HCL Technologies Ltd.

Annual Report 2006-07

HCL

CONTENTS

BOARD OF DIRECTORS

MR. SHIV NADAR
Chairman & Chief Strategy Officer

MR. T. S. R. SUBRAMANIAN
Director

MS. ROBIN ABRAMS
Director

MR. AJAI CHOWDHRY
Director

MR. SUBROTO BHATTACHARYA
Director

MR. AMAL GANGULI
Director

MR. P.C. SEN
Director

Auditors
Price Waterhouse
Chartered Accountants

Bankers

Citibank, N.A.
DLF Centre, 5th Floor
Parliament Street
New Delhi - 110 001

Deutsche Bank AG
4th Floor, Jacaranda Marg
DLF City, Phase - II
Gurgaon - 122 002

Standard Chartered Bank
H-2, Connaught Circus
New Delhi - 110 001

ICICI Bank Limited
ICICI Tower
NBCC Place, Bhisham Pitamah Marg
Pragati Vihar
New Delhi - 110 003

HDFC Bank Limited
B-6/3, Safdarjung Enclave
DDA Commercial Complex
New Delhi - 110 029

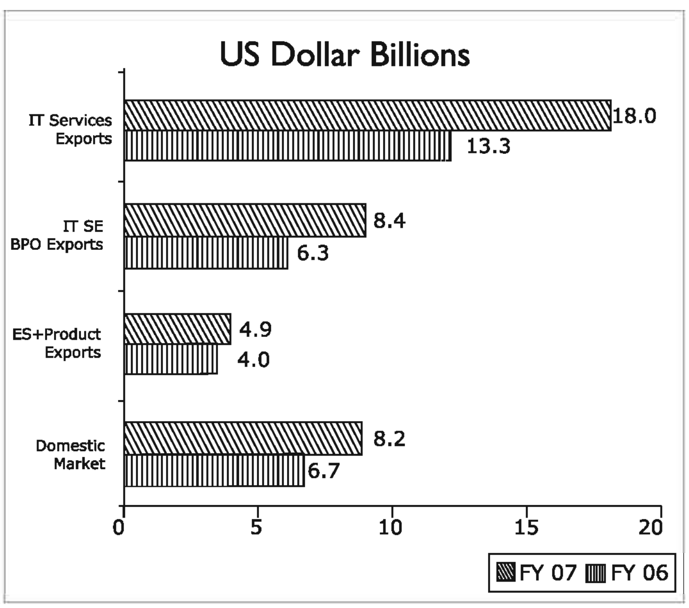
MANAGEMENT'S DISCUSSION AND ANALYSIS

Investors are cautioned that this discussion contains forward looking statements that involve risks and uncertainties. When used in this discussion, words like 'anticipate', 'believe', 'estimate', 'intend', 'will', and 'expect' and other similar expressions as they relate to the Company or its business are intended to identify such forward-looking statements. The Company undertakes no obligations to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Actual results, performance or achievements could differ materially from those expressed or implied in such statements. Factors that could cause or contribute to such differences include those described under the heading 'Risk Factors' in the Prospectus filed with the Securities and Exchange Board of India (SEBI) as well as factors discussed elsewhere in this report. The following discussion and analysis should be read in conjunction with the Company's financial statements included herein and the notes thereto

Industry Structure, Development and Outlook

Overview of the Indian Information Technology (IT) Industry

As per the NASSCOM survey, the Indian IT-ITES industry (including the domestic market) recorded an overall growth of 30.7% as against a projected growth of 27%, clocking revenues of USD 39.6 billion in FY 06-07 up from USD 30.3 billion in FY 05-06. The software and services exports segment grew by 33% to register revenues of USD 31.4 billion in FY 06-07 up from USD 23.6 billion in FY 05-06. The domestic segment grew by 23% to register revenues of USD 8.2 billion in FY 06-07 up from USD 6.7 billion. Within the export segment, IT services exports have grown by 35.5% to clock revenues of USD 18 billion; while ITES-BPO exports were up by 33.5% registering revenues of USD 8.4 billion. Engineering services and products exports registered revenues of USD 4.9 billion, growing at 23% in FY 06-07.



The Industry's employee base was over 1.6 million with about 3,15,000 jobs added during 2006-07. The total direct employment in the Indian IT-ITES sector is estimated to have grown by over a million during last 6 years, from 284,000 in FY 99-2000 to 1,621,000 in FY 06-07.

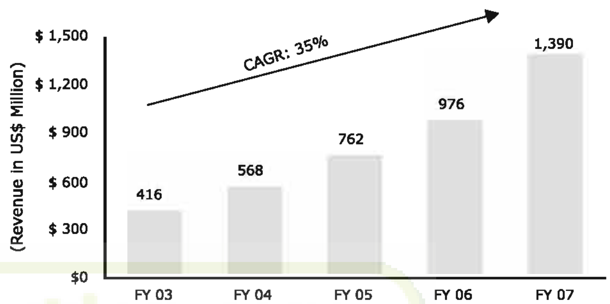
COMPANY OVERVIEW

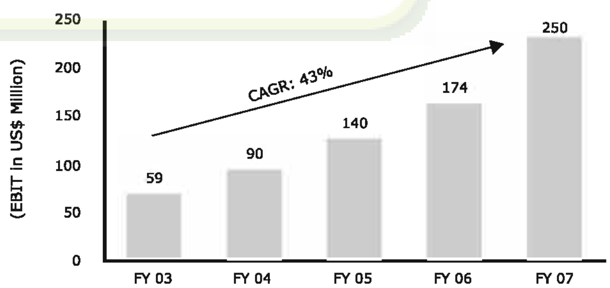
(Information provided in this section pertains to HCL Technologies Ltd and its subsidiaries on a consolidated basis)

About HCL Technologies Limited

HCL Technologies Ltd ('HCL' or the 'Company') is one of India's leading global IT Services companies, providing software-led IT solutions, remote infrastructure management services and BPO. The Company works with clients mainly on technologies focused on Transformational Outsourcing, in areas that impact and re-define the core of clients businesses. The Company leverages an extensive global offshore infrastructure and its global network of offices in 17 countries and over 60 delivery centers, to deliver solutions across select verticals including Financial Services, Retail & Consumer, Life Sciences & Healthcare, Hi-Tech & Manufacturing, Telecom and Media & Entertainment (M&E).

HCL has been continuously evolving over the decade and has come a long way from being predominately an engineering and R&D player in the late nineties, to being a multi service provider currently . HCL





Technologies Ltd along with its subsidiaries offers solutions in 1) Core Software Services 2) IT Infrastructure Management Services (called IMS / RIM or IM) and 3) BPO Services: The Core Software and Infrastructure services fall generally under IT Services, while BPO services would fall under IT Enabled Services (ITES) sector.

A. Core Software: HCL's offerings can be broadly classified under three heads i.e.

1. Custom Applications
2. Engineering and R&D services
3. Enterprise Application Solutions

1. Custom Application or Industry Solutions Overview:- This service accounts for 36% of consolidated revenues and is the largest practice area of HCL. This services line's endeavor is to help customers' businesses by designing and implementing scalable, reliable, robust, secure, and easily maintainable business applications. With the Company's focus on quality, most of its software development centers are ISO 9001:2000 certified and have been assessed and certified at Level 5 of Software Engineering Institute's Capability Maturity Model

(CMM Level 5) and follow IEEE software engineering standards requirements. In keeping with the Company's customers' information security requirements all development centers are certified with the British Security Standard—BS7799. HCL's robust methodologies, tools, and processes ensure high quality of delivery to customers and HCL's unique Knowledge Transfer methodology ensures minimum cost bulge for customers and a smooth transition to offshore.

Key offerings in this practice are listed below

- Application decommissioning
- Application development
- Application migration & modernization
- Application portfolio optimization
- Application Re-engineering & integration
- Application support & maintenance
- Application testing
- Legacy mainframe application services
- Enterprise content management
- Presenter – GUI development tool
- Product development support/ implementation of packaged applications.

2. **Engineering and R&D Services Overview:-** This service accounts for 24% of revenues and is the second largest practice of HCL. Engineering Services are HCL's soul, with a product engineering lineage of over 30 years, HCL provides full lifecycle product engineering services, from requirements definition to prototype architecture, development, testing, and technical help desk from level zero (L0) onwards, field support, maintenance and upgrades. Its services are broadly classified as under:-

   a. **Hardware Product Engineering** – Service offerings

   - VLSI design & verification
   - Board design
   - PCB layout services
   - Product Re-engineering services
   - Independent verification and validation
   - Compliance engineering services

   b. **Embedded Engineering** – Expertise in developing small footprint and safety-critical embedded systems for Medical Devices, Automotive Electronics and Aircraft Components. HCL uses its Digital Signal Processing (DSP) expertise and Intellectual Property (IP) to develop fast embedded middleware, rich applications and interactive Graphic User Interface (GUI) for consumer electronics, computer peripherals and telecom products.

   c. **Mechanical Engineering** – HCL has a track record of complete mechanical engineering for customers in the Aerospace, Automotive, Medical equipment, Semiconductor and Appliance verticals. The entire manufacturing continuum is addressed – Key offerings.

   - Engineering design and analysis
     - Engineering design
     - Computer Aided Engineering (FEA, CFD)
     - Manufacturing & Prototyping
     - Testing and Validation
   - Technical documentation
   - Engineering Software development
   - Product Data Management (PDM)/ Project lifecycle Management (PLM)

   d. **Software Product Engineering** – HCL offers end-to-end services that are based on solutions-focused methodologies across Financial services, Manufacturing, Retail and Hi-tech amongst others. HCL has 8000+ software engineers working across various platforms, such as Sun, Microsoft, Linux – with CoE for the latest technologies like .NET and J2EE. HCL is the engineering partner for more than 50 Global Independent Software Vendors (ISVs) - from Fortune 500 to venture backed start-ups. The Company has over 15 years of product engineering experience. Major service components are :

   - Core Services: Architecture, Development and Testing
   - Complementary Services: Post Development Sustenance
   - Value Added Services: Technology assessment and management.

3. **Enterprise Application Services Overview:-** This service accounts for 13% of revenues. HCL's Enterprise Application Services (EAS) adopts a platform based approach, fuelling business optimization using technology as a cornerstone. The differentiated offerings comprising package and platform-led services ranges from blue printing, development, deployment, global rollouts, helpdesk support, to application maintenance in areas such as ERP, CRM, SCM, and Middleware.

   A. **The enterprise applications business has a portfolio comprising :**

   - SAP
   - Oracle
   - Middleware Solutions (Tibco, SeeBeyond webmethods)
   - WebSphere, Cast Iron and Cisco (AON)
   - Microsoft Dynamics (Axapta and CRM)

   B. **Infrastructure Management Services:** This is the fastest growing practice which accounts for 14% of the Company's revenues. The Company pioneered a unique model for remote IT infrastructure management that enables customer organizations to achieve superior infrastructure performance and significantly reduced costs. HCL's service portfolio consists of end-user computing, Datacentre services, Information security, Network services, Process and tools consulting.

   A focused player in the IT services arena, HCL Infrastructure Service Division (ISD) seeks to provide simplified infrastructure solutions through delivering high-performance management services for complex, distributed infrastructure environments encompassing the Internet, Client and legacy based infrastructures. HCL ISD addresses the growing demand for the cost-effective management of technology infrastructure across geographically dispersed locations.

   C. **Business Process Outsourcing (BPO) Services:** This service accounts for 13% of the Company's revenues. HCL BPO services provide a comprehensive range of voice/web based contact and front office services that span collections, sales & marketing, technical help desk and customer care. Highly trained associates under experienced supervision and stringent quality standards deliver services that consistently meet customer expectations and process Service Level Agreements (SLA's). Multi-lingual support in 8 european languages - is available from the Belfast Delivery Center.

a. **Contact Management and Front Office Support** - HCL BPO delivers multi-channel contact management and back office services for select complex processes in banking, insurance, manufacturing, retail and telecom. The accent is on advanced customer handling and communication skills, a sensitized approach for managing client-side process stakeholders, integration with process experts and certifications such as COPC and BS: 7799. HCL's BPO services are highly regarded for significant, sustained value delivery, bolstered by an incident-free track record and renewal of all major contracts.

b. **Back Office Process Support** - Speed, accuracy, and reliability are the cornerstones of the BPO services approach to back office & transaction processing services. HCL's team consists of professionals with extensive experience in a diverse range of vertical domains, back office processes and process migration. Company's BPO has state-of-the-art technology and high levels of infrastructure redundancy combined with stringent standards of quality and compliance, to ensure consistent and timely delivery of output.

c. **Infrastructure and Support Services** - Leveraging over 5 years' of hardware/software/network support expertise and experience, HCL's BPO services provide a comprehensive range of technology products and IT infrastructure support services blending voice, e-mail and chat as well as break / fix ticketing & vendor management. The capability range spans Level 1 / Level 2, help desk to case resolution. The customer support representatives (CSR's) are trained and committed to go the extra mile to ensure satisfactory problem resolution levels that consistently meet and exceed client expectations and Service Level Agreements (SLA).

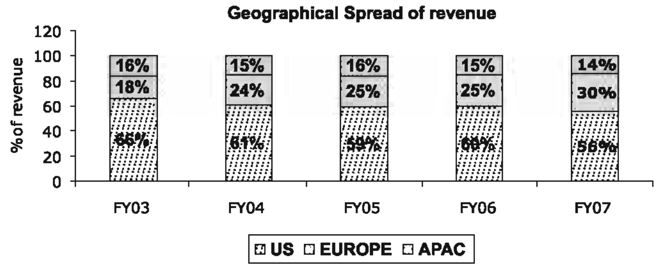
Risks & Concerns, Risk Mitigation

As with any business, the software industry thrives on a dynamic and highly competitive business environment, characterized by rapid technological change and innovations that constantly challenge conventional business models. HCL too faces several business risks, of which some prominent ones are discussed hereunder.

- Business concentration risks
- M&A execution risks
- Investment portfolio-related risks
- Regulatory/ Compliance
- Competition-related risk
- Employee-related risks
- Exchange rate risks

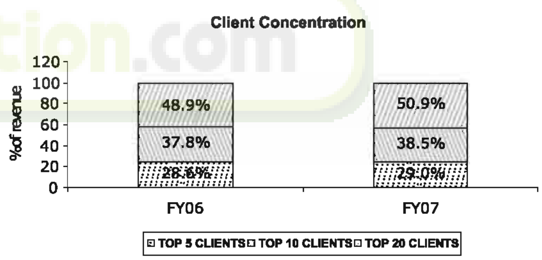
Business concentration risks

HCL has a diversified stream of revenues; it is not dependent entirely on any single customer, geography, vertical/industry or service offering. The Company has one of most well diversified sets of offerings amongst the Indian IT companies. The Company's business is predominantly export oriented, with over 90% of consolidated revenues coming from overseas clients. The Company's geographic mix of revenues for the past 5 years depicted below, illustrates lowering of dependence on the US geography and an increase in the European share of revenues.

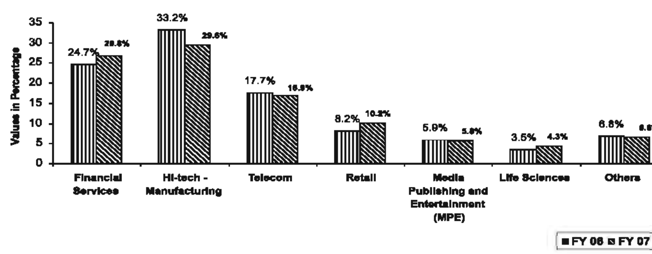


HCL's European business grew by over 70% during the year under review compared to 33% growth in the USA. The Company has been focusing on continental Europe and Japan for new business opportunities. During the year, the Company won a major IT services contract with Skandia - a UK based Insurance Company for US$ 200 million. This is a multi service, five year contract encompassing areas like application optimization, development, maintenance support and remote infrastructure management. The Company also consolidated its business with Teradyne Inc. by bagging a new multi million multi service contract worth US$ 70 million spread over 5 years. The engagement includes IT consulting, application development and end-to-end application and IT Infrastructure management involving datacenter, network, security and help desk services.

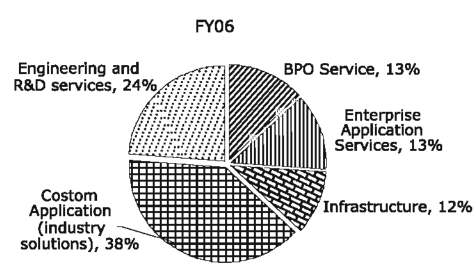
HCL derives revenues from over 450 clients to ensure a well diversified spread. The top 5, 10 and 20 clients' revenue contributions are given below

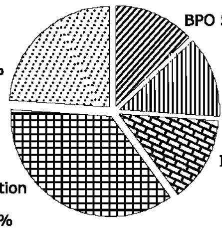


The industry wise revenue contribution also has been quite balanced



Company also has a balanced mix of service offerings





M & A execution risks

The Company continues to thrive on a strategy of growth which leverages both the organic as well as the inorganic routes and had undertaken a series of acquisitions and joint ventures in the previous five fiscal years. The Company faces risks with respect to its merger and acquisition related transactions. The risk exposures in this area are as follows:

a. Increase in cost on account of staffing/ advisory fees to consultants
b. Lapses in due diligence
c. Difficulties in integration of acquired entities within the operational fabric
d. Deviation in estimation of business potential and synergies

The Company follows a very structured approach in pursuing its M & A strategy. Many of the risks are mitigated by restricting the choice of target companies by applying certain rigorous selection criteria as also by proper resourcing of the integration effort. The Company has had a successful history of integrating several key acquisitions/ alliances in past years, viz DSL Software Ltd, HCL BPO Services (NI) Limited i.e. Apollo Contact centre etc.

Investment portfolio related risks

The Company has consistently carried a high level of surplus cash and accordingly has an active treasury department. As a policy, no part of the surplus cash is invested in high risk assets such as equities and low liquidity assets like real estate. There are clearly laid down policies that govern treasury operations, and the activities are periodically audited by internal audit. The primary area of risk for the Company's market exposures are related to the interest rate risk on its investment securities. To mitigate interest rate risk, all surplus funds are invested in appropriate avenues upon a review by the investment committee. The guiding principles of all investment decisions are safety of investments, followed by liquidity and returns.

Compliance with international and local laws

The Company provides software services either at the clients' place, that is, on-site locations or offshore and also at times near-shore. The Company's business is international in the true sense and involves adhering to statutory and regulatory compliance in various countries, including laws such as those relating to employment, taxation etc. The Company's success in these geographies depends on how quickly it is able to adapt to culture, language, visa restrictions, local tax laws and other regulations.

Over the years the Company has evolved a contract management ability with a high degree of quality orientation backed by an experienced execution team which integrates the various geographical needs to ensure proper focus on customers, other stakeholders and each country's legal and procedural requirements.

Competition-related risk

The global nature of the Company' operations means that it competes not only with Indian IT companies but also global IT companies, many of whom are setting up an Indian presence due to the growing popularity of off-shoring. The IT services market globally remains very competitive.

To maintain its competitive edge in this landscape, the Company has been making significant investments in software engineering processes and offshore methodologies. All the Company's software development centers are ISO 9001 certified. Most of the Company's centers have also obtained Capability Maturity Model (CMM) Level 4 or Level 5 accreditation. The Company has built a world class sales and marketing infrastructure to service its global clientele. To achieve maximum penetration within the various target markets with a high degree of sensitivity to local culture and needs, the Company has established locally incorporated companies in several countries, which are also managed by professionals recruited in those countries.

The Company maintains constant touch with various specialist analyst firms worldwide through participation in IT conferences and industry specific events attended by CIOs of major corporations. Company believes that its rigorous research oriented approach to identify, qualify and develop relationships has been a key differentiator in the market place. The Company is leveraging its strength in its offerings like Remote Infrastructure Management (RIM) and Engineering & R&D services to gain access to new clients, geographies' and further mine its existing clients.

Employee-related risks

Attrition: Employees are key to any organization and more so for an IT-ITES company like HCL. The software industry is highly dependent on skilled human resources. With the increasing presence of global IT services corporations in India and major multinational banks and other corporations scaling up their India based operations through captive units, Company faces the risk of losing its talented employees, which in turn can impact the ability to execute its current and future projects.

The Company's innovative "employee first" campaign is in its second years and has helped curb attrition rates. In addition, the Company continues its focus on in-house training and development to ensure that its global talent pool is kept abreast of the latest developments in information technology and constantly upgraded with other soft skills and leadership training. The Company also grants ESOPs to its key performers as a means of retaining talent and this has been highly effective.

Availability of Skilled manpower: This is one of key challenges being faced by the industry. The Company has invested considerable time and resources towards developing Brand HCL in the past few quarters. During the year, HCL launched a branding program with advertisement campaigns running across print media, web and television. The advertisements were well accepted and enhanced the image and brand of the Company.

The Company remains fully informed about the competitive scenario with remuneration being constantly benchmarked to the market. The Company strives to provide world class infrastructure, excellent work culture and invests in training & development and provides opportunity for growth. The Company is committed to building a reputation as an employer of choice. Further, the Company works in association with the top 10 business schools including the Indian Institutes of Management (IIM). The locations of the Company's development centers are in cities where skilled manpower is available. The Company has begun looking beyond tier I cities and has bought 170 acres of land in Nagpur, Maharashtra for future expansion. The Company is working on expansion plans in tier II and tier III cities.

Exchange rate risk

The Company derives most of revenues by way of exports and therefore bills and realizes revenues in multiple currencies like US$, GBP, Euro, Yen etc. Substantial revenues are generated in US$, GBP and Euro and to a lesser extent in certain European and Asian currencies, while most of the expenses are incurred in Indian rupees and to a lesser extent in other currencies. It holds investments in certain countries, consisting primarily of investments by its subsidiaries, which are denominated in the local currency. The Company is therefore materially subject to the effects of exchange rate fluctuations.

The Company actively enters into foreign exchange forward contracts to hedge against foreign currency fluctuations related to its billed receivables and anticipated realizations from projected revenues. The Company does not speculate in foreign currency. As of June 30th 2007, Company has forward cover for approx US$ 1,160 million.

There is some foreign exchange risk which arises from accounts payable to overseas vendors. This risk is partially mitigated as the Company has receipts in foreign currency from overseas customers and holds some of its cash in foreign currency bank accounts.

Internal Control systems and their adequacy

The Company and its management have ensured that adequate systems for internal control commensurate with the Company's size are in place. These ensure that its assets and interests are carefully protected. Well-documented processes have been implemented throughout the organization to ensure that policies are promoted and adhered to. There are clear demarcation of roles and responsibilities at various levels of operations.

The Company has a dedicated Internal Audit team which ensures that

- Adequate processes, systems, internal controls are implemented and these are commensurate with the size and operations of the Company.
- Transactions are executed in accordance with policies and authorization.
- Resources have been deployed as per the business plan, policies and authorization.

The Company has a rigorous business planning system to set targets and parameters for operations which are reviewed with actual performance to ensure timely initiation of corrective action if required.

The Company's Audit Committee, which is a sub committee of the board, reviews adherence to internal control systems, internal audit reports and implementation of suggestions. This Committee reviews all quarterly and yearly results of the Company and conveys to the board its recommendation for consideration of such results and their approval.

Human Resources

The Company's unique “employees first” initiative has been recognized globally. Havard Business School came out with a Case study on HCL Technologies, further London Business School also published a report in their annual “Business Strategy Review”. The Company believes that its efforts under the “employees first”program will serve well to make a difference in the Company's human resources management.

During the Fiscal year 2006-07 the Company along with its subsidiaries made a net addition of 9,391 employees as compared to 8,536 employees during the previous year. The net addition to Core Software Services in FY 06-07 was 5,994, registering an increase of 29%. In BPO Services the Company added 1,909 employees during the year, registering a growth of 20%. The company added 1,488 employees in its infrastructure services in FY 06-07, registering a growth of 50%. The total employee strength of the Company as on 30th June 2007 was 42,017 as compared to 32,626 employees as on 30th June 2006, an increase of 29%.The gender mix ratio of the Company is 76 : 24 (Men : Women) as on 30th June 2007.

Opportunities and Threats

Opportunities

The fiscal year 2006-07 witnessed a revalidation of the Indian Information Technology & Business Process Outsourcing growth story, driven by maturing appreciation of India's role and growing importance in the global services trade. The sector looks set to close the year at record levels, with the revenue aggregate growing by nearly ten times over the past ten years. While US and UK remain the dominant markets for IT-ITES exports, revenues from newer markets are growing rapidly. Large part of the Continental Europe is still to open up. Further the Japanese market for outsourcing and off shoring looks promising.

The 2007 Strategic Review, NASSCOM's annual assessment of the Indian IT-BPO industry indicates that the sector will be greatly buoyed by an escalation in global technology spend, which is expected to exceed US$ 2 trillion by 2010. Interestingly, the spend on offshoring will account for a hefty US$ 110-120 billion of this total. Clearly, global sourcing will remain high on the agenda of international companies seeking productivity and bottom-line benefits and it's “win-win” potential will be reiterated over the next few years. Since India is playing an increasingly important role in the offshore outsourcing segment, this projection assumes tremendous meaning for the IT-BPO industry. From a market opportunity perspective, the indicators continue to be positive with a potential addressable market of over USD 300 billion, driven by growth of existing business and new services line opportunities. While India continues to be the most preferred destination for global IT sourcing due to its talent pool, top-quality management and security and quality focus, there are certain short to medium term challenges that need to be addressed swiftly.

HCL is poised to grab the opportunity in each of its balanced and matured offerings. Already HCL's services cover the entire spectrum of outsourcing - right from call center oriented BPO work to high-tech service offerings in Avionics and Life Sciences. The Company witnessed higher growth rates from Infrastructure Management services in the past couple of years. This promising service offering where the company is rated as leader by Industry analysts, grew by 74.7% in FY 06-07 in US$ terms. NASSCOM believe this could be the 3rd wave of outsourcing. According to the NASSCOM-McKinsey Study 2005, the total addressable market for IT infrastructure off shoring, inclusive of support, network administration and help desk is around US$ 70-85 billion. Other market watchers say it will grow into a bigger business opportunity (of the order of US$80-$150 billion by 2010). Not surprisingly, Remote Infrastructure Management (RIM), is being touted as the third wave of outsourcing.

HCL has dominant positioning in the Engineering and R&D services space, the Global R&D and engineering spend in 2006 is estimated to be at USD 783 billion. Engineering spends are projected to grow across sectors, with the worldwide aggregate estimated to grow to about USD 1.1 trillion by 2020.

The global IT-BPO market is valued at around US$1trillion, and the combined market share of Indian exports is less than 3% in FY07, hence the business potential is immense. With approximately 11,200 employees and Rs. 799 crores in revenues for FY 07, HCL is one of the top BPO companies in India.

Threats

Managing the Rupee/US Dollar parity has been one of the bigger challenges that the Company faces. During quarter 4 of fiscal 07 the rupee appreciated sharply by over 6% and between June 30th 06 to June 30th 07 the rupee appreciated against the US dollar by almost 13%. Sharp appreciation in the rupee's exchange rate against the US dollar is a cause of great concern, as the Company derives over 90% of its revenues by way of exports, of which US Dollar constitutes a major chunk. The appreciation of the Indian Rupee has adverse impact on the Company's profitability as it results in lower revenues, combined with escalating costs which are primarily in rupee and this reduces margins. To counter the currency threat, the Company covers its net receivables by booking forward currency contracts. As of 30th June 2007, the Company had taken around US $ 1.16 billion of forward cover on its total consolidated revenue of US $ 1.389 billion

Manpower and Talent scarcity coupled with higher attrition is a concern. The Company has been able to contain attrition with innovative concepts like "employee first" which is now in its second year of implementation. The Company has further reinforced its branding with its new campaign hitting the TV and Print media and this helps in attracting and retaining talent across the Company.

India still continues to enjoy being the most preferred location for off shoring, but several other nations have started representing themselves as alternate destinations for offshore based outsourcing. The main challenge is from countries like China, Malaysia, Philippines, East European Countries (like Poland, Hungary, Romania etc) and Canada. The Company actively seeks to expand bases in some of these low cost countries and has taken a step by opening the Poland center towards the end of fiscal 07.

Apart from the low cost countries, threats also loom large from some of the leading Global IT Services companies who are setting up bases and ramping up manpower in India. The Company is addressing these challenges by coming up with differentiated services, innovative pricing models and service excellence.

RESULTS OF OPERATIONS (CONSOLIDATED)

(Rs. in Crore)

Particulars	For the Year Ended 30 June 2007		For the Year Ended 30 June 2006		Growth
	Amount	% Income	Amount	% Income	% Increase
Revenues	6,068.7	93.0%	4,571.6	97.7%	32.7%
Other Income	455.9	7.0%	109.3	2.3%	317.1%
Total Income	**6,524.6**	**100.0%**	**4,680.9**	**100.0%**	**39.4%**
Cost of Revenues	3,357.5	51.5%	2,494.7	53.3%	34.6%
Administration and other expenses	1,477.3	22.6%	1,165.6	24.9%	26.7%
Finance costs	8.0	0.1%	8.1	0.2%	-1.3%
Depreciation and amortisation	253.9	3.9%	203.1	4.3%	25.0%
Total Expenditure	**5,096.7**	**78.1%**	**3,871.5**	**82.7%**	**31.6%**
Profit before tax	**1,427.9**	**21.9%**	**809.4**	**17.3%**	**76.4%**
Provision for tax	104.1	1.6%	55.9	1.2%	86.2%
Minority Interest	5.5	0.1%	1.8	0.0%	217.2%
Profit after tax	**1,318.3**	**20.2%**	**751.7**	**16.1%**	**75.4%**

FISCAL 2007 COMPARED TO FISCAL 2006

During the fiscal 2006, DSL Software Ltd., Shipara Technologies Ltd., HCL Technologies BPO Services Ltd., HCL Technologies (Mumbai) Ltd., Aquila Technologies Ltd. and HCL Enterprise Solutions (India) Ltd. (Transferor Companies), all subsidiaries of the Company, were amalgamated with the Company retrospectively from 01 April 2005, the appointed date as per the scheme of amalgamation approved by the Hon'ble High Courts of Delhi and Karnataka.

Accordingly, the results of the Company for the year ended 30 June 2006, included the results of the Transferor Companies for the fifteen months period from 01 April 2005, to 30 June 2006, and therefore, the results for 2007 are not comparable with those for 2006.

The table below gives a comparison of the results for 2007 with those for 2006 after excluding the results of Transferor Companies for the period 01 April 2005 to 30 June 2005 from fiscal 2006:

(Rs in Crore)

Particulars	For the Year Ended 30 June 2007		For the Year Ended 30 June 2006		Growth
	Amount	% Income	Amount	% Income	% Increase
Revenues	6,068.7	93.0%	4,361.5	97.6%	39.1%
Other Income	455.9	7.0%	106.4	2.4%	328.5%
Total Income	**6,524.6**	**100.0%**	**4,467.9**	**100.0%**	**46.0%**
Cost of Revenues	3,357.5	51.5%	2,399.9	53.7%	39.9%
Administration and other expenses	1,477.3	22.6%	1,122.0	25.1%	31.7%
Finance costs	8.0	0.1%	7.3	0.2%	10.6%
Depreciation and amortisation	253.9	3.9%	193.0	4.3%	31.5%
Total Expenditure	**5,096.7**	**78.1%**	**3,722.2**	**83.3%**	**36.9%**
Profit before tax	**1,427.9**	**21.9%**	**745.7**	**16.7%**	**91.5%**
Provision for tax	104.1	1.6%	53.3	1.2%	95.2%
Minority Interest	5.5	0.1%	1.8	0.0%	217.2%
Profit after tax	**1,318.3**	**20.2%**	**690.6**	**15.5%**	**90.9%**

The analysis that follows has been done based on a comparison with the adjusted figures for 2006 as given in the above table.

Revenues:-

Revenues during 2007 have grown by 39.1% as compared to fiscal 2006. During 2007, the rupee has significantly strengthened against the US$ and to a lower extent against European currencies. The growth in revenues has been achieved despite the negative impact of the strengthening of the rupee on over 90% of the Company's revenue which is denominated in foreign currencies.

The Company derives its revenue from three segments viz information technology (software), infrastructure management and business process outsourcing services. Among the three segments, revenues from infrastructure management services have registered the highest growth rate of 72.3%. Segment wise details are given below:

(Rs. in Crore)

Particulars	For the Year Ended 30 June 2007 Amount	% Income	For the Year Ended 30 June 2006 Amount	% Income	Growth % Increase
Information Technology (Software)	4,413.6	72.7%	3,280.0	75.2%	34.6%
Infrastructure Management Service	851.2	14.0%	494.0	11.3%	72.3%
Business Process Outsourcing	803.9	13.2%	587.5	13.5%	36.8%
Total	6,068.7		4,361.5		39.1%

Cost of Revenues:-

(Rs. in Crore)

Particulars	For the Year Ended 30 June 2007 Amount	% Revenue	For the Year Ended 30 June 2006 Amount	% Revenue	Growth % Increase
Cost of Goods Sold	190.7	3.1%	126.6	2.9%	50.7%
Personnel Expenses	2,872.2	47.3%	2,037.0	46.7%	41.0%
Software Development expenses	274.1	4.5%	216.9	5.0%	26.4%
License and transponder					
fee	20.5	0.3%	19.4	0.4%	5.4%
Total	3,357.5		2,399.9		39.9%

The cost of revenues increased by 39.9% from Rs. 2,399.9 crores in 2006 to Rs. 3,357.5 crores in 2007. This increase is mainly on account of increase in personnel costs. Personnel costs of the Company increased to Rs. 2,872.2 crores in 2007 from Rs. 2,037.0 crores in 2006, an increase of 41%. Personnel costs as a percentage of revenues have increased to 47.3 % in fiscal 2007 from 46.7 % in fiscal 2006.

The increase in personnel costs has been driven primarily by an increase in the number of employees during the year from a total of 32,626 at the end of fiscal 2006 to 42,017 at the end of fiscal 2007. The Company also subcontracts certain projects to or hires consultants from third parties. These costs increased to Rs. 274.1 crores in fiscal 2007 from Rs. 220.9 crores in fiscal 2006, an increase of 24.1%.

Administration and other expenses:-

(Rs. in Crore)

Particulars	For the Year Ended 30 June 2007 Amount	% Revenue	For the Year Ended 30 June 2006 Amount	% Revenue	Growth % Increase
Rent	126.7	2.1%	94.6	2.2%	33.8%
Power & Fuel	77.0	1.3%	53.4	1.2%	44.1%
Travel and conveyance	612.4	10.1%	408.0	9.4%	50.1%
Communication costs	106.8	1.8%	86.0	2.0%	24.2%
Recruitment Training & Development	50.7	0.8%	34.2	0.8%	48.3%
Exchange differences	-	0.0%	81.1	1.9%	-100.0%
Others	503.7	8.3%	364.7	8.4%	38.2%
Total	1,477.3		1,122.0		31.7%

The administration and other expenses increased by 31.7% from Rs. 1,122.0 crores in 2006 to Rs. 1477.3 crores in 2007. This was mainly on account of increase in project related travel costs, increase in rent, power & fuel and other establishment costs. During 2006, Company had incurred exchange losses of Rs. 81.1 crores while in 2007 the Company has exchange gains of Rs. 346.5 crores which is included under 'Other Income'. The exchange gains/ losses are on account of mark to market the forward cover taken by the company to hedge its cash inflows from forecast revenues and from restatement of foreign currency assets and liabilities.

Depreciation & amortisation:-

Depreciation increased to Rs. 253.9 crores in fiscal 2007 from Rs. 193.0 crores in fiscal 2006. This increase is mainly due to the addition of Rs. 109.0 crores in computers and Rs. 264.2 crores in other assets to meet the need of expanding business.

Other income:-

(Rs in Crore)

Particulars	For the Year Ended 30 June 2007 % Amount	For the Year Ended 30 June 2006 % Amount	Growth % Increase
Interest Income	13.5	3.7	262.4%
Dividend from Investments	9.1	5.4	67.3%
Profit on sale of Investments	79.2	88.9	-10.9%
Exchange Differences	346.5	-	0.0%
Others	7.6	8.4	-8.7%
Total	455.9	106.4	328.5%

The Company's other income is Rs. 455.9 crores in 2007 as compared to Rs. 106.4 crores in 2006. Other income has two major components (1) Income from deployment of surplus funds which includes interest income on bank fixed deposits and bonds, dividend on investment in debt mutual funds and gains resulting from sale of such investments. To take advantage of the lower tax rate applicable to long-term capital gains, the Company invests in growth funds and has unrealized capital gains of Rs. 79.7 crores as at end of fiscal year 2007. (2) Exchange gain on account of changes in fair value of foreign currency forward covers and translation of foreign currency assets and liabilities. As at the end of the fiscal year the Company had Rs. 5,980.8 crores of forward cover contracts and options outstanding.

Profit before tax:-

Profit before tax increased by 91.5% during the fiscal from Rs. 745.7 crores to Rs. 1,428.0 crores. As a percentage of total income this increased from 16.7% in 2006 to 21.9% in 2007.

Taxation:-

The net tax expense for 2007 was Rs. 104.1 crores compared to Rs. 53.3 crores in 2006. The increase in tax expense is on account of higher income from foreign currency fluctuations during 2007 and provision for taxes payable on foreign operations.

A substantial portion of the profits of the Company's India operations is exempt from income tax, these profits being attributable to export operations of undertakings situated in Software Technology Parks (STP). Under the tax holiday, the taxpayer can utilize an exemption from income tax for a period of any ten consecutive years beginning from the financial year when the unit started operations. The tax holiday on all facilities under STPs expires in stages by 2009. The profits arising out of the domestic business are subject to corporate income tax at the rate of 30% plus applicable surcharge and education cess. The exemption period on certain undertakings has expired in 2006 and 2007. The Company is in the process of developing three campuses at Noida, Chennai and Bangalore in its SEZ approved facilities. Income from SEZ's is fully exempt from tax for the first 5 years, 50% exempt for the next five years and 50% exempt for the next five years subject to fulfilling certain conditions.