equity shares, ₹ 2 par value, authorized 750,000,000 shares		
Issued and outstanding 696,869,857 and 699,424,177 shares as of June 30, 2013 and March 31, 2014, respectively	34,460	34,542
Additional paid-in capital	702,498	713,676
Shares application money pending allotment	1,068	681
Retained earnings	2,131,410	2,705,317
Accumulated other comprehensive loss	(462,474)	(395,694)
<b>HCL Technologies Limited Shareholders' Equity</b>	<b>2,406,962</b>	<b>3,058,522</b>
Noncontrolling interest	23	68
<b>Total equity</b>	<b>2,406,985</b>	<b>3,058,590</b>
<b>Total liabilities and equity</b>	<b>\$3,880,873</b>	<b>\$4,743,326</b>

(a) Consolidated assets at June 30, 2013 and March 31, 2014 include assets totaling \$10,564 and \$14,551 respectively, of certain variable interest entities (VIE's) that can only be used to settle the liabilities of those VIEs. Consolidated liabilities at June 30, 2013 and March 31, 2014, include liabilities of certain VIEs for which the VIEs creditors do not have recourse to HCL Technologies Limited and Subsidiaries (See Note 6).

See accompanying notes.

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

	Three months ended		Nine months ended	
	March, 31 (Unaudited)		March, 31 (Unaudited)	
	2013	2014	2013	2014
<b>Revenues</b>	<b>\$1,190,759</b>	<b>\$1,361,228</b>	<b>\$3,458,833</b>	<b>\$3,952,828</b>
Cost of revenues (exclusive of depreciation and amortization)	762,539	832,161	2,225,231	2,420,921
<b>Gross profit</b>	<b>428,220</b>	<b>529,067</b>	<b>1,233,602</b>	<b>1,531,907</b>
Selling, general and administrative expenses	165,815	165,454	471,633	491,164
Depreciation and amortization	30,291	28,130	92,903	89,612
Other (income) expense, net	(21,844)	(3,265)	(30,703)	14,606
Finance cost	5,380	4,482	16,029	13,536
<b>Income before income taxes</b>	<b>248,578</b>	<b>334,266</b>	<b>683,740</b>	<b>922,989</b>
Provision for income taxes	59,673	70,016	163,010	191,437
<b>Net income</b>	<b>188,905</b>	<b>264,250</b>	<b>520,730</b>	<b>731,552</b>
Net income attributable to noncontrolling interest	(14)	13	12	45
<b>Net income attributable to HCL Technologies Limited shareholders</b>	<b>\$188,919</b>	<b>\$264,237</b>	<b>\$520,718</b>	<b>\$731,507</b>
<b>Earnings per equity share</b>				
Basic	\$0.27	\$0.38	\$0.75	\$1.05
Diluted	\$0.27	\$0.37	\$0.74	\$1.04
<b>Weighted average number of equity shares used in computing earnings per equity share</b>				
Basic	694,909,494	699,175,714	694,246,169	698,262,611
Diluted	706,553,293	706,473,958	705,824,949	706,587,281

See accompanying notes.

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

*Amount in thousands, except share data*

	Three months ended March, 31 (Unaudited)		Nine months ended March, 31 (Unaudited)	
	2013	2014	2013	2014
<b>Net income attributable to HCL Technologies Limited shareholders</b>	<b>\$188,919</b>	<b>\$264,237</b>	<b>\$520,718</b>	<b>\$731,507</b>
<b>Other comprehensive income (loss):</b>				
<b>Cash flow hedges:</b>				
Change in net unrealized gains (loss)	26,458	22,600	44,210	(45,883)
Less: reclassification adjustment for net gain (loss) included in net income (Note 8)	3,448	(18,824)	(16,027)	(77,059)
Net change {net of taxes for three months (\$3,370) , (\$9,662) and nine months (\$12,780) , (\$12,555),respectively}	23,010	41,424	60,237	31,176
<b>Securities available-for-sale :</b>				
Change in net unrealized gains (losses)	687	372	687	1,371
Less: reclassification adjustment for net gain included in net income(Note 7)	-	276	-	1,846
Net change {net of taxes for three months (\$330) , (\$44) and nine months (\$330), \$242, respectively }	687	96	687	(475)
<b>Actuarial gain :</b>				
Change in net unrealized gains (losses)	(36)	(103)	(63)	41
Less: reclassification adjustment for net loss included in net income	-	-	-	-
Net change {net of taxes for three months (\$3), \$28 and nine months \$22,\$6, respectively }	(36)	(103)	(63)	41
Change in cumulative translation adjustment	(9,015)	62,692	15,631	36,038
<b>Other comprehensive income (loss)</b>	<b>14,646</b>	<b>104,109</b>	<b>76,492</b>	<b>66,780</b>
<b>Total comprehensive income</b>	<b>\$203,565</b>	<b>\$368,346</b>	<b>\$597,210</b>	<b>\$798,287</b>

See accompanying notes.

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

	Nine months ended March, 31 (Unaudited)	
	2013	2014
<b>Cash flows from operating activities</b>		
<b>Net income</b>	<b>\$520,730</b>	<b>\$731,552</b>
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>		
Depreciation and amortization	92,903	89,612
Deferred income taxes	(19,791)	(32,288)
Gain on sale of property and equipment	(654)	(162)
Gain on sale of business	(778)	-
Stock based compensation expense	12,471	4,600
Excess tax benefit related to stock options exercised	(1,227)	(2,420)
Gain on sale of investment securities	(665)	(7,671)
Equity in earnings of affiliates	(1,690)	(916)
Others, non cash items	15,497	21,726
<b>Changes in assets and liabilities, net of effects of acquisitions</b>		
Accounts receivable and unbilled revenue	(95,172)	(205,912)
Other assets	(105,002)	(18,500)
Accounts payable	27,977	(2,708)
Accrued employee costs	(1,040)	(6,989)
Other liabilities	54,129	138,790
<b>Net cash provided by operating activities</b>	<b>497,688</b>	<b>708,714</b>
<b>Cash flows from investing activities</b>		
Investment in term deposit with banks	(481,744)	(751,433)
Proceeds from term deposit with banks on maturity	320,458	280,817
Investment in term deposits with corporation	(70,127)	(91,132)
Proceeds from term deposits with corporation on maturity	9,216	73,898
Purchase of property and equipment	(86,353)	(88,432)
Proceeds from sale of property and equipment ( including advance)	1,687	38,250
Purchase of investment securities	(638,084)	(1,009,640)
Proceeds from sale of investment securities	644,531	1,015,514
Acquisition of business, net of cash acquired	(1,937)	-
Proceeds from sale of business	35,922	-
<b>Net cash used in investing activities</b>	<b>(266,431)</b>	<b>(532,158)</b>
<b>Cash flows from financing activities</b>		
Payment of principal under capital lease obligations	(2,333)	(4,442)
Proceeds from short term borrowings , net	41,673	34,284
Proceeds from issuance of long term debt	3,340	1,800
Repayment of long term debt	(75,873)	(4,070)
Repayment of redeemable secured non – convertible debentures	(60,828)	-
Proceeds from issuance of equity shares	3,412	2,895
Proceeds from subscription of shares pending allotment	941	1,034
Dividend paid	(118,968)	(157,577)
Excess tax benefit related to stock options exercise	1,227	2,420
<b>Net cash used in financing activities</b>	<b>(207,409)</b>	<b>(123,656)</b>
Effect of exchange rate changes on cash and cash equivalents	8,126	(1,642)
Net increase in cash and cash equivalents	31,974	51,258
Cash and cash equivalents at the beginning of the period	119,933	123,262
<b>Cash and cash equivalents at the end of the period</b>	<b>\$151,907</b>	<b>\$174,520</b>

See accompanying notes.



# HCL Technologies Limited and Subsidiaries

## Notes to Condensed Consolidated Financial Statements

### March 31, 2014

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

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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 information technology (IT), business process outsourcing and IT infrastructure services. The Company was incorporated in India in November 1991. The Group leverages its offshore infrastructure and professionals to deliver solutions across select verticals including financial services, manufacturing (automotive, aerospace, hi-tech, semi conductor), telecom, retail and consumer products, media publishing and entertainment, public services, energy and utility, healthcare, and travel, transport and logistics.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial reporting to reflect the financial position and results of operations of the Group. 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 condensed consolidated balance sheet as of June 30, 2013 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. 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 minority shareholders' proportionate share of the net assets and the results of operations of the Company's majority owned subsidiaries.

An issuance of shares by a subsidiary to third parties reduces the proportionate ownership interest of the Company in the subsidiary. A change in the carrying value of the investment in such subsidiary due to 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.

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

##### *(b) Use of estimates*

The preparation of financial statements in conformity with US GAAP requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs, expenses and other comprehensive income that are reported and disclosed in the 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

# HCL Technologies Limited and Subsidiaries

## Notes to Condensed Consolidated Financial Statements

### March 31, 2014

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

uncollectible accounts receivables and unbilled revenue, accrual of warranty costs, income taxes, valuation of share-based compensation, future obligations under employee benefit plans, the useful lives of property, equipment and intangible assets, impairment of property, equipment, intangibles and goodwill, valuation allowances for deferred tax assets, and other contingencies and commitments. Changes in estimates are reflected in the financial statements in the period in which the changes are made. Actual results could differ from those estimates.

#### *(c) Functional currency and translation*

The functional currency of each entity in the Group is its respective local currency except for four subsidiaries outside India which use the Indian Rupee ("INR") as their functional currency. The functional currency of the Parent Company is INR. The translation from functional currency into USD (the reporting currency) for assets and liabilities is performed using the exchange rates in effect at the balance sheet date, and for revenue, expenses and cash flows it 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 assets and liabilities are re-measured into the functional currency at exchange rates in effect at the balance sheet date. Foreign currency transaction gains and losses are recorded in the condensed consolidated statement of income within other income. Any difference in intercompany balance arising because of elimination of intercompany transactions is recorded in other comprehensive income (loss).

#### *(d) Revenue recognition*

The Group derives revenues primarily from

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

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

#### **Software development services:**

Revenues from software development services comprise income from time-and-material, fixed price and recurring fixed billing. Revenue with respect to time-and-material contracts typically gets billed at an agreed hourly or daily rate and is recognized as the related services are performed. Revenue related to fixed price and fixed time frame contracts include application maintenance and support services, on which revenue is recognized ratably over the term of maintenance. Revenue related to fixed price contracts that provide non-complex IT development services is recognized in accordance with the proportionate performance method. The input (efforts expended) method is used to measure progress towards completion, as there is a direct relationship between input and productivity. Costs are recorded as incurred over the contract period. 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. In arrangements involving sharing of customer revenues, revenue is recognized when the amounts are known and the right to receive is established. Incremental revenue from existing contracts arising on future sales to the customers is recognized when it is earned.

#### **Business process outsourcing services:**

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

#### **IT Infrastructure Services:**

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

# HCL Technologies Limited and Subsidiaries

## Notes to Condensed Consolidated Financial Statements

### March 31, 2014

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

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

Revenue from product sales are shown net of sales tax and applicable discounts and allowances. Revenue from bandwidth and other services is recognized upon actual usage of such services by customers based on either the time for which these services are provided or volume of data transferred or both and excludes service tax. Revenue related to product with installation services that are critical to the product is recognized when installation of networking equipment at customer site is completed and accepted by the customer. If the revenue for a delivered item is not recognized until accepted by the customer then the cost of the delivered item is also deferred, Revenue from maintenance services is recognized ratably over the period of the contract.

Revenue from fixed-price complex network building contracts is recognized in accordance with the percentage-of-completion (POC) method. Under the POC method, revenue is recognized based on costs incurred to date as a percentage of the total costs to fulfill the contract. If circumstances arise that change the original estimates of revenues, costs, or extent of progress towards completion, revisions are made to the estimates. These revisions may result in increase or decrease in estimated revenues or costs, and such revisions are reflected in income in the period in which the circumstances that gave rise to the revision become known to the management. If at any time these estimates indicate that the contract will be unprofitable, the entire estimated loss for the remainder of the contract is recorded immediately. The output measure based on milestones achieved is used for revenue recognition when reasonable and reliable cost estimate for a project cannot be made.

#### **Multiple-element arrangements:**

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

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

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

#### **General:**

Revenue from transition services in outsourcing arrangements is deferred and recognized over the period of the arrangement. Direct and incremental costs in relation to such an arrangement are also deferred to the extent of revenue. Certain upfront nonrecurring contract acquisition costs incurred in the initial phases of outsourcing contracts are deferred and amortized usually on a straight line basis over the term of the contract. The undiscounted cash flows from the arrangement are periodically estimated and compared

# HCL Technologies Limited and Subsidiaries

## Notes to Condensed Consolidated Financial Statements

### March 31, 2014

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

with the unamortized costs. If the unamortized costs exceed the undiscounted cash flow, a loss is recognized.

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

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

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

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

Revenue from sales-type leases is recognized when risk of loss has been transferred to the client and there are no unfulfilled obligations that affect the final acceptance of the arrangement by the client. Interest attributable to sales-type leases and direct financing leases included therein is recognized on accrual basis using the effective interest method

#### (e) Inventories

Inventories represent items of finished goods that are specific to execute composite contracts of software services and IT infrastructure management services and also 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 held at customer's site for which risk and rewards have not been transferred.

#### (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	2 to 4
Software	3
Furniture, Fixtures and Office equipment	4
Plant and Equipment (including Aircraft)	4 to 17
Vehicles	5

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

Advances paid towards the acquisition of property and equipment and cost of property and equipment not put to use before balance sheet date are classified as capital work-in-progress (See Note 4).

# HCL Technologies Limited and Subsidiaries

## Notes to Condensed Consolidated Financial Statements

### March 31, 2014

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

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#### *(g) Leases*

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

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

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

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

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

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

#### *(i) Investment securities*

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

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

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

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

#### *(j) Research and development*

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

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#### *(k) Software product development*

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

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

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

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

#### *(m) 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 of a change in the tax rates is recognized in income in the period that includes the enactment date. Tax benefits earned on exercise of employee stock options in excess of compensation charged to income are credited to additional paid-in capital. Provision for income taxes also includes the impact of provisions established for uncertain income tax positions, as well as the related interest.

#### *(n) Earnings per share*

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

#### *(o) Stock based compensation*

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

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

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*(p) Employee benefits*

Defined contribution plan

Eligible employees of the Group in the United States of America participate in a savings plan (the "Plan") under Section 401(k) of the United States Internal Revenue Code (the "Code"). The Plan allows for employees to defer a portion of their annual earnings on a pre-tax basis through voluntary contributions to the Plan. The Plan provides that the Group can make optional contributions up to the maximum allowable limit under the Code.

Defined benefit plan

Provident fund:

Employees 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 Company; 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 of approximately \$17 per employee in India). The Group has unfunded gratuity obligations.

Compensated absences:

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

*(q) Dividend*

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

*(r) Derivative and hedge accounting*

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

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

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

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

See Note 8 for additional information.

#### *(s) 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, in the fourth quarter, for impairment, or sooner when circumstances indicate impairment may exist, using a fair-value approach at the reporting unit level. A reporting unit is the operating segment, or a business, which is one level below that operating segment (the "component" level) if discrete financial information is prepared and regularly reviewed by the management at that level. Components are aggregated as a single reporting unit if they have similar economic characteristics. In accordance with ASC topic 350, "Intangibles - Goodwill and Other", all assets and liabilities of the acquired businesses including goodwill are assigned to reporting units. The evaluation is based upon a comparison of the estimated fair value of the reporting unit to which the goodwill has been assigned with the sum of the carrying value of the assets and liabilities for that reporting unit. The fair value used in this evaluation is estimated based upon discounted future cash flow projections for the reporting unit. These cash flow projections are based upon a number of estimates and assumptions.

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

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



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**3. SALES OF RECEIVABLES**

The Group has revolving accounts receivables based facilities permitting it to sell certain accounts receivables to banks on a non-recourse basis in the normal course of business. Gains or losses on sale are recorded at the time of transfer of these accounts receivables and was immaterial. The Group has retained servicing obligations, which are limited to collection activities related to the non-recourse sales of accounts receivables. As of March 31, 2014, the Group had utilized \$19,847 out of limit of \$125,000 available under these programs.

**4. PROPERTY AND EQUIPMENT**

As of June 30, 2013 and March 31, 2014, property and equipment comprises the following:

	<b>June 30, 2013</b>	<b>March 31, 2014</b>
Freehold land	\$14,641	\$14,528
Buildings	213,546	251,783
Computer and networking equipment	253,129	274,717
Software	113,623	121,548
Furniture, fixtures and office equipment	106,693	111,338
Plant and equipment	177,824	201,751
Vehicles	14,993	15,768
Capital work-in-progress	96,314	118,862
	<b>990,763</b>	<b>1,110,295</b>
Accumulated depreciation and amortization	(531,380)	(603,118)
<b>Property and equipment, net</b>	<b>\$459,383</b>	<b>\$507,177</b>

Depreciation expense was \$28,121 and \$ 26,092 for the three months and \$86,345 and \$82,415 for the nine months ended March 31, 2013 and 2014, respectively.

**5. GOODWILL AND INTANGIBLES**

The changes in the carrying value of goodwill balances by reportable segment for the nine months ended March 31, 2014 are as follows:

	<b>Software Services</b>	<b>Infrastructure Services</b>	<b>Business process Outsourcing Services</b>	<b>Total</b>
Opening balance as at July 1, 2013	<b>\$768,128</b>	<b>\$1,021</b>	<b>\$23,545</b>	<b>\$792,694</b>
Effect of exchange rate changes	18,779	(9)	616	19,386
Closing balance as on March 31, 2014	<b>\$786,907</b>	<b>\$1,012</b>	<b>\$24,161</b>	<b>\$812,080</b>

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The components of intangibles assets are as follows:

	June 30, 2013			March 31, 2014		
	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Intellectual property rights	\$600	(\$546)	\$54	\$586	(\$570)	\$16
Software	8,680	(6,790)	1,890	9,122	(7,557)	1,565
Customer related intangibles	128,027	(93,529)	34,498	136,810	(105,017)	31,793
Non-compete agreements	9,035	(3,324)	5,711	9,639	(4,281)	5,358
Brand and contractors database and others	3,059	(3,059)	-	3,375	(3,375)	-
	<b>\$149,401</b>	<b>(\$107,248)</b>	<b>\$42,153</b>	<b>\$159,532</b>	<b>(\$120,800)</b>	<b>\$38,732</b>

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

April 01, 2014 to June 30, 2014	\$2,044
Year ending June 30, 2015	8,044
Year ending June 30, 2016	7,989
Year ending June 30, 2017	7,989
Year ending June 30, 2018	7,668
Thereafter	4,998
	<b>\$38,732</b>

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

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

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

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

	<u>June 30, 2013</u>	<u>March 31, 2014</u>
<b>Current assets</b>		
Cash and cash equivalents	\$187	\$1,547
Short term deposits with banks	1,684	2,004
Deposit with corporation	1,179	835
Accounts receivables, net	29	2,309
Unbilled revenue	762	2,091
Deferred income taxes	8	22
Other current assets	1,314	1,077
<b>Total Current Assets</b>	<b>5,163</b>	<b>\$9,885</b>
Deferred income taxes	586	47
Property and Equipment, net	2,905	2,720
Intangible assets, net	1,444	1,169
Other assets	466	730
<b>Total Assets</b>	<b>\$10,564</b>	<b>\$14,551</b>
<b>Current liabilities</b>		
Accounts payable	\$157	\$187
Short term borrowings	5	-
Accrued employee costs	361	576
Deferred revenue	579	293
Other current liabilities	1,240	1,074
<b>Total current liabilities</b>	<b>2,342</b>	<b>\$2,130</b>
Deferred income taxes	35	35
Accrued employee costs	69	81
Deferred revenue	1,073	802
<b>Total liabilities</b>	<b>\$3,519</b>	<b>\$3,048</b>

- a) Assets and liabilities exclude all intercompany accounts and transactions, which are eliminated in consolidation.
- b) For the nine months ended March 31, 2013 and 2014 total revenues from VIE's were \$6,064 and \$13,656 respectively and for the three months period March 31, 2013 and 2014 total revenues from VIE's were \$1,963 and \$5,468, respectively.

**7. INVESTMENT SECURITIES**

Available for sale investment securities consist of the following:

As of June 30, 2013:

	<u>Carrying value</u>	<u>Gross unrealized holding gains</u>	<u>Fair value</u>
Mutual fund units	\$98,137	\$1,133	\$99,270
<b>Total</b>	<b>\$98,137</b>	<b>\$1,133</b>	<b>\$99,270</b>

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As of March 31, 2014:

	<u>Carrying value</u>	<u>Gross unrealized holding gains</u>	<u>Fair value</u>
Mutual fund units	\$80,086	\$403	\$80,489
Equity units	323	13	336
<b>Total</b>	<b><u>\$80,409</u></b>	<b><u>\$416</u></b>	<b><u>\$80,825</u></b>

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

The maturity profile of the investments classified as available for sale as of March 31, 2014 is set out below:

	<u>Carrying value</u>
Less than one year	\$80,409
One to five years	-
	<b><u>\$80,409</u></b>

Proceeds from the sale of available for sale securities was \$176,716 and \$371,055 for the three month periods and \$644,531 and \$1,015,514 for the nine months periods ended March 31 2013 and 2014 respectively.

Dividend income earned from these investments totaled \$715 and Nil for the three month periods and \$4,412 and NIL for nine months periods ended March 31 2013 and 2014 respectively.

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

The table summarizes the transactions for available for sale securities:

	<u>June 30,</u>	<u>March 31,</u>
	<u>2013</u>	<u>2014</u>
Net realised gain due to change in fair value	\$3,013	\$7,671
Net unrealized gain included in other comprehensive income	\$1,133	\$416
Reclassification into earnings on maturity out of other comprehensive income	\$-	\$1,846

Investments in held-to-maturity consist of the following:

As of June 30, 2013:

	<u>Carrying value</u>	<u>Fair value</u>
Bonds	\$15,886	\$15,886
<b>Total</b>	<b><u>\$15,886</u></b>	<b><u>\$15,886</u></b>

As of March 31, 2014:

	<u>Carrying value</u>	<u>Fair value</u>
Bonds	\$8,349	\$8,090
Certificate of deposits	26,464	\$26,512
<b>Total</b>	<b><u>\$34,813</u></b>	<b><u>\$34,602</u></b>

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The maturity profile of the investments held-to-maturity as of March 31, 2014 is set out below:

	<u>Carrying value</u>
Less than one year	\$34,813
One to five years	-
	<u><b>\$34,813</b></u>

Interest income earned from these investments totaled \$275 and \$719 for the three month periods and \$834 and \$1,377 for the nine months period ended March 31, 2013 and 2014 respectively.

**8. DERIVATIVE FINANCIAL INSTRUMENTS**

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

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

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	
	June 30, 2013	March 31, 2014	Asset (Liability)	March 31, 2014
Foreign exchange forward denominated in:				
USD /INR	\$1,400,853 (Sell)	\$746,520 (Sell)	(\$107,503)	(\$59,801)
GBP/ INR	£50,000 (Sell)	£18,875 (Sell)	(870)	(1827)
EUR / USD	€ 22,500 (Sell)	€ 34,620 (Sell)	127	(53)
EUR/ INR	€ 145,500 (Sell)	€ 47,650 (Sell)	(3,418)	(959)
AUD/ INR	AUD 3,000 (Sell)	-	206	-
AUD/USD	AUD 8,750 (Sell)	AUD 14,250 (Sell)	227	(351)
ZAR/USD	ZAR 109,000 (Sell)	ZAR 41,000 (Sell)	602	(102)
CAD/ USD	CAD 11,000 (Sell)	-	210	-
CAD/ USD	-	CAD 1,500 (Buy)	-	(2)
SEK/USD	SEK 95,500 (Sell)	SEK 196,500 (Sell)	383	102
SEK/USD	-	SEK 50,000 (Buy)	-	8
SGD/USD	SGD 4,500 (Sell)	-	38	-
SGD/USD	SGD 11,250 (Buy)	SGD 10,000 (Buy)	(34)	56
JPY/USD	JPY 700,000 (Buy)	JPY 200,000 (Buy)	36	(18)
GBP/USD	-	£6,000 (Sell)	-	54
GBP/USD	£23,000 (Buy)	£45,300 (Buy)	(457)	385
MYR/USD	MYR 8,500 (Buy)	MYR 20,500 (Buy)	(45)	56
CHF/USD	-	CHF 5,000 (Sell)	-	(49)
			<u><b>(\$110,498)</b></u>	<u><b>(\$62,501)</b></u>

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

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	Notional principal amounts		Balance sheet exposure Asset (Liability)	
	June 30, 2013	March 31, 2014	June 30, 2013	March 31, 2014
	<b>Range Forward</b>			
USD/INR	\$91,850	\$42,800	(\$2,769)	1,032
EUR/INR	-	€ 3,600	-	217
GBP/INR	-	£ 5,000	-	185
			<b>(\$2,769)</b>	<b>\$1,434</b>

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

The balance sheet exposure denotes the fair value of these contracts at the reporting date and is presented in United States 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 those derivative instruments presented on a gross basis as of each date indicated below is as follows:

**June 30, 2013**

	Other Current Assets	Other Non - Current Assets	Other Current Liabilities	Other Non - Current Liabilities	Total Fair Value
<b>Derivatives designated as hedging instruments:</b>					
Foreign exchange contracts in an asset position	\$-	\$338	\$550	\$1,772	\$2,660
Foreign exchange contracts in an liability position	-	(328)	(65,225)	(42,991)	(108,544)
<b>Net asset (liability)</b>	<b>\$-</b>	<b>\$10</b>	<b>(\$64,675)</b>	<b>(\$41,219)</b>	<b>(\$105,884)</b>
<b>Derivatives not designated as hedging instruments:</b>					
Foreign exchange contracts in an asset position	\$2,411	\$-	\$733	\$-	\$3,144
Foreign exchange contracts in an liability position	(734)	-	(9,793)	-	(10,527)
<b>Net asset (liability)</b>	<b>\$1,677</b>	<b>\$-</b>	<b>(\$9,060)</b>	<b>\$-</b>	<b>(\$7,383)</b>
<b>Total Derivatives at fair value</b>	<b>\$1,677</b>	<b>\$10</b>	<b>(\$73,735)</b>	<b>(\$41,219)</b>	<b>(\$113,267)</b>

**March 31, 2014**

	Other Current Assets	Other Non - Current Assets	Other Current Liabilities	Other Non - Current Liabilities	Total Fair Value
<b>Derivatives designated as hedging instruments:</b>					
Foreign exchange contracts in an asset position	\$-	\$-	\$544	\$327	\$871
Foreign exchange contracts in an liability position	-	-	(33,321)	(29,970)	(63,291)
<b>Net asset (liability)</b>	<b>\$-</b>	<b>\$-</b>	<b>(\$32,777)</b>	<b>(\$29,643)</b>	<b>(\$62,420)</b>
<b>Derivatives not designated as hedging instruments:</b>					
Foreign exchange contracts in an asset position	\$2,689	\$-	\$46	\$-	\$2,735
Foreign exchange contracts in an liability position	(355)	-	(1,027)	-	(1,382)
<b>Net asset (liability)</b>	<b>\$2,334</b>	<b>\$-</b>	<b>(\$981)</b>	<b>\$-</b>	<b>\$1,353</b>
<b>Total Derivatives at fair value</b>	<b>\$2,334</b>	<b>\$-</b>	<b>(\$33,758)</b>	<b>(\$29,643)</b>	<b>(\$61,067)</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 June 30, 2013 and March 31, 2014:

**Derivatives designated as hedging instruments:**

	<b>June 30, 2013</b>	<b>March 31, 2014</b>
Unrealized gain on financial instruments classified under noncurrent assets	\$10	\$0
Unrealized (loss) on financial instruments classified under current liabilities	(64,675)	(32,777)
Unrealized (loss) on financial instruments classified under non-current liabilities	(41,219)	(29,643)
	<b>(\$105,884)</b>	<b>(\$62,420)</b>

**Derivatives not designated as hedging instruments:**

	<b>June 30, 2013</b>	<b>March 31, 2014</b>
Unrealized (loss) on financial instruments classified under current liabilities	(\$9,060)	(981)
Unrealized gain on financial instruments classified under current assets	1,677	\$2,334
	<b>(\$7,383)</b>	<b>\$1,353</b>

The following tables summarizes activities in the condensed consolidated statement of income for the three months ended March 31, 2013

Derivatives in Cash flow Hedging Relationships	Amount of Gain or (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion) and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Foreign Exchange Contracts	\$30,963	Other Income (Expense),net	\$3,448	Other Income (Expense),net	Nil
	<b>\$30,963</b>		<b>\$3,448</b>		<b>Nil</b>
Derivatives not Designated as Hedging		Location of Gain or (Loss) recognized in Income on Derivatives		Amount of Gain or (Loss) recognized in Income on Derivatives	
Foreign exchange contracts		Other Income (Expense),net			(\$1,129)

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The following tables summarizes activities in the condensed consolidated statement of income for the three months ended March 31, 2014

Derivatives in Cash flow Hedging Relationships	Amount of Gain or (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion) and Amount Excluded from Effectiveness Testing	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Foreign Exchange Contracts	\$35,520	Other Income (Expense),net	(\$18,824)	Other Income (Expense),net	Nil
	<b>\$35,520</b>		<b>(\$18,824)</b>		<b>Nil</b>
Derivatives not Designated as Hedging		Location of Gain or (Loss) recognized in Income on Derivatives		Amount of Gain or (Loss) recognized in Income on Derivatives	
Foreign exchange contracts		Other Income (Expense),net		\$3,842	

The following tables summarizes activities in the condensed consolidated statement of income for the nine months ended March 31, 2013

Derivatives in Cash flow Hedging Relationships	Amount of Gain or (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion) and Amount Excluded from Effectiveness Testing	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Foreign Exchange Contracts	\$59,149	Other Income (Expense),net	(\$16,027)	Other Income (Expense),net	Nil
	<b>\$59,149</b>		<b>(\$16,027)</b>		<b>Nil</b>
Derivatives not Designated as Hedging		Location of Gain or (Loss) recognized in Income on Derivatives		Amount of Gain or (Loss) recognized in Income on Derivatives	
Foreign exchange contracts		Other Income (Expense),net		\$7,355	



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The following tables summarizes activities in the condensed consolidated statement of income for the nine months ended March 31, 2014

Derivatives in Cash flow Hedging Relationships	Amount of Gain or (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion) and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Foreign Exchange Contracts	(\$34,216)	Other Income (Expense),net	(\$77,059)	Other Income (Expense),net	NIL
	<b>(\$34,216)</b>		<b>(\$77,059)</b>		<b>NIL</b>

Derivatives not Designated as Hedging	Location of Gain or (Loss) recognized in Income on Derivatives	Amount of Gain or (Loss) recognized in Income on Derivatives
Foreign exchange contracts	Other Income (Expense),net	(\$5,386)

The following table summarizes activity in the accumulated other comprehensive (loss) gain within equity related to all derivatives classified as cash flow hedges during the nine months ended March 31, 2013 and 2014:

	March 31,	
	2013	2014
Balance as at the beginning of the period	(\$86,212)	(\$106,293)
Unrealized gain (loss) on cash flow hedging derivatives during the period	59,149	(34,216)
Net loss reclassified into net income on occurrence of hedged transactions	16,027	77,059
Effect of exchange rate fluctuations	(2,158)	887
Balance as at the end of the period	<b>(\$13,194)</b>	<b>(\$62,563)</b>
Deferred tax	4,103	11,482
	<b>(\$9,091)</b>	<b>(\$51,081)</b>

As at March 31, 2014, the estimated net amount of existing loss that is expected to be reclassified into the income statement from AOCI within the next twelve months is (\$32,777).

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**9. OTHER CURRENT ASSETS**

As of June 30, 2013 and March 31, 2014, other current assets comprise of the following:

	<u>June 30, 2013</u>	<u>March 31, 2014</u>
Prepaid expenses	\$37,718	\$47,452
Interest receivable	12,252	16,679
Prepaid/advance taxes	10,557	15,157
Deposits	3,079	9,336
Deferred cost	47,809	54,643
Employee receivables	12,464	10,367
Derivative financial instruments	1,677	2,334
Advance to suppliers	8,953	6,875
Finance lease receivable	36,102	51,946
Others *	42,666	48,797
	<u><b>\$213,277</b></u>	<u><b>\$263,586</b></u>

\* As of March 31, 2014, others includes \$5,382 of amount related to property and equipment held for sale to the related parties of the Company.

**10. OTHER ASSETS**

As of June 30, 2013 and March 31, 2014, other assets comprise the following:

	<u>June 30, 2013</u>	<u>March 31, 2014</u>
Deposits	\$34,310	\$27,742
Deferred cost	70,252	72,019
Prepaid expenses	39,740	35,901
Advance to suppliers	14,439	14,319
Finance lease receivable	80,804	87,542
Others	144	56
	<u><b>\$239,689</b></u>	<u><b>\$237,579</b></u>

**11. DEBTS**

**SHORT TERM LOANS**

The Group has availed bank line of credit from its bankers amounting to \$21,646 and \$56,730 as of June 30, 2013 and March 31, 2014, respectively, at effective interest rates ranging from 0.17% to 14.50%.

**LONG TERM DEBT**

	<u>June 30, 2013</u>	<u>March 31, 2014</u>
From banks	\$7,190	\$7,179
Secured redeemable nonconvertible debentures	84,189	83,486
Other	4,164	1,744
Less: Current portion	(4,889)	(86,700)
	<u><b>\$90,654</b></u>	<u><b>\$5,709</b></u>

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The scheduled principal repayments are as follows:

	<b>March 31, 2014</b>
Within one year	\$86,700
One to two years	2,578
Two to three years	1,783
Three to five years	1,348
	<b>\$92,409</b>

The Group's borrowings are subject to certain financial and non financial covenants. At March 31, 2014, the Group was in compliance with all such covenants.

**Long term debts from banks include:**

- (a) Term loans of \$7,190 and \$ 7,179 as of June 30, 2013 and March 31, 2014, respectively, at interest rate ranging from 8% to 11% and secured by hypothecation of vehicles with a net book value of \$11,722 and \$13,103 as of June 30, 2013 and March 31, 2014, respectively.

**Other long term debts include:**

- (a) \$2,332 and \$502 at June 30, 2013 and March 31, 2014, respectively, represents loan taken for purchases of fixed assets at interest rates ranging from 0% to 8.80% secured against hypothecation of such assets.
- (b) Unsecured long term loans of \$1,832 and \$1,242 as of June 30, 2013 and March 31, 2014, respectively, at interest rates ranging from 0% to 8.80%.

**Secured Redeemable Non Convertible Debentures**

The Company allotted 10,000 secured redeemable non convertible debentures of face value of ` 1million (\$16,697) each aggregating to \$166,973, carrying a quarterly coupon rate varying from 7.55% to 8.80% per annum. The debentures have a maturity period ranging from two years to five years from the date of allotment and are secured against specified movable assets, receivables from subsidiaries and specified land and building of the Company. Principal amount outstanding as of March 31, 2014 is \$83,486, repayment schedule of the same is as follows :

<b>Debenture Series</b>	<b>Maturity Date</b>	<b>March 31, 2014</b>
8.80% Redeemable non convertible debentures	September 10, 2014	\$83,486
		<b>\$83,486</b>

**12. OTHER CURRENT LIABILITIES**

As of June 30, 2013 and March 31, 2014, other current liabilities comprise of the following:

	<b>June 30, 2013</b>	<b>March 31, 2014</b>
Advances from customers	\$13,334	\$8,812
Sales tax and other taxes payable	39,016	54,235
Accrued liabilities and expenses	267,328	317,581
Suppliers credit	110,051	202,640
Due to related parties*	1,167	41,230
Derivative financial instruments	73,735	33,758
Others	36,558	30,986
	<b>\$541,189</b>	<b>\$689,242</b>

\* As of March 31, 2014, due to related parties includes advance of \$39,239 received towards sale of property and equipment.

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**13. 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 March 31, 2014 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 GAAP. Indian law mandates that any dividend, exceeding 10% of the common stock, can be declared out of distributable profits only after the transfer of up to 10% of net income computed in accordance with current regulations, to a general reserve. Further, Indian law on foreign exchange governs the remittance of dividends outside India. Such dividend payments are also subject to applicable taxes.

*Liquidation*

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

*Stock options*

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

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

For the three and nine months ended March 31, 2013 and 2014, other income (expense) consist of:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>
Interest income	\$14,160	\$23,820	\$36,127	\$59,531
Dividend income from investments	715	-	4,412	-
Gain on sale of investment securities, net	665	2,063	665	7,671
Foreign exchange gain (losses) , net	4,278	(23,296)	(9,155)	(86,464)
Equity in earning of affiliates	681	192	1,690	916
Miscellaneous income (expense)	1,345	486	(3,036)	3,740
<b>Other income (expense), net</b>	<b>\$21,844</b>	<b>\$3,265</b>	<b>\$30,703</b>	<b>(\$14,606)</b>

**15. INCOME TAXES**

The effective tax rate for the Group for the three and nine month periods ended March 31, 2013 and 2014 is 24.00% and 20.95% and 23.84% and 20.74%, respectively. The decrease in the effective tax rate of the Group is mainly on account of higher SEZ revenue as well as creation of deferred tax assets on carry forward business losses of certain foreign subsidiaries.

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

	<u>June 30, 2013</u>	<u>March 31, 2014</u>
Balance at the beginning of the period	\$87,889	\$88,550
Increase due to tax position taken during the current period*	2,230	54,223
Increase due to tax position taken during the prior period	1,967	-
Effect of exchange rate fluctuations	(3,536)	(182)
Balance at the end of the period	<u>\$88,550</u>	<u>142,591</u>

\*Amount of unrecognized tax benefits expected to impact the effective tax rate \$21,051

**16. EARNINGS PER EQUITY SHARE**

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

	<u>Three months ended</u> <u>March 31,</u>		<u>Nine months ended</u> <u>March 31,</u>	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
Weighted average number of equity shares outstanding used in computing basic EPS	694,909,494	699,175,714	694,246,169	698,262,611
Dilutive effect of stock options	11,643,799	7,298,244	11,578,780	8,324,670
Weighted average number of equity and equity equivalent shares outstanding used in computing diluted EPS	706,553,293	706,473,958	705,824,949	706,587,281

For the three and nine months ended March 31, 2013 and 2014, there were no options to purchase shares of common stock with exercise price greater than the average market value of our stock that would have been anti-dilutive.

**17. STOCK BASED COMPENSATION**

Stock-based compensation expense related to the stock option plans was allocated as follows:

	<u>Three months ended</u> <u>March 31,</u>		<u>Nine months ended</u> <u>March 31,</u>	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
Cost of sales	\$241	(\$377)	\$679	\$127
Selling, general and administrative	4,109	\$465	11,792	4,473
<b>Stock compensation cost</b>	<u>4,350</u>	<u>88</u>	<u>12,471</u>	<u>4,600</u>

**18. 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 salary and the years of employment with the Group.

Net gratuity cost for the three months and nine months period ended March 31, 2013 and 2014 comprise

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the following components:

	Three months ended March 31,		Nine months ended March 31,	
	2013	2014	2013	2014
Service cost	\$1,583	\$1,703	\$4,774	\$5,167
Interest cost	701	717	2,092	2,125
Amortization of unrecognized actuarial loss	77	67	229	198
<b>Net gratuity cost</b>	<b>\$2,361</b>	<b>\$2,487</b>	<b>\$7,095</b>	<b>\$7,490</b>

***Superannuation***

The superannuation plan is a defined contribution pension plan for specified senior employees of the Company. The Company contributes to an employees' superannuation fund with an insurance company at 15% of the employee's base compensation. The Group has no further obligations to the superannuation plan beyond its monthly contributions. The contributions made are recorded in the statement of income on an accrual basis. Total contributions made in respect of this plan for the three and nine month periods ended March 31, 2013 and 2014 are \$98 and \$82 and \$307 and \$250, respectively.

***Provident fund***

Total contributions made by the Group in respect of this plan for the three and nine month periods ended March 31, 2013 and 2014 are \$4,199 and \$3,990 and \$12,312 and \$11,474, respectively.

***Subsidiaries in the US***

The Group has a Savings and Investment Plan under Section 401 (k) of the Internal Revenue Code. This is a defined contribution plan where employees above the age of 21 years, having completed one year of service may choose to contribute up to 100% of their compensation. The Group makes a matching contribution for employee contribution up to 4%.

Total contributions made by the Group in respect of this plan for the three and nine month periods ended March 31, 2013 and 2014 are \$2,100 and \$1,978 and \$5,863 and \$5,600, respectively.

***Subsidiary in Australia***

As per local laws of Australia, employers must provide either a minimum level of superannuation for most employees or incur a non-tax deductible superannuation guarantee charge including interest and penalties. The required level of employer superannuation contribution is a percentage of the employee's earnings base. The Group contributes to a fund approved by the Government of Australia. Total contributions made by the Group in respect of this plan for the three and nine month periods ended March 31, 2013 and 2014 are \$1,668 and \$1,584 and \$4,789 and \$4,718, respectively.

***Subsidiaries in Europe***

The Group has pension plans for the employees of its subsidiaries in Europe. The plans operating in Europe provide for contributions of up to 5% of the basic salary by the employer and the employee. Total contributions made by the Group in respect of this plan for the three and nine month periods ended March 31, 2013 and 2014 are \$2,214 and \$6,887 and \$6,038 and \$16,093, respectively.

***Subsidiaries in Asia***

As per local laws of Malaysia, Singapore and Japan, employers are required to contribute notified percentage of the basic salary of the eligible employees to the fund set up by the Government of the respective Country. Total contributions made by the Group in respect of these plans for the three and nine month periods ended March 31, 2013 and 2014 are \$1,509 and \$1,035 and \$5,343 and \$4,657, respectively.

# HCL Technologies Limited and Subsidiaries

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#### 19. COMMITMENTS AND CONTINGENCIES

##### *Capital commitments*

As of March 31, 2014, the Group had contractual commitments for capital expenditure of \$123,060.

##### *Other commitments*

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

##### *Guarantees*

The Group generally provides guarantees as securities to the Excise and Customs authorities for compliance with local regulation and to various parties on behalf of its subsidiaries. The aggregate amount of these guarantees as of March 31, 2014 is \$10,255.

##### *Letter of Credit*

The Group has negotiated extended interest bearing credit terms with certain vendors and have outstanding letters of credit of \$202,640 in this respect for extended payment terms up to 360 days. Interest rate on this arrangement ranges from 1.2% to 10.3%

The Group also has letters of credit amounting to \$865 outstanding as at March 31, 2014 in the normal course of business.

##### *Other Contingencies*

As of March 31, 2014, other contingencies have arisen in the normal course of business. The management believes that the ultimate outcome of these matters will not have a material adverse effect on its financial position, results of operations and cash flows.

#### 20. SEGMENT REPORTING

The Group's operations predominantly relate to providing a range of IT & BPO services targeted at Global 2000 companies spread across US, Europe & Rest of the World. IT services include software services & IT infrastructure management services. Within software services, HCL provides application development & maintenance, enterprise application, next generation SAAS application services and engineering and R&D services to several global customers. Infrastructure management services involve managing customer's IT assets effectively. HCL's 'Enterprise of the Future' (EOF) framework helps customers not just run IT effectively but also migrate to next generation IT. EOF involves services around cloud, next generation data centres, business productivity services, integrated service management layer and an integrated application development & operations services. Business process outsourcing services include the traditional contact centre & help desk services and the next generation services around platform BPO & BPAAS ( Business Process as a Service) delivered through a strong global delivery model. HCL's trademarked EFAAS( Enterprise Function as a Service) helps customers reduce business cost rather than just the process cost as was the case in traditional BPO.

The Chief Operating Decision Maker ("CODM") evaluates the Group's performance by business segment, comprising software services, infrastructure management services and business process outsourcing services. Accordingly, the above stated business segments have been identified as reportable segments for the purpose of segment reporting. Segment information for prior periods is provided on a comparative basis.

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Information on reportable segments for the three months ended March 31, 2013 is as follows:

	<b>Software Services</b>	<b>Infrastructure management services</b>	<b>Business process outsourcing services</b>	<b>Total</b>
<b>Revenue</b>	<u>\$783,305</u>	<u>\$356,128</u>	<u>\$51,326</u>	<u>\$1,190,759</u>
Depreciation and amortization	16,576	10,780	2,935	30,291
<b>Segment earnings</b>	<b>\$166,137</b>	<b>\$67,302</b>	<b>\$3,026</b>	<b>\$236,465</b>

Information on reportable segments for the three months ended March 31, 2014 is as follows:

	<b>Software Services</b>	<b>Infrastructure management services</b>	<b>Business process outsourcing services</b>	<b>Total</b>
<b>Revenue</b>	<u>\$831,800</u>	<u>\$468,476</u>	<u>\$60,952</u>	<u>\$1,361,228</u>
Depreciation and amortization	16,103	9,371	2,656	28,130
<b>Segment earnings</b>	<b>\$213,213</b>	<b>\$119,101</b>	<b>\$3,257</b>	<b>\$335,571</b>

Information on reportable segments for the nine months ended March 31, 2013 is as follows:

	<b>Software Services</b>	<b>Infrastructure management services</b>	<b>Business process outsourcing services</b>	<b>Total</b>
<b>Revenue</b>	<u>\$2,326,533</u>	<u>\$979,922</u>	<u>\$152,378</u>	<u>\$3,458,833</u>
Depreciation and amortization	53,373	30,091	9,439	92,903
<b>Segment earnings</b>	<b>\$493,851</b>	<b>\$180,665</b>	<b>\$7,020</b>	<b>\$681,536</b>

Information on reportable segments for the nine months ended March 31, 2014 is as follows:

	<b>Software Services</b>	<b>Infrastructure management services</b>	<b>Business process outsourcing services</b>	<b>Total</b>
<b>Revenue</b>	<u>\$2,441,789</u>	<u>\$1,334,725</u>	<u>\$176,314</u>	<u>\$3,952,828</u>
Depreciation and amortization	50,560	31,207	7,845	89,612
<b>Segment earnings</b>	<b>\$623,133</b>	<b>\$322,628</b>	<b>\$9,970</b>	<b>\$955,731</b>

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



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

	Three months ended March 31,		Nine months ended March 31,	
	2013	2014	2013	2014
Segment earnings	\$236,465	\$335,571	\$681,536	\$955,731
Stock compensation cost	(4,350)	(88)	(12,471)	(4,600)
Foreign exchange gain (loss)	4,278	(23,296)	(9,155)	(86,464)
Finance cost	(5,380)	(4,482)	(16,029)	(13,536)
Other income, net	17,565	26,561	39,859	71,858
Income before income taxes	<b>\$248,578</b>	<b>\$334,266</b>	<b>\$683,740</b>	<b>\$922,989</b>

**21. FAIR VALUE MEASUREMENT**

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

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

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

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

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

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

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

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

Cost approach – Replacement cost method.

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

The following table discloses the assets and liabilities measured at fair value on a recurring basis as of June 30, 2013 and the basis for that measurement:

	Fair value	Level 1 inputs	Level 2 inputs	Level 3 inputs
<b>Assets</b>				
Term deposits with banks	\$486,805	-	\$486,805	-
Deposits with corporation	\$127,741	-	\$127,741	-
Investment securities, available for sale	\$99,270	\$99,270	-	-
Derivative contracts	\$1,687	-	\$1,687	-
<b>Liabilities</b>				
Derivative contracts	(\$114,954)	-	(\$114,954)	-

The following table discloses the assets and liabilities measured at fair value on a recurring basis as of March 31, 2014 and the basis for that measurement:

	Fair value	Level 1 inputs	Level 2 inputs	Level 3 inputs
<b>Assets</b>				
Term deposits with banks	\$967,459	-	\$967,459	-
Deposits with corporation	\$144,749	-	\$144,749	-
Investment securities, available for sale	\$80,825	\$80,825	-	-
Derivative contracts	\$2,334	-	\$2,334	-
<b>Liabilities</b>				
Derivative contracts	(\$63,401)	-	(\$63,401)	-

*Valuation Methodologies*

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

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

Derivative financial instruments: The Group's derivative financial instruments consist of foreign currency forward exchange contracts. Fair values for derivative financial instruments are based on broker quotations and are classified as Level 2 (see note 8 for further details on derivative financial instruments).

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

Certain assets are measured at fair value on a nonrecurring 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 the impairment is recognized.

**HCL Technologies Limited and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**March 31, 2014**

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

**22. EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

Changes in the components of total Equity were as follows:

	<b>Nine month ended March 31, 2014</b>		
	<b>HCL Technologies Limited Shareholder' Equity</b>	<b>Non Controlling Interest</b>	<b>Total Equity</b>
<b>Balances as at June 30, 2013</b>	\$2,406,962	\$23	\$2,406,985
Net income	731,507	45	731,552
Other comprehensive loss	66,780	-	66,780
<b>Total</b>	<b>3,205,249</b>	<b>68</b>	<b>3,205,317</b>
Shares issued for exercised options	3,267	-	3,267
Stock options exercised pending allotment of shares	681	-	681
Stock based compensation	4,514	-	4,514
Excess tax benefit from stock options	2,410	-	2,410
Cash dividend	(157,599)	-	(157,599)
<b>Balances as at March 31, 2014</b>	<b>3,058,522</b>	<b>\$68</b>	<b>\$3,058,590</b>

The Company has issued 2,554,320 equity shares, against exercise of stock options during the nine months ended March 31, 2014.

The components of accumulated other comprehensive loss and activity, net of related taxes as of June 30, 2013 and March 31, 2014 were as follows:

	<b>June 30,2013</b>	<b>Increase/ Decrease</b>	<b>Reclssification adjustments</b>	<b>March 31,2014</b>
Unrealized gain on securities available for sale	\$756	\$1,371	(\$1,846)	\$281
Unrealized loss on cash flow hedges	(82,257)	(45,883)	77,059	(51,081)
Unrealized loss on defined benefit plan	(3,392)	41	-	(3,351)
Cumulative translation adjustment	(377,581)	36,038	-	(341,543)
	<b>(\$462,474)</b>	<b>(\$8,433)</b>	<b>\$75,213</b>	<b>(\$395,694)</b>

**23 SUBSEQUENT EVENT**

On April 17, 2014 the Group announced an interim dividend of ` 4 per share amounting to ` 2,798 million (\$46,714).

The Group has evaluated all the subsequent events through April 17, 2014, which is the date on which these financial statements were issued, and no events have occurred from the balance sheet date through that date that would have material adverse impact on the condensed consolidated financial statements.