# HCL Technologies Limited and Subsidiaries

## Consolidated Financial Statements

**Years Ended June 30, 2015, 2014 and 2013**

**With Report of Independent Auditors**

# HCL Technologies Limited and Subsidiaries
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# Report of Independent Auditors

The Board of Directors
HCL Technologies Limited

We have audited the accompanying consolidated financial statements of HCL Technologies Limited and Subsidiaries, which comprise the consolidated balance sheet as of June 30, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended June 30, 2015, and the related notes to the consolidated financial statements.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of HCL Technologies Limited and Subsidiaries at June 30, 2015 and 2014, and the consolidated results of their operations and their cash flows for the three years in the period ended June 30, 2015, in conformity with U.S. generally accepted accounting principles.

Ernst & Young Associates LLP

Gurgaon, India
August 03, 2015

# HCL Technologies Limited and Subsidiaries
## Consolidated Balance Sheets
*Amount in thousands, except share and per share data*

| | As of June 30, | |
|---|---|---|
| | **2014** | **2015** |
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | $169,563 | $212,342 |
| Term deposits with banks | 1,295,823 | 1,331,758 |
| Deposit with corporation | 94,872 | 187,431 |
| Accounts receivable, net | 944,403 | 1,031,163 |
| Unbilled revenue | 336,328 | 459,198 |
| Investment securities, available for sale | 65,982 | 120,575 |
| Investment securities, held to maturity | 35,231 | - |
| Inventories | 20,321 | 24,763 |
| Deferred income taxes | 75,060 | 74,159 |
| Other current assets | 257,595 | 268,422 |
| **Total current assets** | **3,295,178** | **3,709,811** |
| | | |
| Deferred income taxes | 148,397 | 178,118 |
| Investments in affiliates | 2,696 | 1,551 |
| Property and equipment, net | 522,794 | 600,119 |
| Intangible assets, net | 37,447 | 27,230 |
| Goodwill | 818,074 | 790,387 |
| Other assets | 241,410 | 303,607 |
| **Total assets (a)** | **$5,065,996** | **$5,610,823** |

See accompanying notes.

# HCL Technologies Limited and Subsidiaries
## Consolidated Balance Sheets
*Amount in thousands, except share and per share data*

| | As of June 30, | |
|---|---|---|
| | **2014** | **2015** |
| **LIABILITIES AND EQUITY** | | |
| **Current liabilities** | | |
| Current portion of capital lease obligations | $15,697 | $15,572 |
| Accounts payable | 104,948 | 146,395 |
| Short term borrowings | 34,196 | 55,851 |
| Current portion of long term debt | 85,916 | 3,970 |
| Accrued employee costs | 240,986 | 286,854 |
| Deferred revenue | 130,744 | 150,433 |
| Deferred income taxes | 6,910 | 4,039 |
| Income taxes payable | 148,571 | 158,648 |
| Other current liabilities | 713,976 | 688,575 |
| **Total current liabilities** | **1,481,944** | **1,510,337** |
| Long term debt | 4,648 | 13,799 |
| Capital lease obligations, net of current portion | 28,689 | 12,579 |
| Deferred income taxes | 11,529 | 8,552 |
| Accrued employee costs | 79,786 | 79,753 |
| Deferred revenue | 98,170 | 86,439 |
| Other liabilities | 24,653 | 10,481 |
| **Total liabilities (a)** | **$1,729,419** | **$1,721,940** |
| **Commitments and contingencies (Note 24)** | | |
| **HCL Technologies Limited Shareholders' Equity** | | |
| Equity shares, ` 2 par value, authorized 750,000,000 and 1,500,000,000 shares | | |
| Issued and outstanding 699,976,381 and 1,405,978,418 shares as of June 30, 2014 and 2015, respectively | 34,560 | 57,154 |
| Additional paid-in capital | 718,259 | 703,224 |
| Shares application money pending allotment | 1,582 | 325 |
| Retained earnings | 2,956,054 | 3,666,121 |
| Accumulated other comprehensive loss | (373,954) | (538,035) |
| **HCL Technologies Limited Shareholders' Equity** | **3,336,501** | **3,888,789** |
| Noncontrolling interest | 76 | 94 |
| **Total equity** | **3,336,577** | **3,888,883** |
| **Total liabilities and equity** | **$5,065,996** | **$5,610,823** |

(a) Consolidated assets at June 30, 2014 and 2015 include assets totaling $14,251 and $22,978, 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, 2014 and 2015, include liabilities of certain VIEs for which the VIEs creditors do not have recourse to HCL Technologies Limited and Subsidiaries (See Note 9).

See accompanying notes.

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

| | Year ended June 30, | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| **Revenues** | **$4,686,452** | **$5,359,750** | **$5,952,297** |
| Cost of revenues (exclusive of depreciation and amortization) | 3,002,394 | 3,291,510 | 3,823,183 |
| **Gross profit** | **1,684,058** | **2,068,240** | **2,129,114** |
| Selling, general and administrative expenses | 636,629 | 657,125 | 733,088 |
| Depreciation and amortization | 122,556 | 119,328 | 72,359 |
| Other income, net | (47,741) | (15,962) | (160,523) |
| Finance cost | 19,251 | 18,702 | 14,132 |
| **Income before income taxes** | **953,363** | **1,289,047** | **1,470,058** |
| Provision for income taxes | 220,926 | 252,072 | 306,355 |
| **Net income** | **732,437** | **1,036,975** | **1,163,703** |
| Net income (loss) attributable to noncontrolling interest | (22) | 53 | 18 |
| **Net income attributable to HCL Technologies Limited shareholders** | **$732,459** | **$1,036,922** | **$1,163,685** |
| **Earnings per equity share** | | | |
| Basic | $0.53 | $0.74 | $0.83 |
| Diluted | $0.52 | $0.73 | $0.82 |
| **Weighted average number of equity shares used in computing earnings per equity share** | | | |
| Basic | 1,389,566,646 | 1,397,233,894 | 1,404,808,456 |
| Diluted | 1,409,680,680 | 1,413,598,490 | 1,411,663,430 |

See accompanying notes.

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

| | Year ended June 30, | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| **Net income attributable to HCL Technologies Limited shareholders** | **$732,459** | **$1,036,922** | **$1,163,685** |
| **Other comprehensive income (loss) net of taxes:** | | | |
| Change in unrealized gain (loss) on cash flow hedges, net of taxes $7,152, ($15,554) and ($6,956) for the years ended June 30, 2013, 2014 and 2015, respectively. | (12,929) | 47,318 | 28,547 |
| Change in unrealized gain (loss) on securities available for sale, net of taxes ($377), $215 and ($72) for the years ended June 30, 2013, 2014 and 2015, respectively. | 756 | (441) | 218 |
| Change in unrealized gain (loss) on defined benefit plan, net of taxes $241, ($870) and ($321) for the years ended June 30, 2013, 2014 and 2015, respectively. | (602) | 3,257 | 1,123 |
| Change in foreign currency translation | (117,515) | 38,386 | (193,969) |
| **Other comprehensive income (loss)** | **(130,290)** | **88,520** | **(164,081)** |
| **Total Comprehensive income** | **$602,169** | **1,125,442** | **$999,604** |

See accompanying notes.

# HCL Technologies Limited and Subsidiaries

## Consolidated Statements of Equity

*Amount in thousands, except share data*

| | Equity shares | | Additional paid-in capital | Ordinary shares subscribed | Retained earnings | Accumulated other comprehensive loss | HCL Technologies Limited Shareholder' Equity | Non Controlling Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Par Value | | | | | | | |
| **Balances as at June 30, 2012** | **693,283,476** | **$34,329** | **$679,865** | **$689** | **$1,546,062** | **($332,184)** | **$1,928,761** | **$45** | **$1,928,806** |
| Shares issued for exercised options | 3,576,256 | 130 | 5,543 | (689) | - | - | 4,984 | - | 4,984 |
| Shares issued other than cash | 10,125 | 1 | 81 | - | - | - | 82 | - | 82 |
| Stock options exercised pending allotment of shares | - | - | - | 1,068 | - | - | 1,068 | - | 1,068 |
| Stock based compensation | - | - | 15,070 | - | - | - | 15,070 | - | 15,070 |
| Excess tax benefit from stock options | - | - | 1,939 | - | - | - | 1,939 | - | 1,939 |
| Cash dividend | - | - | - | - | (147,111) | - | (147,111) | - | (147,111) |
| Net income | - | - | - | - | 732,459 | - | 732,459 | (22) | 732,437 |
| Other comprehensive income (loss) | - | - | - | - | - | (130,290) | (130,290) | - | (130,290) |
| **Balances as at June 30, 2013** | **696,869,857** | **$34,460** | **$702,498** | **$1,068** | **$2,131,410** | **($462,474)** | **$2,406,962** | **$23** | **$2,406,985** |

See accompanying notes.

# HCL Technologies Limited and Subsidiaries

## Consolidated Statements of Equity

*Amount in thousands, except share data*

| | Equity shares | | Additional paid-in capital | Ordinary shares subscribed | Retained earnings | Accumulated other comprehensive loss | HCL Technologies Limited Shareholder' Equity | Non Controlling Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Par Value | | | | | | | |
| **Balances as at June 30, 2013** | **696,869,857** | **$34,460** | **$702,498** | **$1,068** | **$2,131,410** | **($462,474)** | **$2,406,962** | **$23** | **$2,406,985** |
| Shares issued for exercised options | 3,106,524 | 100 | 5,029 | (1,068) | - | - | 4,061 | - | 4,061 |
| Stock options exercised pending allotment of shares | - | - | - | 1,582 | - | - | 1,582 | - | 1,582 |
| Stock based compensation | - | - | 6,151 | - | - | - | 6,151 | - | 6,151 |
| Excess tax benefit from stock options | - | - | 4,581 | - | - | - | 4,581 | - | 4,581 |
| Cash dividend | - | - | - | - | (212,278) | - | (212,278) | - | (212,278) |
| Net income | - | - | - | - | 1,036,922 | - | 1,036,922 | 53 | 1,036,975 |
| Other comprehensive income (loss) | - | - | - | - | - | 88,520 | 88,520 | - | 88,520 |
| **Balances as at June 30, 2014** | **699,976,381** | **$34,560** | **$718,259** | **$1,582** | **$2,956,054** | **($373,954)** | **$3,336,501** | **$76** | **$3,336,577** |

See accompanying notes.

# HCL Technologies Limited and Subsidiaries

## Consolidated Statements of Equity

*Amount in thousands, except share data*

| | Equity shares | | Additional paid-in capital | Ordinary shares subscribed | Retained earnings | Accumulated other comprehensive loss | HCL Technologies Limited Shareholder' Equity | Non Controlling Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Par Value | | | | | | | |
| **Balances as at June 30, 2014** | **699,976,381** | **$34,560** | **$718,259** | **$1,582** | **$2,956,054** | **($373,954)** | **$3,336,501** | **$76** | **$3,336,577** |
| Shares issued for exercised options | 3,154,076 | 102 | 2,879 | (1,582) | - | - | 1,399 | - | 1,399 |
| Stock options exercised pending allotment of shares | - | - | - | 325 | - | - | 325 | - | 325 |
| Stock split effected in the form of stock dividend | 702,847,961 | 22,492 | (22,492) | - | - | - | - | - | - |
| Stock based compensation | - | - | (753) | - | - | - | (753) | - | (753) |
| Excess tax benefit from stock options | - | - | 5,331 | - | - | - | 5,331 | - | 5,331 |
| Cash dividend | - | - | - | - | (453,618) | - | (453,618) | - | (453,618) |
| Net income | - | - | - | - | 1,163,685 | - | 1,163,685 | 18 | 1,163,703 |
| Other comprehensive income (loss) | - | - | - | - | - | (164,081) | (164,081) | - | (164,081) |
| **Balances as at June 30, 2015** | **1,405,978,418** | **$57,154** | **$703,224** | **$325** | **$3,666,121** | **($538,035)** | **$3,888,789** | **$94** | **$3,888,883** |

See accompanying notes.

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

| | Year ended June 30, | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| **Cash flows from operating activities** | | | |
| **Net income** | **$732,437** | **$1,036,975** | **$1,163,703** |
| *Adjustments to reconcile net income to net cash provided by operating activities* | | | |
| Depreciation and amortization | 122,556 | 119,328 | 72,359 |
| Deferred income taxes | (15,920) | (39,772) | (51,477) |
| (Gain) loss on sale of property and equipment | 28 | (7,793) | (25,022) |
| Stock based compensation expense, net | 14,958 | 6,236 | (842) |
| Gain on sale of business | (778) | - | - |
| (Gain) loss on divestment of stake in affiliate | (4,485) | - | 2,040 |
| Excess tax benefit related to stock options exercise | (1,935) | (4,585) | (5,200) |
| Gain on sale of investment securities | (3,013) | (9,547) | (5,909) |
| Equity in earnings of affiliates | (2,259) | (1,299) | (1,875) |
| Others, net | 27,653 | 18,546 | (2,507) |
| **Changes in assets and liabilities, net of effects of acquisitions** | | | |
| Accounts receivable and unbilled revenue | (142,548) | (240,853) | (287,036) |
| Other assets | (98,244) | (10,204) | (100,893) |
| Accounts payable | (376) | 1,308 | 20,213 |
| Accrued employee costs | 40,175 | 23,072 | 67,114 |
| Other liabilities | 165,793 | 195,301 | 129,374 |
| **Net cash provided by operating activities** | **834,042** | **1,086,713** | **974,042** |
| | | | |
| **Cash flows from investing activities** | | | |
| Investment in term deposit with banks | (702,247) | (1,272,813) | (1,364,396) |
| Proceeds from term deposit with banks on maturity | 433,766 | 469,014 | 1,255,603 |
| Increase in entrusted loan receivable | - | - | (4,030) |
| Investment in term deposits with corporation | (127,147) | (93,051) | (191,573) |
| Proceeds from term deposits with corporation on maturity | 9,100 | 122,039 | 91,692 |
| Purchase of property and equipment | (107,824) | (118,004) | (194,533) |
| Proceeds from sale of property and equipment (including advance) | 1,764 | 38,857 | 1,973 |
| Purchase of investment securities (including advance) | (867,780) | (1,289,409) | (1,317,645) |
| Proceeds from sale of investment securities | 864,243 | 1,301,486 | 1,307,928 |
| Proceeds from business divestiture | 35,922 | - | - |
| Acquisition of business, net of cash acquired | (1,912) | - | - |
| Proceeds from sale of stake in affiliate (net of expenses) | 12,069 | - | 1,600 |
| Investment in Equity Method Investee | - | - | (1,600) |
| Dividend from equity investment in affiliates | - | - | 980 |
| **Net cash used in investing activities** | **(450,046)** | **(841,881)** | **(414,001)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Payment of principal under capital lease obligations | (1,606) | (5,899) | (4,325) |
| Proceeds from short term borrowings | 15,767 | 11,914 | 92,975 |
| Proceeds from entrusted loan | - | - | 4,030 |
| Repayment of short term borrowings | (75,000) | - | (72,394) |
| Proceeds from long term debt | 4,265 | 1,848 | 14,553 |
| Repayment of long term debt | (108,862) | (5,507) | (3,615) |
| Repayment of redeemable secured non – convertible debentures | (60,060) | - | (80,290) |
| Proceeds from issuance of equity shares | 5,049 | 4,139 | 1,287 |
| Proceeds from subscription of shares pending allotment | 1,067 | 1,478 | 391 |
| Dividend paid | (147,112) | (212,255) | (453,541) |
| Excess tax benefit related to stock options exercise | 1,935 | 4,585 | 5,200 |
| **Net cash used in financing activities** | **(364,557)** | **(199,697)** | **(495,729)** |
| | | | |
| Effect of exchange rate changes on cash and cash equivalents | (16,110) | 1,166 | (21,533) |
| Net increase in cash and cash equivalents | 3,329 | 46,301 | 42,779 |
| Cash and cash equivalents at the beginning of the year | 119,933 | 123,262 | 169,563 |
| **Cash and cash equivalents at the end of the year** | **$123,262** | **$169,563** | **$212,342** |
| | | | |
| **Supplemental disclosures of cash flow** | | | |
| Property and equipment acquired under capital lease obligation | $- | $2,492 | $693 |
| Cash payments for interest expenses | $13,153 | $9,366 | $2,866 |
| Cash payments for income taxes | $236,136 | $268,950 | $332,281 |

See accompanying notes.

## 1. ORGANIZATION AND NATURE OF OPERATIONS

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying consolidated financial statements include the accounts of HCL Technologies Limited and its subsidiaries and are prepared on the basis of U. S. generally accepted accounting principles ("U.S. GAAP").

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

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

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

The Group accounts for investments by the equity method where its investment in the voting stock gives it the ability to exercise significant influence over the affiliate.

The Group's equity in the profits (losses) of affiliate is included in the consolidated statements of income unless the carrying amount of an investment is reduced to zero and the Group is under no guaranteed obligation or otherwise committed to provide further financial support. The Group's share of net assets of affiliate is included in the carrying amount of the investment in the consolidated balance sheet. 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 consolidated financial statements and accompanying notes. These estimates are based on the management's best knowledge of current events, historical experience, actions that the Group may undertake in the future and on various other assumptions that are believed to be reasonable under the circumstances. Significant estimates and assumptions are used, but not limited to accounting for costs expected to be incurred to complete performance under IT service arrangements, allowance for uncollectible accounts receivables and unbilled revenue, accrual of warranty costs, income taxes, valuation of share-based compensation, future obligations under employee benefit plans, 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 is performed using an appropriate weighted average exchange rate for the respective periods. The gains (losses) resulting from such translation are reported as a component of 'other comprehensive income (loss)'.

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

*(d) Revenue recognition*

The Group derives revenues primarily from

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

Revenue is 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 contracts. Revenue with respect to time-and-material contracts is recognized as the related services are performed. Revenue related to fixed price and fixed time frame contracts providing application maintenance and support services, is recognized ratably over the term of contract. Revenue related to fixed price contracts providing 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.

Revenue from infrastructure management services comprises 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 for non receipt of acceptance from the customer, the cost of the delivered item is also deferred. Revenue from maintenance services is recognized ratably over the period of the contract.

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

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

**General**

Revenue from transition services not having standalone value in outsourcing arrangements is deferred and recognized over the period of the arrangement. Direct and incremental costs in relation to such an arrangement are also deferred to the extent of revenue. Certain upfront nonrecurring 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 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 at customer's site for which risk and rewards have not been transferred to customers.

*(f) Property and equipment*

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

| **Asset description** | **Asset life (in years)** |
|---|---|
| Buildings | 20 |
| Computer and networking equipment | 4 to 5 |
| Software | 3 |
| Furniture, fixtures and office equipment | 5 to 7 |
| Plant and equipment (including Aircraft) | 10 to 17 |
| Vehicles | 5 |

Assets acquired under capital leases are capitalized as assets by the Group at the lower of the fair value of the leased property or the present value of the related lease payments. Assets under capital leases are depreciated over the shorter of the lease term or the estimated useful life of the assets. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease period or the estimated 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 6).

*(g) Leases*

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

When substantially all the risks and rewards of property ownership have been transferred to the Company, as determined by the test criteria in FASB's guidance on ASC 840, the lease qualifies as a capital lease. Capital leases are capitalized at the lower of the net present value of the total amount of rent payable under the leasing agreement (excluding finance charges) or the fair market value of the

leased asset. Capital lease assets are depreciated on a straight-line basis, over a period consistent with the Group's normal depreciation policy for tangible fixed assets, but not exceeding the lease term. Interest charges are expensed over the period of the lease in relation to the carrying value of the capital lease obligation.

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

The Group also provides 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 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.

Research and development expenses for the years ended June 30, 2013, June 30, 2014 and June 30, 2015 were $28,743, $24,886 and $29,188,respectively.

*(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 and were accordingly expensed as incurred.

*(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 term of guarantees and letters of credit.

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

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

*(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 with both service and performance condition on a straight line basis over the requisite service period for each separately vesting portion of the award, as if award was in substance, multiple awards. The Company estimates the fair value of stock options using the Black-Scholes valuation model. The cost is recorded in cost of revenue and selling, general and administrative expenses in the 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.

*(p) Employee benefits*

Defined contribution plan

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

Defined benefit plan

Provident fund:

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

Gratuity:

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

Compensated absences:

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

*(q) Dividend*

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

*(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 consolidated statement of income as 'foreign exchange gains (losses)'.

The foreign exchange forward contracts and options in respect of forecasted transactions which meet the hedging criteria are designated as cash flow hedges. Changes in the derivative fair values that are designated as effective cash flow hedges are deferred and recorded as component of accumulated 'other comprehensive income (loss)' until the hedged transaction occurs and are then recognized as 'other income' in the consolidated statement of income. The ineffective portion of hedging derivatives is immediately recognized in the 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 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 11 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 lives are amortized over the estimated useful life of the assets as under:

| **Asset description** | **Asset life (in years)** |
|---|---|
| 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 | 4 |
| Brand and contractors database and others | 2 to 5 |

*(t) Recently issued accounting pronouncements*

*Adoption of new accounting principles*

In July 2013, the FASB issued ASU No. 2013-11, " Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists " (ASU No. 2013-11). The provisions of the rule require an unrecognized tax benefit to be presented as a reduction to a deferred tax asset in the financial statements for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except in circumstances when the carryforward or tax loss is not available at the reporting date under the tax laws of the applicable jurisdiction to settle any additional income taxes or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purposes. When those circumstances exist, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The new financial statement presentation provisions relating to this update are prospective and effective for interim and annual periods beginning after December 15, 2013,with early adoption permitted.The Group has adopted ASU No. 2013-11 effective July 01, 2014, the adoption of this standard did not have an affect on the financial presentation and consolidated results of operations.

*New accounting pronouncement*

On May 28, 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, which will replace most existing revenue recognition guidance in U.S. GAAP. The core principle of the ASU is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. The ASU requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. The ASU will be effective for the Group beginning July 01, 2019, including interim periods in its fiscal year 2020, and allows for both retrospective and prospective methods of adoption. The Group is in the process of determining the method of adoption and assessing the impact of this ASU on its Consolidated Financial Statements.

## 3. FINANCIAL INSTRUMENTS AND CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Group to concentration of credit risk consist principally of cash equivalents, short term deposits with banks and corporations, accounts receivables, unbilled revenue, investment securities and derivative instruments. The cash resources of the Group are invested with mutual funds, banks, financial institutions and corporations after an evaluation of the credit risk. By their nature, all such financial instruments involve risks, including the credit risk of non-performance by counter parties. In the management's opinion, as of June 30, 2014 and 2015, there was no significant risk of loss in the event of non-performance of the counterparties to these financial instruments, other than the amounts already provided for in the financial statements.

The customers of the Group are primarily corporations based in the United States of America and Europe and accordingly, trade receivables are concentrated in the respective countries. To reduce the risk, the Group performs ongoing credit evaluation of customers.

## 4. CASH AND CASH EQUIVALENTS

The cash and cash equivalents as of June 30, 2014 and 2015 are as follows:

| | June 30, 2014 | June 30, 2015 |
|---|---|---|
| Deposits with banks, having maturities less than three months | $297 | $3,226 |
| Other cash and cash equivalents | 169,266 | 209,116 |
| **Total** | **$169,563** | **$212,342** |

## 5. SALES OF RECEIVABLES

The Group has revolving accounts receivables based facilities of $125,000 permitting it to sell certain accounts receivables to banks on a non-recourse basis in the normal course of business. The aggregate maximum capacity utilized by the Group at any time during the years ended June 30, 2014 and June 30, 2015 was $40,566 and $30,284, respectively. Gains or losses on sale are recorded at the time of transfer of these accounts receivables and are immaterial. The Group has retained servicing obligations, which are limited to collection activities related to the non-recourse sales of accounts receivables. As of June 30, 2014 and June 30, 2015, the Group had outstanding service obligation of Nil and $434 respectively.

## 6. PROPERTY AND EQUIPMENT

As of June 30, 2014 and 2015, property and equipment comprises the following:

| | June 30, 2014 | June 30, 2015 |
|---|---|---|
| Freehold land | $14,461 | $13,687 |
| Buildings | 291,670 | 332,822 |
| Computer and networking equipment | 267,460 | 299,132 |
| Software | 123,447 | 110,612 |
| Furniture, fixtures and office equipment | 109,984 | 110,530 |
| Plant and equipment | 206,819 | 231,547 |
| Vehicles | 14,786 | 15,550 |
| Capital work-in-progress | 94,492 | 91,480 |
| | **1,123,119** | **1,205,360** |
| Accumulated depreciation and amortization | (600,325) | (605,241) |
| **Property and equipment, net** | **$522,794** | **$600,119** |

Depreciation expense was $113,955, $110,059 and $64,707 for the years ended June 30, 2013, 2014 and 2015, respectively.

Based on technical evaluation, the Group reassessed and revised the useful lives of assets with effect from July 1, 2014.

The existing and revised useful life are as below:

| Category of Asset | Existing Useful Life (Years) | Revised Useful Life (Years) |
|---|---|---|
| Buildings | 20 | 20 |
| Computer and networking equipment | 3 | 4 to 5 |
| Software | 3 | 3 |
| Furniture,fixtures and office equipment | 4 | 5 to 7 |
| Plant and equipment (including aircraft) | 4 to17 | 10 to 17 |
| Vehicles | 5 | 5 |

Had the Group continued with the previously assessed useful life, charge for the depreciation for the year ended June 30, 2015 would be higher by $37,971, net income would be lower by $30,058, and basic and diluted earnings per share would be lower by $0.02 and $0.02, respectively, for assets held at July 1, 2014.

## 7. GOODWILL AND INTANGIBLES

The changes in the carrying value of goodwill balances by reportable segment, for the year ended June 30, 2014, are as follows:

| | Software Services | Infrastructure services | Business process outsourcing services | Total |
|---|---|---|---|---|
| Opening balance as at July 1, 2013 | **$768,128** | **$1,021** | **$23,545** | **$792,694** |
| Effect of exchange rate changes | 24,586 | (14) | 808 | 25,380 |
| Closing balance as on June 30, 2014 | **$792,714** | **$1,007** | **$24,353** | **$818,074** |

The changes in the carrying value goodwill balances by reportable segment, for the year ended June 30, 2015, are as follows:

| | Software Services | Infrastructure services | Business process outsourcing services | Total |
|---|---|---|---|---|
| Opening balance as at July 1, 2014 | **$792,714** | **$1,007** | **$24,353** | **$818,074** |
| Effect of exchange rate changes | (27,029) | (55) | (603) | (27,687) |
| Closing balance as on June 30, 2015 | **$765,685** | **$952** | **$23,750** | **$790,387** |

The components of intangible assets are as follows:

| | June 30, 2014 | | | June 30, 2015 | | |
|---|---|---|---|---|---|---|
| | Gross carrying amount | Accumulated amortization | Net | Gross carrying amount | Accumulated amortization | Net |
| Intellectual property rights | $586 | ($582) | $4 | $554 | ($554) | $- |
| Software | 9,260 | (7,748) | 1,512 | 8,835 | (7,702) | 1,133 |
| Customer related intangibles | 139,553 | (108,836) | 30,717 | 130,027 | (107,850) | 22,177 |
| Non-compete agreements | 9,824 | (4,610) | 5,214 | 9,118 | (5,198) | 3,920 |
| Brand and contractors database and others | 3,473 | (3,473) | - | 3,169 | (3,169) | - |
| | **$162,696** | **($125,249)** | **$37,447** | **$151,703** | **($124,473)** | **$27,230** |

Amortization expense for the years ended June 30, 2013, 2014 and 2015 is $8,601, $9,269 and $7,652, respectively.

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

| Year ending June 30, | |
|---|---|
| 2016 | $7,581 |
| 2017 | 7,605 |
| 2018 | 7,302 |
| 2019 | 3,546 |
| 2020 | 801 |
| Thereafter | 395 |
| | **$27,230** |

## 8. INVESTMENTS IN AFFILIATE

*Equity Method Investment*

***Axon Puerto Rico Inc***

In June, 2008, the US based subsidiary of the Group entered into a Joint Venture Agreement with APR Holdco Puerto Rico, Inc. whereby the US subsidiary holds a 49% stake in Axon Puerto Rico Inc, joint venture entity, and APR Holdco Puerto Rico, Inc. holds a 51% stake.

In April, 2015 the US subsidiary entered into an agreement with APR Holdco Puerto Rico, Inc. for the sale of its 49% stake in Axon Puerto Rico at a gross consideration of $1,600.The sale was completed on June, 17 2015.

Equity method Investment as of June 30, 2014 and 2015 is as follows:

| | June 30, 2014 | | June 30, 2015 | |
|---|---|---|---|---|
| **Name of the Affiliate** | **Carrying Value** | **Ownership Percentage** | **Carrying Value** | **Ownership Percentage** |
| *Axon Puerto Rico Inc* | $2696 | 49% | $- | - |
| | **$ 2696** | | **$-** | |

The Group accounts for its interest in affiliate under the equity method and the gain (loss) for the years ended June 30, 2013, 2014 and 2015 are shown below:

| | Year ended June 30, | | |
|---|---|---|---|
| **Name of the Affiliate** | **2013** | **2014** | **2015** |
| *Axon Puerto Rico Inc* | $14 | $ 1,299 | $1,924 |
| | **$14** | **$1,299** | **$1,924** |

***Morado Venture Partners II LLP***

During the year ended 30 June 2015, the Company through a wholly owned subsidiary invested $1,600 in Morado Venture Partners II LLP, a limited liability partnership “Venture Fund”. The Company has a commitment to contribute an additional $2,400 to Morado Venture Partners II LLP in future years.

Equity method investment as of June 30, 2014 and 2015 is as follows:

| | June 30, 2014 | | June 30, 2015 | |
|---|---|---|---|---|
| **Name of the Affiliate** | **Carrying Value** | **Ownership Percentage** | **Carrying Value** | **Ownership Percentage** |
| *Morado Venture Partners II LLP** | $- | - | 1,551 | 13.25% |
| | **$-** | | **$1,551** | |

The Group accounts for its interest in affiliate under the equity method and the gain (loss) for the years ended June 30, 2013, 2014 and 2015 are shown below:

| | Year ended June 30, | | |
|---|---|---|---|
| **Name of the Affiliate** | **2013** | **2014** | **2015** |
| *Morado Venture Partners II LLP* | $- | $- | (49) |
| | **$-** | **$-** | **$(49)** |

## 9. 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.

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

| | June 30, 2014 | June 30, 2015 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | $980 | $2,656 |
| Short term deposits with banks | 3,157 | 4,531 |
| Accounts receivables, net | 3,046 | 4,385 |
| Unbilled revenue | 878 | 2,924 |
| Deferred income taxes | 11 | 11 |
| Other current assets | 1,056 | 1,250 |
| **Total Current Assets** | **9,128** | **15,757** |
| Deferred income taxes | 719 | 1,755 |
| Property and Equipment, net | 2,594 | 3,948 |
| Intangible assets, net | 1,076 | 687 |
| Other assets | 734 | 831 |
| **Total Assets** | **$14,251** | **$22,978** |
| | | |
| **Current liabilities** | | |
| Accounts payable | $140 | $1,244 |
| Accrued employee costs | 797 | 1,009 |
| Deferred revenue | 219 | 322 |
| Other current liabilities | 1,662 | 2,107 |
| **Total current liabilities** | **$2,818** | **$4,682** |
| Deferred income taxes | 53 | 12 |
| Accrued employee costs | 90 | 102 |
| Deferred revenue | 345 | 214 |
| **Total liabilities** | **$3,306** | **$5,010** |

a) Assets and liabilities exclude all intercompany accounts and transactions, which are eliminated in consolidation.

b) For the years ended June 30, 2014 and 2015, total revenues from VIEs were $19,843 and $30,024, respectively.

## 10. INVESTMENT SECURITIES

Available for sale investment securities consist of the following:

As of June 30, 2014:

| | Carrying value | Gross unrealized holding gains | Fair value |
|---|---|---|---|
| Mutual fund units - debt | $65,505 | $477 | $65,982 |
| **Total** | **$65,505** | **$477** | **$65,982** |

As of June 30, 2015:

| | Carrying value | Gross unrealized holding gains | Fair value |
|---|---|---|---|
| Mutual fund units -debt | $119,808 | $767 | $120,575 |
| **Total** | **$119,808** | **$767** | **$120,575** |

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

The maturity profile of the investments classified as available for sale as of June 30, 2015 is set out below:

| | Fair value |
|---|---|
| Less than one year | $120,575 |
| One to five years | - |
| | **$120,575** |

Proceeds from the sale of available- for -sale securities during the years ended June 30, 2013, 2014 and 2015 were $864,243, $1,301,486 and $1,307,928, respectively. Dividend income earned from these investments during the years ended June 30, 2013, 2014 and 2015 was $4,353, Nil and Nil, respectively.

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

The table summarizes the transactions for available for sale securities:

| | Year ended June 30, | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| Net realised gain due to change in fair value | $3,013 | $9,547 | $5,909 |
| Net unrealized gain included in statements of other comprehensive income. | $1,133 | $477 | $767 |
| Reclassification in to earnings on maturity out of other comprehensive income | $- | $1,133 | $477 |

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

As of June 30, 2014:

| | Carrying value | Fair value |
|---|---|---|
| Bonds | $8,308 | $8,308 |
| Certificate of deposits | 26,923 | 26,923 |
| **Total** | **$35,231** | **$35,231** |

As of June 30, 2015:

| | Carrying value | Fair value |
|---|---|---|
| Bonds | $- | $- |
| Certificate of deposits | - | - |
| **Total** | **$-** | **$-** |

The maturity profile of the investments held-to-maturity as of June 30, 2015 is set out below:

| | Carrying value |
|---|---|
| Less than one year | $- |
| One to five years | - |
| | **$-** |

Interest income earned from these investments during the years ended June 30, 2013, 2014 and 2015 was $1,097, $2,195 and $805, respectively.

## 11. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

| | Notional principal amounts | | Balance sheet exposure Asset (Liability) | |
|---|---|---|---|---|
| | **June 30, 2014** | **June 30, 2015** | **June 30, 2014** | **June 30, 2015** |
| Foreign exchange forward denominated in: | | | | |
| USD /INR | $631,910 (Sell) | $498,660 (Sell) | ($38,001) | ($11,277) |
| GBP/ INR | £12,000 (Sell) | £1,000 (Sell) | (2,606) | (61) |
| EUR / USD | € 32,290 (Sell) | € 37,611 (Sell) | 91 | (60) |
| EUR/ INR | € 36,500 (Sell) | € 12,500 (Sell) | (3,597) | 2090 |
| GBP/ USD | - | £11,000 (Sell) | - | 74 |
| AUD/USD | AUD 12,000 (Sell) | AUD 12,770 (Sell) | 3 | 44 |
| SEK/USD | SEK 176,120 (Sell) | SEK 55,373 (Sell) | 60 | (149) |
| ZAR/USD | ZAR 24,000 (Sell) | ZAR 122,000 (Sell) | (6) | 40 |
| JPY/USD | - | JPY 300,000 (Sell) | - | (27) |
| CHF/USD | CHF 7,000 (Sell) | CHF 11,050 (Sell) | (5) | (76) |
| CHF/ INR | - | CHF 1,000 (Sell) | - | 18 |
| NOK/USD | - | NOK 146,000 (Sell) | - | 59 |
| MXN/USD | - | MXN 66,000 (Sell) | - | 73 |
| RUB/USD | - | RUB 185000 (Sell) | - | 28 |
| SEK/INR | - | SEK 15,000 (Sell) | - | 46 |
| CAD/USD | CAD 2,500 (Buy) | CAD 12,500 (Buy) | 55 | (78) |
| SGD/USD | SGD 5,500 (Buy) | SGD 4,400 (Buy) | 12 | (44) |
| JPY/USD | JPY 250,000 (Buy) | - (Buy) | (4) | - |
| GBP/USD | £47,300 (Buy) | £29,930 (Buy) | 962 | 651 |
| CHF/USD | - | CHF 5,000 (Buy) | - | (19) |
| SEK/USD | SEK 80,000 (Buy) | SEK 17,000 (Buy) | (194) | 3 |
| MYR/USD | MYR 20,500 (Buy) | MYR 16,000 (Buy) | 34 | (98) |
| | | | **($43,196)** | **($8,763)** |

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

| | Notional principal amounts | | Balance sheet exposure Asset (Liability) | |
|---|---|---|---|---|
| | **June 30, 2014** | **June 30, 2015** | **June 30, 2014** | **June 30, 2015** |
| **Range Forward** | | | | |
| USD/INR | $250,680 | $524,230 | 878 | $3,707 |
| EUR/INR | € 38,100 | € 93,240 | (99) | 338 |
| GBP/INR | £29,500 | £54,350 | (674) | (842) |
| AUD/INR | AUD 3,000 | AUD 13,800 | (10) | 316 |
| **PUT** | | | | |
| USD/INR | $- | $2,000 | - | 22 |
| **Seagull** | | | | |
| USD/INR | $- | $28,600 | - | 115 |
| EUR/INR | - | € 4,300 | - | (28) |
| | | | **$95** | **$3,628** |

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

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

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

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

| | **June 30, 2014** | | | | |
|---|---|---|---|---|---|
| | Other Current Assets | Other Non - Current Assets | Other Current Liabilities | Other Non - Current Liabilities | Total Fair Value |
| **Derivatives designated as hedging instruments:** | | | | | |
| Foreign exchange contracts in an asset position | $1,630 | $45 | $1,576 | $45 | $3,296 |
| Foreign exchange contracts in an liability position | (1,576) | (45) | (22,945) | (21,346) | (45,912) |
| **Net asset (liability)** | **$54** | **$0** | **($21,369)** | **($21,301)** | **($42,616)** |
| **Derivatives not designated as hedging instruments:** | | | | | |
| Foreign exchange contracts in an asset position | $1,404 | $- | $197 | $- | $1,601 |
| Foreign exchange contracts in an liability position | (401) | - | (1,685) | - | (2,086) |
| **Net asset (liability)** | **$1,003** | **$-** | **($1,488)** | **$-** | **($485)** |
| **Total Derivatives at fair value** | **$1,057** | **$0** | **($22,857)** | **($21,301)** | **($43,101)** |

| | June 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Other Current Assets | Other Non - Current Assets | Other Current Liabilities | Other Non - Current Liabilities | Total Fair Value |
| **Derivatives designated as hedging instruments:** | | | | | |
| Foreign exchange contracts in an asset position | $7,962 | $351 | $6,023 | $256 | $14,592 |
| Foreign exchange contracts in an liability position | (6,023) | (256) | (7,988) | (6,186) | (20,453) |
| **Net asset (liability)** | **$1,939** | **$95** | **($1,965)** | **($5,930))** | **($5,861)** |
| **Derivatives not designated as hedging instruments:** | | | | | |
| Foreign exchange contracts in an asset position | $2,799 | $- | $1,536 | $- | $4,335 |
| Foreign exchange contracts in an liability position | (1,536) | - | (2,073) | - | (3,609) |
| **Net asset (liability)** | **$1,263** | **$-** | **($537)** | **$-** | **$726** |
| **Total Derivatives at fair value** | **$3,202** | **$95** | **($2,502)** | **($5,930)** | **($5,135)** |

The following tables set forth the fair value of derivative instruments included in the consolidated balance sheets as on June 30, 2014 and 2015:

**Derivatives designated as hedging instruments:**

| | June 30, 2014 | June 30, 2015 |
|---|---|---|
| Unrealized (loss) gain on financial instruments classified under current assets | $54 | $1,939 |
| Unrealized (loss) gain on financial instruments classified under non current assets | - | 95 |
| Unrealized (loss) gain on financial instruments classified under current liabilities | (21,369) | (1,965) |
| Unrealized (loss) gain on financial instruments classified under non-current liabilities | (21,301) | (5,930) |
| | **($42,616)** | **($5,861)** |

Derivatives not designated as hedging instruments:

| | June 30, 2014 | June 30, 2015 |
|---|---|---|
| Unrealized (loss) gain on financial instruments classified under current liabilities | ($1,488) | ($537) |
| Unrealized (loss) gain on financial instruments classified under current assets | 1,003 | 1,263 |
| | **($485)** | **$726** |

The following tables summarize the activities in the consolidated statement of income during the year ended June 30, 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 | ($27,264) | Other Income (Expense),net | (88,730) | Other Income (Expense),net | Nil |
| | **($27,264)** | | **($88,730)** | | **Nil** |

| 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 | ($8,027) |

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

| Derivatives in Cash flow Hedging Relationships | Amount of Gain or (Loss) Recognized in AOCI on Derivatives (Effective Portion) | Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion) | Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion) | Location of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion) and Amount Excluded from Effectiveness Testing) | Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) |
|---|---|---|---|---|---|
| Foreign Exchange Contracts | $18,805 | Other Income (Expense),net | ($14,335) | Other Income (Expense),net | Nil |
| | **$18,805** | | **($14,335)** | | **Nil** |

| 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 | $16,126 |

The following table summarizes the activity in the accumulated 'Other comprehensive (loss) gain' within equity related to all derivatives classified as cash flow hedges during the years ended June 30, 2013, 2014 and 2015:

| | Year ended June 30, | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| Balance as at the beginning of the year (before tax) | ($86,212) | ($106,293) | ($43,421) |
| Unrealized gain (loss) on cash flow hedging derivatives during the year | (37,647) | (27,264) | 18,805 |
| Net loss reclassified into net income on occurrence of hedged transactions | 12,119 | 88,730 | 14,335 |
| Effect of exchange rate fluctuations | 5,447 | 1,406 | 2,363 |
| Balance as at the end of the year | **(106,293)** | **($43,421)** | **($7,918)** |
| Deferred tax | 24,036 | 8,482 | 1,526 |
| | **($82,257)** | **($34,939)** | **($6,392)** |

As at June 30, 2015, 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 ($2,023).

## 12. OTHER CURRENT ASSETS

As of June 30, 2014 and 2015, other current assets comprise the following:

| | June 30, 2014 | June 30, 2015 |
|---|---|---|
| Prepaid expenses | $44,071 | $53,826 |
| Prepaid rentals for leasehold land | 273 | 478 |
| Interest receivable | 19,391 | 15,776 |
| Prepaid/advance taxes | 15,704 | 10,763 |
| Deposits | 9,922 | 6,585 |
| Deferred cost | 48,148 | 81,289 |
| Employee receivables | 9,871 | 11,681 |
| Derivative financial instruments | 1,057 | 3,201 |
| Advance to suppliers | 5,850 | 7,811 |
| Entrusted loan receivable | - | 4,032 |
| Finance lease receivable | 59,858 | 27,613 |
| Others | 43,450 | 45,367 |
| | **$257,595** | **$268,422** |

## 13. OTHER ASSETS

As of June 30, 2014 and 2015, other assets comprise the following:

| | June 30, 2014 | June 30, 2015 |
|---|---|---|
| Deposits | $25,573 | $27,371 |
| Deferred cost | 62,329 | 119,097 |
| Prepaid expenses | 14,383 | 13,809 |
| Prepaid rentals for leasehold land | 22,955 | 39,825 |
| Advance to suppliers | 14,248 | 13,473 |
| Finance lease receivable | 85,192 | 44,008 |
| Others | 16,730 | 46,024 |
| | **$241,410** | **$303,607** |

## 14. ALLOWANCES FOR ACCOUNTS RECEIVABLE

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

The movement in allowance for accounts receivable is given below:

| | June 30 ,2014 | June 30, 2015 |
|---|---|---|
| Balance at the beginning of the year | $59,617 | $62,611 |
| Additional provision during the year | 36,862 | 17,014 |
| Deductions on account of write offs and collections | (34,165) | (32,442) |
| Effect of exchange rates changes | 297 | (2,778) |
| Balance at the end of the year | **$62,611** | **$44,405** |

## 15. DEBTS

### SHORT TERM LOANS

The Group has availed of unsecured short term loan of $998 at effective interest rate of 4.04% during the year ended June 30, 2015 which is repayable on July 06, 2015.

The Group has availed of bank line of credit from its bankers amounting to $34,196 and $50,821 as of June 30, 2014 and 2015, respectively, at effective interest rates ranging from 1.00% to 15.39%.

### Entrusted loan receivable/payable

During the year ended June 30, 2015, two of the Company wholly owned subsidiaries, HCL Technologies (Shanghai) Limited & Axon Solutions (Shanghai) Co. Limited, entered into an entrusted loan arrangement of $4,032 with a bank, in which HCL Technologies (Shanghai) Limited acts as the entrusted party (the principle) the bank acts as the agent (charging commission of 0.20% p.a.) and Axon Solutions (Shanghai) Co. Limited acts as a borrower (the "Entrusted Loan"). The entrusted loan receivable included under other current assets and entrusted loan payable included under short term loans which cannot be set off and bear interest of 5% p.a. are repayable on demand within one year.

### LONG TERM DEBT

| | June 30, 2014 | June 30, 2015 |
|---|---|---|
| From banks | $6,567 | $17,164 |
| Secured redeemable non convertible debentures | 83,076 | - |
| Other | 921 | 605 |
| Less: Current portion | (85,916) | (3,970) |
| | **$4,648** | **$13,799** |

The scheduled principal repayments are as follows:

| | June 30, 2015 |
|---|---|
| Within one year | $3,970 |
| One to two years | 11,180 |
| Two to three years | 1,454 |
| Three to five years | 1,165 |
| | **$17,769** |

The Group's borrowings are subject to certain financial and non financial covenants. At June 30, 2015, the Group was in compliance with all such covenants.

### Long term debts from banks include:

Term loans of $6,567 and $6,464 as of June 30, 2014 and June 30, 2015, respectively, at interest rates ranging from 10.2% to 10.5% per annum and secured by hypothecation of vehicles with a book value of $12,778 and $14,183 as of June 30, 2014 and June 30, 2015, respectively.

Term loans of Nil and $10,700 as of June 30, 2014 and June 30, 2015, respectively, at effective interest rate of 2.9% per annum, respectively.

### Other long term debts include:

(a) $132 and Nil at June 30, 2014 and June 30, 2015, respectively, represents loan taken for purchase of fixed assets at interest rates ranging from 0% to 6.79% per annum secured against hypothecation of such assets.

(b) Unsecured long term loans of $789 and $605 as of June 30, 2014 and June 30, 2015, respectively, at interest rates ranging from 0% to 6.79% per annum.

**Secured Redeemable Non Convertible Debentures**

The Company allotted 10,000 secured redeemable non convertible debentures of face value of ` 1million ($15,711) each aggregating to $157,109, carrying a quarterly coupon rate varying from 7.55% to 8.80% per annum. The debentures had a maturity period ranging from two years to five years from the date of allotment and were secured against specified movable assets, receivables from subsidiaries and specified land and building of the Company. Principal amount outstanding as of June 30, 2014 was $83,076, and the same has been repaid during the year ended June 30, 2015.

## 16. OTHER CURRENT LIABILITIES

As of June 30, 2014 and 2015, other current liabilities comprise the following:

| | June 30, 2014 | June 30, 2015 |
|---|---|---|
| Advances from customers | $7,442 | $9,350 |
| Sales tax and other taxes payable | 55,657 | 60,882 |
| Accrued liabilities and expenses | 322,357 | 340,181 |
| Supplier's credit | 238,669 | 242,481 |
| Due to related parties | 31,310 | 1,616 |
| Derivative financial instruments | 22,857 | 2,502 |
| Others | 35,684 | 31,563 |
| | **$713,976** | **$688,575** |

## 17. EQUITY SHARES

The Company has only one class of capital stock referred to herein as equity shares. Par value of each equity share outstanding as of June 30, 2015 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.

*Stock split*

The Company has allotted 702,847,961 fully paid up equity shares of face value ` 2/- each during March 2015 pursuant to a stock split approved by the shareholders through a postal ballot. The shareholders of the Company approved a one-for-one stock split which was effective on record date of March 20, 2015. Consequently, the Company capitalized an amount of $ 22,492 from its additional paid-in capital (APIC) to common stock. All references in the financial statements to number of shares, stock option data, have been retroactively restated to reflect the stock split unless otherwise noted.

*Liquidation*

In the event of liquidation of the Company, the holders of equity shares shall be entitled to receive all of the remaining assets of the Company, after distribution of 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.

## 18. OTHER INCOME (EXPENSES), NET

For the years ended June 30, 2013, 2014 and 2015, other income/ (expenses), net consist of:

| | Year ended June 30, | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| Interest income | $38,768 | $88,936 | $131,035 |
| Dividend income from investments | 4,353 | - | - |
| Gain (loss) on divestment of stake in affiliates | 4,485 | - | (2,040) |
| Gain on sale of investment securities and other investments, net | 3,013 | 9,547 | 5,909 |
| Foreign exchange losses , net | (3,771) | (95,877) | (3,115) |
| Equity in earning of affiliates | 2,259 | 1,299 | 1,875 |
| Gain (loss) on sale of property and equipment | (28) | 7,793 | 25,022 |
| Miscellaneous income (expenses) | (1,338) | 4,264 | 1,837 |
| **Other income, net** | **$47,741** | **$15,962** | **$160,523** |

## 19. INCOME TAXES

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

The Group's provisions (benefit) for income taxes consist of the following:

| | Year ended June 30, | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| Current taxes | | | |
| Indian taxes | $166,734 | $251,350 | $257,927 |
| Foreign taxes | 70,112 | 40,494 | 99,906 |
| | **$236,846** | **$291,844** | **$357,833** |
| Deferred taxes | | | |
| Indian taxes | (17,266) | (24,036) | (43,786) |
| Foreign taxes | 1,346 | (15,736) | (7,692) |
| | **($15,920)** | **($39,772)** | **(51,478)** |
| **Total taxes** | **$220,926** | **$252,072** | **$306,355** |

The reconciliation between the Group's provision for income tax and amount computed by applying the statutory income tax rate in india is as follows:

| | Year ended June 30, | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| Income before taxes, equity in earnings of affiliates and noncontrolling interest | $953,363 | $1,289,047 | $1,470,058 |
| Average enacted tax rate in India | 32.95% | 33.99% | 34.13% |
| Expected tax expense | 314,133 | 438,147 | 501,657 |
| Non-taxable export income | (128,781) | (174,773) | (200,748) |
| Non-taxable other income | (3,866) | (2,696) | (9,852) |
| Accumulated one time tax benefits | - | (15,438) | - |
| Income taxed at a lower / higher rate | 6,637 | (1,840) | (2,602) |
| Capital gain on sale of business | 10,775 | - | - |
| Re-estimation of MAT credit | 12,804 | - | - |
| Differences between Indian and foreign tax rates | 6,952 | 8,981 | 4,522 |
| Employee stock compensation cost | 3,908 | 831 | 1,817 |
| Increase (decrease) in valuation allowance including losses of subsidiaries | (4,472) | 38 | 765 |
| Provision for deemed branch taxes | 1,132 | 945 | 1,869 |
| Others | 1,704 | (2,123) | 8,927 |
| **Total taxes** | **$220,926** | **$252,072** | **$306,355** |

In respect of units situated in Special Economic Zones (SEZs) under the Special Economic Zone Act, 2005, which began providing services on or after April 1, 2005 are eligible for a deduction of 100 percent of profits or gains derived from the export of services for the first five years from commencement of provision of services and 50 percent of such profits and gains for a further five years. Certain tax benefits are also available for a further five years subject to the unit meeting defined conditions.

Income tax charged to equity for the years ended June 30, 2013, 2014 and 2015 are as follows:

| | Year ended June 30, | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| Income tax from continuing operations | $220,926 | $252,072 | $306,355 |
| Stockholder's equity for:- | | | |
| Tax benefits received on exercise of employee stock options reflected as part of additional paid in capital | (1,939) | (4,581) | (5,331) |
| Unrealized holding (loss) gain on available for sale investment Securities | 377 | (215) | 72 |
| Unrealized (loss) gain on cash flow hedge | (7,152) | 15,554 | 6,956 |
| Unrealized actuarial (loss) gain | (241) | 870 | 321 |
| Effect of exchange rate fluctuations | 10,350 | 1,367 | 9,461 |
| | **$222,321** | **$265,067** | **$317,834** |

The Company in India is subject to Minimum Alternate Tax (MAT) on its book profit, which gives rise to future economic benefits in the form of adjustment of future income tax liability. Any MAT paid for a year can be set-off against the normal tax liability within ten subsequent years.

The tax returns are subject to examination by the tax authorities in the jurisdictions where the Group conducts business. The examination may result in assessment of additional taxes that are resolved with the authorities or through legal proceedings. Resolution of these matters involves some degree of uncertainty; accordingly, the Group recognizes income tax liability that it believes will ultimately result from the proceedings.

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

| | June 30, 2014 | June 30, 2015 |
|---|---|---|
| Balance at the beginning of the year | $88,550 | $ 108,611 |
| Increase due to tax position taken during the current year | 21,271 | 3,771 |
| Increase (decrease) due to tax position taken during the prior year | (700) | (3,720) |
| Effect of exchange rate fluctuations | (510) | (3,744) |
| Balance at the end of the year | **$108,611** | **$104,918** |

The unrecognized tax benefits, if recognized, would affect the Group's effective tax rate. Significant changes in the amount of unrecognized tax benefits within the next 12 months cannot be reasonably estimated as the changes would depend upon the progress of tax proceedings with various tax authorities.

Income tax expense includes penalties and interest related to income tax. As at June 30, 2014 and 2015, income taxes payable include $34,668 and $44,094, respectively, on account of accrued interest and penalties related to uncertain tax positions.

The Group's two major tax jurisdictions are India and USA. The tax examination is open in India for fiscal year beginning April 1, 2010 onwards and in USA for fiscal year beginning July 1, 2007 onwards.

The components of the deferred tax balances as of June 30, 2014 and 2015 are as follows:

| | June 30, 2014 | June 30, 2015 |
|---|---|---|
| **Deferred tax assets:** | | |
| Business losses | $27,633 | $18,011 |
| Allowance for accounts receivable | 19,941 | 15,084 |
| Accrued employee costs | 53,947 | 70,596 |
| Property and equipment | 18,566 | 8,269 |
| Minimum alternate tax | 88,727 | 134,051 |
| Employee stock compensation | 7,349 | 3,493 |
| Unrealized loss on derivative financial instruments | 8,636 | 1,526 |
| Other temporary differences | $29,530 | $25,700 |
| | **254,329** | **276,730** |
| Less: Valuation allowance | (30,872) | (24,453) |
| **Total deferred tax assets** | **$223,457** | **$252,277** |
| | | |
| **Deferred tax liabilities:** | | |
| Unrealized gains on investment securities | 162 | 234 |
| Unrealized gain on derivative financial instruments | 154 | - |
| Intangibles | 8,552 | 6,811 |
| Others | 9,571 | 5,546 |
| **Total deferred tax liabilities** | **$18,439** | **$12,591** |
| **Net deferred tax assets** | **$205,018** | **$239,686** |

The components of valuation allowance as of June 30, 2014 and 2015 are as follows:

| | June 30, 2014 | June 30, 2015 |
|---|---|---|
| Business losses | ($17,789) | ($11,428) |
| Others | ($13,083) | ($13,025) |

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

Business losses carried forward of certain subsidiaries of the Group for tax purposes amount to approximately $102,936 and $70,406 as of June 30, 2014 and 2015, respectively, and are available as an offset against future taxable income expiring at various dates through .

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

During the years ended June 30, 2013, 2014 and 2015, the US based subsidiary of the Group received excess tax benefit aggregating $1,939, $4,581 and $5,331, respectively, upon exercise of employee stock options which was recognized in equity. As of June 30, 2015, the Group recognized a deferred tax asset amounting to $3,493 on the stock compensation expense expected to be realized on exercise of stock options in future periods.

Undistributed earnings of the subsidiaries aggregate approximately $640,309 and $766,572 as of June 30, 2014 and 2015, respectively. The Group has the intent to reinvest the undistributed foreign earning indefinitely in its significant overseas operations and consequently did not record a deferred tax liability on the undistributed earnings.

## 20. 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:

| | Year ended June 30, | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| Weighted average number of equity shares outstanding used in computing basic EPS | 1,389,566,646 | 1,397,233,894 | 1,404,808,456 |
| Dilutive effect of stock options | 20,114,036 | 16,364,596 | 6,854,974 |
| Weighted average number of equity and equity equivalent shares outstanding used in computing diluted EPS | 1,409,680,680 | 1,413,598,490 | 1,411,663,430 |

For the years ended June 30 2013, 2014 and 2015 , there were nil, nil and nil options respectively to purchase equity shares of common stock with exercise price greater than the average market value of our stock that would have been anti-dilutive.

## 21. STOCK BASED COMPENSATION

### STOCK OPTION PLANS

**ESOP 1999 (the "1999 Plan"):** In September 1999, the Company instituted the 1999 Stock Option Plan to provide equity-based incentives to all eligible employees of the Company and its subsidiaries. The 1999 Plan is administered by a Committee with a majority of independent directors of the Company (Nomination and Remuneration Committee) and provides for the issuance of a maximum of 160,000,000 underlying shares at the option price determined by the Nomination and Remuneration Committee on the date the option is granted.

**ESOP 2000 (the "2000 Plan")**: In October 2000, the Company instituted the 2000 Stock Option Plan to provide equity-based incentives to all eligible employees of the Company and its subsidiaries. The 2000 Plan is administered by the Nomination and Remuneration Committee of the Company. The 2000 Plan provides for the issuance of a maximum of 120,000,000 underlying shares at the option price determined by the Nomination and Remuneration Committee on the date the option is granted.

**ESOP 2004 (the "2004 Plan"):** In December 2004, the Company instituted the 2004 Stock Option Plan to provide equity-based incentives to all eligible employees and directors of the Company and its subsidiaries. The 2004 plan is administered by the Nomination and Remuneration Committee of the Company. The 2004 Plan provides for the issuance of a maximum of 160,000,000 underlying shares at the option price determined by the Nomination and Remuneration Committee on the date the option is granted.

Each option granted under the 1999 Plan, the 2000 Plan and the 2004 Plan, entitles the holder to eight equity shares (four equity shares prior to stock split) of the Company. The equity shares covered by the 1999 Plan , the 2000 Plan and the 2004 Plan vest over a maximum period of 110 months, 104 months and 96 months, respectively. The options are to be exercised within a maximum period of five years from their date of vesting or expiry of the respective plans, whichever is earlier.

Changes in number of shares representing the outstanding stock options during the year ended June 30, 2015 are given below:

| | Shares arising out of option Plan | | | Weighted average exercise price Plan | | | Weighted average remaining contractual term (in year) Plan | | | Aggregate Intrinsic Value Plan | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999 | 2000 | 2004 | 1999 | 2000 | 2004 | 1999 | 2000 | 2004 | 1999 | 2000 | 2004 |
| Outstanding at beginning of the year | 1,006,584 | 1,681,928 | 13,830,792 | $1.50 | $1.34 | $0.02 | - | - | 4.77 | $11,202 | $18,716 | $172,031 |
| Granted | - | - | - | - | - | - | - | - | - | - | - | - |
| Forfeited | - | - | (1,634,928) | - | - | $0.03 | - | - | - | - | - | - |
| Expired | (191,792) | (344,776) | (103,920) | $1.27 | $1.31 | $0.24 | - | - | - | - | - | - |
| Exercised | (814,792) | (1,337,152) | (3,873,712) | $1.26 | $1.25 | $0.04 | - | - | - | - | - | - |
| Outstanding at the end of the year | - | - | 8,218,232 | - | - | $0.03 | - | - | 3.93 | - | - | $118,496 |
| Vested and exercisable at the end of the year | - | - | 1,603,176 | - | - | $0.03 | - | - | 2.59 | - | - | $23,116 |
| Weighted-average grant date fair value of grants during the year | - | - | - | - | - | - | - | - | - | - | - | - |
| Estimated fair value of option vested during the year | - | - | $9,814 | - | - | - | - | - | - | - | - | - |
| Vested and exercisable as of June 30, 2015 and expected to vest Thereafter | - | - | 8,016,848 | - | - | $0.03 | - | - | 3.93 | - | - | $115,592 |

Total number of outstanding options for the 2004 Plan includes 837,785 performance based options as on June 30, 2015 (1,252,638 as on June 30, 2014). These options will vest to the employees of the Group based on the achievement of certain targets by the Group.

The following table summarizes information about stock options outstanding and exercisable as of June 30, 2014:

| | Outstanding | | | Exercisable | |
|---|---|---|---|---|---|
| **Range of exercise price** | **Number of shares arising out of options** | **Weighted average remaining contractual life(years)** | **Weighted average exercise price** | **Number of shares arising out of Options** | **Weighted average exercise price** |
| **1999 Plan** | | | | | |
| ($0.50-$1.56) | 1,006,584 | - | $1.50 | 1,006,584 | $1.50 |
| **2000 Plan** | | | | | |
| ($0.54-$0.98) | - | - | - | - | - |
| ($1.01-$1.71) | 1,681,928 | - | $1.34 | 1,681,928 | $1.34 |
| **2004 Plan** | | | | | |
| ($0.00-$0.02) | 13,755,088 | 4.80 | $0.02 | 2,120,144 | $0.02 |
| ($1.34-$1.54) | 75,704 | - | $1.42 | 75,704 | $1.42 |

As of June 30, 2014 and 2015, options for 346,928 shares and Nil shares, respectively, under the 1999 Plan, options for 581,128 shares and Nil shares, respectively,under the 2000 Plan and options for 269,840 shares and 84,680 shares, respectively, under the 2004 Plan, were pending allotment.

The following table summarizes information about stock options outstanding and exercisable as of June 30, 2015:

| | Outstanding | | | Exercisable | |
|---|---|---|---|---|---|
| **Range of exercise price** | **Number of shares arising out of options** | **Weighted average remaining contractual life(years)** | **Weighted average exercise price** | **Number of shares arising out of Options** | **Weighted average exercise price** |
| **1999 Plan** | | | | | |
| ($0.47- $1.47) | - | - | - | - | - |
| **2000 Plan** | | | | | |
| ($0.51- $0.92) | - | - | - | - | - |
| ($0.95- $1.62) | - | - | - | - | - |
| **2004 Plan** | | | | | |
| ($0.00- $0.03) | 8,218,232 | 3.93 | $0.03 | 1,603,176 | $0.03 |
| ($1.26- $1.46) | - | - | - | - | - |

The following table summarizes information concerning stock options issued that are vested or are expected to vest and stock options exercisable as of June 30, 2015:

| | Option vested or expected to vest | | |
|---|---|---|---|
| **Range of exercise price** | **Number of shares arising out of options** | **Weighted average remaining contractual life (years)** | **Weighted average exercise price** |
| **1999 Plan** | | | |
| ($0.47-$1.47) | - | - | - |
| **2000 Plan** | | | |
| ($0.51-$0.92) | - | - | - |
| ($0.95-$1.62) | - | - | - |
| **2004 Plan** | | | |
| ($0.00-$0.03) | 8,016,848 | 3.93 | $0.03 |
| ($1.26-$1.46) | - | - | - |

The aggregate intrinsic value of shares for the 1999 Plan, the 2000 Plan and the 2004 Plan is Nil ,Nil and $115,922, respectively. These values represent the total pre-tax intrinsic value calculated as the difference between the Company's closing stock price on the last trading day of the year ended June 30, 2015 and the exercise price.

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

| | June 30, 2014 | June 30, 2015 |
|---|---|---|
| Dividend yield % | 2.10% | - |
| Expected term | up to 46 months | - |
| Risk free interest rates | 7.78% | - |
| Volatility | 36.35% | - |

As of June 30, 2015, $1,011 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 0.25 years.

Cash received from option exercises under the stock option plan for the years ended June 30, 2013, 2014 and 2015 was $5,708, $5,186 and $2,904, respectively.

The tax benefit on account of compensation cost of stock options exercised in United States of America, Great Britain, Netherlands and Germany aggregated $1,935, $4,585 and $5,200 for the years ended June 30, 2013, 2014 and 2015, respectively.

For the years ended June 30, 2013, 2014 and 2015, stock-based compensation expense related to the stock option plans was allocated as follows:

| | Year ended June 30, | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| Cost of sales | $1,218 | $344 | ($1,795) |
| Selling, general and administrative | 13,740 | 5,892 | 953 |
| **Stock compensation cost before income tax benefit** | **14,958** | **6,236** | **(842)** |
| Deferred tax benefit | (1,582) | (1,395) | 2,138 |
| **Stock compensation cost (net)** | **$13,376** | **$4,841** | **$1,296** |

## 22. EMPLOYEE BENEFIT PLANS

### India operations

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

***Defined benefit Plan***

***Gratuity***

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

The reconciliation of the beginning and ending balance of the projected benefit obligation and the paid value of plan assets for the years ended June 30, 2014 and 2015, and the accumulated benefit obligation at June 30, 2014 and 2015 is as follows:

| | June 30, 2014 | June 30, 2015 |
|---|---|---|
| Change in benefit obligation | | |
| Obligation at the beginning of the year | $31,556 | $34,974 |
| Service cost | 6,977 | 7,477 |
| Interest cost | 2,863 | 3,416 |
| Benefits paid | (2,627) | (3,688) |
| Actuarial loss (gain) | (3,444) | (1,055) |
| Foreign currency translation | (351) | (2,498) |
| Obligation at the end of the year | **$34,974** | **$38,626** |

| | June 30, 2014 | June 30, 2015 |
|---|---|---|
| Benefit obligation current | $6,945 | $7,776 |
| Benefit obligation Non-current | $28,029 | $30,850 |
| Accumulated benefit obligation | **$34,974** | **$ 38,626** |
| | | |
| Changes in plan assets | | |
| Fair value of plan assets at the beginning of the year | $- | $- |
| Employer contributions | 2,627 | 3,688 |
| Benefits paid | (2,627) | (3,688) |
| Plan assets at the end of the year | **$-** | **$-** |
| | | |
| Funded status | $- | $- |
| Net amount recognized | (34,974) | (38,626) |
| Amounts recognized in the statement of financial position consist of: | | |
| Accrued benefit cost | **($34,974)** | **($38,626)** |

| | June 30, 2014 | June 30, 2015 |
|---|---|---|
| Net actuarial loss | $273 | $1,328 |
| Net prior service cost | - | - |
| Total accumulated other comprehensive loss | **$273** | **$1,328** |

Net gratuity cost for the years ended June 30, 2013, 2014 and 2015 comprise the following components:

| | Year ended June 30, | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| Service cost | $6,550 | $6,977 | $7,477 |
| Interest cost | 2,752 | 2,863 | 3,416 |
| Amortization of unrecognized actuarial loss (gain) | (20) | 793 | (156) |
| **Net gratuity cost** | **$9,282** | **$10,633** | **$10,737** |

The weighted average actuarial assumptions used in accounting for the benefit obligations and net gratuity cost under the Gratuity Plan as of June 30, 2013, 2014 and 2015 are given below:

| | Year ended June 30, | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| Discount rate | 8.35% | 9.20% | 8.60% |
| Expected rate of increase in salaries | | | |
| -for next year | 7.0% | 7.0% | 7.0% |
| -thereafter | 7.0% | 7.0% | 7.0% |

Discount rates are based on the current market yield on government securities adjusted for a suitable risk premium to reflect the additional risk for high quality bonds. The Group assesses these assumptions with its projected long-term plans of growth and prevalent industry standards. The mortality rates used are as published by one of the leading life insurance companies in India.

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

| | |
|---|---|
| Year ending June 30, | |
| - 2016 | $7,534 |
| - 2017 | 7,884 |
| - 2018 | 8,610 |
| - 2019 | 9,638 |
| - 2020 | 10,315 |
| Thereafter | 49,096 |
| **Total** | **$93,077** |

The expected benefits are based on the same assumptions as are used to measure the Group's benefit obligations as of June 30, 2015.

***Provident fund***

In accordance with Indian law, all employees receive benefits from a provident fund, which is a defined benefits plan. Under this plan, the employer and employee make monthly contributions to a fund managed by certain employees of the Group ("Trust"). The employees contribute 12% of their basic compensation, which is matched by an equal contribution by the employer. The Group contributes two-third of the contribution to the Government administered pension fund subject to a maximum of $0 (` 1250/-) and the remaining portion is contributed to the Trust. The rate at which the annual interest is payable to the beneficiaries by the Trust is administered by the government. The Group has an obligation to fund any shortfall on the yield of the Trust's investments over the administered interest rates. The funds contributed to the Trust are invested in specific securities as mandated by law and generally consist of federal and state government bonds, debt instruments of government-owned corporations and other eligible market securities.

The actuary has provided a valuation and based on the assumption mentioned below there is no shortfall as at 30 June, 2014 and 2015.

The details of the fund and plan asset position are given below:-

| | June 30 ,2014 | June 30, 2015 |
|---|---|---|
| Plan assets at the period end | $262,203 | $302,878 |
| Present Value of benefit obligation at period end | 262,203 | 302,878 |
| Asset recognized in balance sheet | **$-** | **$-** |

Assumptions used in determining the present value obligation of the interest rate guarantee under the deterministic approach:

| | June 30 ,2014 | June 30, 2015 |
|---|---|---|
| Government of India (GOI) bond yield | 9.5% | 9.4% |
| Remaining term of maturity | 9.40 Years | 7.83 Years |
| Expected guaranteed interest rate | 8.8% | 8.8% |

Total contributions made by the Group in respect of this plan for the years ended June 30, 2013, 2014 and 2015 are $16,203, $15,567 and $13,890, respectively.

***Defined Contribution Plan***

***Superannuation***

In respect of superannuation, a defined contribution plan for applicable employees, the Group contributes to a scheme administered on its behalf by an insurance company and such contributions for each year of service rendered by the employees are charged to the statement of profit and loss. The Group has no further obligations to the superannuation plan beyond its contributions. Total contributions made in respect of this plan for years ended June 30, 2013, 2014 and 2015 are $401, $329 and $286,respectively.

Total contributions made by the Group in respect of defined contribution plan for the years ended June 30, 2013, 2014 and 2015 are $33,209, $42,516 and $42,734, respectively.

## 23. RELATED PARTY TRANSACTIONS

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

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

The related party transactions are categorized as follows:

*Revenues*

The Group earns revenue from supply of material, software development and other services to related parties. The related parties to whom these services were provided and the corresponding amounts of revenue earned are as follows:

| | Year ended June 30, | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| Significant interest entities | $1,565 | $25,785 | $24,007 |
| Affiliates | 8,823 | 848 | 179 |
| **Total** | **$10,388** | **$26,633** | **$24,186** |

*Cost of revenues and selling, general and administrative expenses*

The Group outsources certain contracts to related parties and also procures personnel and licences from them for software development and other services. These costs are recorded as part of cost of revenues and selling, general and administrative expenses.

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

| | Year ended June 30, | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| Significant interest entities | $15,907 | $16,356 | $7,636 |
| Affiliates | 1,073 | 2,004 | 1,970 |
| Total | **$16,980** | **$18,360** | **$9,606** |

*Sale of leasehold property and equipment*

The Group sold a building to certain significant interest entities and recorded a gain during the years ended June 30, 2013, 2014 and 2015 of Nil, $7,602 and $24,698, respectively.

*Computer equipment, software purchases and others*

The Group purchases computer equipment, software and other items from certain significant interest entities. These purchases during the years ended June 30, 2014 and 2015 amounted to $6,166 and $3,839, respectively.

*Subleasing of facilities*

Significant interest entities have subleased a portion of their facilities to the Group. The total amount charged for the years ended June 30, 2013, 2014 and 2015 were $427, $397 and $2,736, respectively.

*Interest paid on Letters of credit:*

The Group has negotiated extended interest bearing credit terms with certain related parties for extended payment terms up to 360 days and have paid interest during the years ended June 30, 2013, 2014 and 2015 of Nil, $1,215 and $2,653,respectively.

*Loans to employees*

The Group has advanced general purpose and housing loans to its employees at rates of interest not more that 11% per annum. The repayment periods for these loans are fixed with the tenure of these loans extending up to four years. Employee loan balances outstanding as of June 30, 2014 and 2015 are $650 and $2,900, respectively.

*The balances receivable from and payable to related parties other than employees as of June 30, 2014 and 2015*

Accounts receivable include amounts due from significant interest entities totaling $18,264 and $23,820 and amounts due from affiliates totaling $124 and nil respectively.

Unbilled receivable include amounts due from significant interest entities totaling $1,648 and $1,493 and amounts due from affiliates totaling $21 and nil respectively.

Other assets include amounts due from significant interest entities totaling $1,006 and $451 respectively.

Accounts payable include amounts due to significant interest entities totaling $667 and $507 respectively.

Other liabilities include amounts due to significant interest entities totaling $40,936 and $6,877 including $ 29,907 and nil received towards sale of leasehold property and equipment respectively.

## 24. COMMITMENTS AND CONTIGENCIES

*Capital commitments*

As of June 30, 2015, the Group had contractual commitments for capital expenditure of $92,223.

*Other commitments*

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

*Other Contingencies*

As of June 30, 2015, 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.

## 25. LEASES

The Group has taken networking and computer equipment, vehicles, office furniture and equipment on capital leases. Future minimum lease payments under capital leases as of June 30, 2015 are as follows:

| Year ending June 30, | |
|---|---|
| 2016 | $16,103 |
| 2017 | 12,373 |
| 2018 | 341 |
| 2019 | 26 |
| 2020 | - |
| Total minimum payments | 28,843 |
| Less: Amount representing future interest | 692 |
| Present value of minimum payments | 28,151 |
| Less: Current portion | 15,572 |
| **Long term capital lease obligation** | **$12,579** |

The Group has taken office facilities on lease under non-cancellable operating lease agreements. Future minimum lease payments as of June 30, 2015 for such non-cancellable operating leases are as follows:

| Year ending June 30, | |
|---|---|
| 2016 | $57,827 |
| 2017 | 52,706 |
| 2018 | 43,666 |
| 2019 | 32,852 |
| 2020 | 30,009 |
| Thereafter | 115,188 |
| **Total minimum payments** | **$332,248** |

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

Rental expenses under operating leases are amortized on the straight line method. The expense for the years ended June 30, 2013, 2014 and 2015 amounts to $58,290, $56,601 and $60,459, respectively.

The Group has given networking equipment to its customers on sales type and direct finance leases. The future lease receivables in respect of assets given on such leases are as follows:

| | Total minimum lease payments receivables | Interest included in minimum lease payments receivables | Present value of minimum lease payments receivables |
|---|---|---|---|
| Year ending June 30, | | | |
| 2016 | $32,015 | $4,402 | $27,613 |
| 2017 | 23,150 | 1,901 | 21,249 |
| 2018 | 12,807 | 1,518 | 11,289 |
| 2019 | 7,037 | 1,204 | 5,833 |
| 2020 | 2,747 | 470 | 2,277 |
| Thereafter | 4,032 | 672 | 3,360 |
| | **$81,788** | **$10,167** | **$71,621** |

The amounts recoverable on account of such leases within one year have been included under ‘other current assets’ and the balance under ‘other assets’.

## 26. SEGMENT REPORTING

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

Information on reportable segments for the year ended June 30, 2013 is as follows:

| | Software services | Infrastructure management services | Business process outsourcing services | Total |
|---|---|---|---|---|
| **Revenue** | $3,114,450 | 1,366,647 | 205,355 | $4,686,452 |
| Depreciation and amortization | $69,540 | 40,664 | 12,352 | $122,556 |
| **Segment earnings** | **$658,151** | **$257,344** | **$9,378** | **$924,873** |

Information on reportable segments for the year ended June 30, 2014 is as follows:

| | Software services | Infrastructure management services | Business process outsourcing services | Total |
|---|---|---|---|---|
| **Revenue** | $3,291,378 | 1,820,311 | 248,061 | $5,359,750 |
| Depreciation and amortization | $67,941 | 40,709 | 10,678 | $119,328 |
| **Segment earnings** | **$828,054** | **$445,206** | **$18,527** | **$1,291,787** |

Information on reportable segments for the year ended June 30, 2015 is as follows:

| | Software services | Infrastructure management services | Business process outsourcing services | Total |
|---|---|---|---|---|
| **Revenue** | $3,588,584 | $2,063,755 | $299,958 | $5,952,297 |
| Depreciation and amortization | 42,865 | 22,786 | 6,708 | 72,359 |
| **Segment earnings** | **$800,238** | **$490,184** | **$33,245** | **$1,323,667** |

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

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

| | Year ended June 30, | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| Segment earnings | $924,873 | $1,291,787 | $1,323,667 |
| Foreign exchange loss | (3,772) | (95,877) | (3,115) |
| Finance cost | (19,251) | (18,702) | (14,132) |
| Other income, net | 51,513 | 111,839 | 163,638 |
| Income before income taxes | **$953,363** | **$1,289,047** | **$1,470,058** |

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

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

| | Year ended June 30, | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| America | $2,713,433 | $2,793,432 | $3,288,912 |
| Europe | 1,243,111 | 1,583,939 | 1,620,610 |
| India | 184,822 | 238,591 | 230,287 |
| Others | 545,086 | 743,788 | 812,488 |
| | **$4,686,452** | **$5,359,750** | **$5,952,297** |

During the years ended June 30, 2013, 2014 and 2015, a single customer accounted for approximately 4.5%, 5.1% and 4.6% and top five customers accounted for 15.2%, 14.7% and 13.2% of the revenue of the Group respectively.

Property and equipment located in geographic segments are as follows:

| | Year ended June 30, | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| America | $34,838 | $27,909 | $37,776 |
| Europe | 18,496 | 14,772 | 18,472 |
| India | 402,925 | 474,151 | 535,185 |
| Others | 3,124 | 5,962 | 8,686 |
| | **$459,383** | **$522,794** | **$600,119** |

## 27. 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.

The following table discloses the assets and liabilities measured at fair value on a recurring basis as of June 30, 2014 and the basis for that measurement:

| | Fair value | Level 1 inputs | Level 2 inputs | Level 3 inputs |
|---|---|---|---|---|
| **Assets** | | | | |
| Deposits with banks,having maturities less than three months | $297 | $297 | - | - |
| Term deposits with banks | $1,300,652 | - | $1,300,652 | - |
| Deposits with corporation | $96,533 | - | $96,533 | - |
| Investment securities, available for sale | $65,982 | $65,982 | - | - |
| Derivative contracts | $1,057 | - | $1,057 | - |
| **Liabilities** | | | | |
| Derivative contracts | ($44,158) | - | ($44,158) | - |

The following table discloses the assets and liabilities measured at fair value on a recurring basis as of June 30, 2015 and the basis for that measurement:

| | Fair value | Level 1 inputs | Level 2 inputs | Level 3 inputs |
|---|---|---|---|---|
| **Assets** | | | | |
| Deposits with banks,having maturities less than three months | $3,225 | $3,225 | - | - |
| Term deposits with banks | $1,338,241 | - | $1,338,241 | - |
| Deposits with corporation | $188,147 | - | $188,147 | - |
| Investment securities, available for sale | $120,575 | $120,575 | - | - |
| Derivative contracts | $3,296 | - | $3,297 | - |
| **Liabilities** | | | | |
| Derivative contracts | ($8,432) | - | ($8,432) | - |

*Valuation Methodologies*

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

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

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

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

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

## 28. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

| | Year ended June 30 | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| **Unrealized gain on securities available for sale:** | | | |
| Opening balance (net of tax) | $- | $756 | $315 |
| Unrealized gains | 1,133 | 477 | 767 |
| Reclassification adjustments into other (income) expenses, net | - | (1,133) | (477) |
| Income tax benefit (expense) | (377) | 215 | (72) |
| Closing balance (net of tax) | **$756** | **$315** | **$533** |
| **Unrealized loss on cash flow hegdes:** | | | |
| Opening balance (net of tax) | ($69,328) | ($82,257) | ($34,939) |
| Unrealized loss | (37,647) | (27,264) | 18,805 |
| Reclassification adjustments into other (income) expenses, net | 12,119 | 88,730 | 14,335 |
| Income tax benefit (expense) | 7,152 | (15,554) | (6,956) |
| Effect of exchange fluctuations | 5,447 | 1,406 | 2,363 |
| Closing balance (net of tax) | **($82,257)** | **($34,939)** | **($6,392)** |
| **Acturial loss on defined benefit plan:** | | | |
| Opening balance (net of tax) | ($2,790) | ($3,392) | ($135) |
| Acturial loss | (842) | 4,127 | 1,437 |
| Reclassification adjustments into employee benefit expenses[1] | (106) | (37) | - |
| Income tax benefit (expense) | 241 | (870) | (321) |
| Effect of exchange fluctuations | 105 | 37 | 7 |
| Closing balance (net of tax) | **($3,392)** | **($135)** | **$988** |
| **Foreign currency translation:** | | | |
| Opening balance | ($260,066) | ($377,581) | ($339,195) |
| Foreign currency translation | (117,515) | 38,386 | (193,969) |
| Reclassification adjustments into other (income) expenses, net | - | - | - |
| Closing balance | **($377,581)** | **($339,195)** | **($533,164)** |

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

## 29. COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The components of accumulated other comprehensive loss for the years ended June 30, 2014 and 2015 are as follows:

| | June 30,2014 | June 30,2015 |
|---|---|---|
| Unrealized gain on securities available for sale | $315 | $533 |
| Unrealized loss on cash flow hedges | (34,939) | (6,392) |
| Unrealized loss on defined benefit plan | (135) | 988 |
| Foreign currency translation | ($339,195) | (533,164) |
| | **($373,954)** | **($538,035)** |

## 30. SUBSEQUENT EVENTS

The Group has evaluated all the subsequent events through August 3, 2015, which is the date on which these financial statements were issued, and no events have occurred from the balance sheet date through that date that would have material impact on the consolidated financial statements.