



HCL Technologies Limited

Annual Report 2007-08



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BOARD OF DIRECTORS**MR. SHIV NADAR**

Chairman & Chief Strategy Officer

MR. VINEET NAYAR

CEO & Whole-time Director

MR. T. S. R. SUBRAMANIAN

Non-Executive Director

MS. ROBIN ABRAMS

Non-Executive Director

MR. AJAI CHOWDHRY

Non-Executive Director

MR. SUBROTO BHATTACHARYA

Non-Executive Director

MR. AMAL GANGULI

Non-Executive Director

MR. P. C. SEN

Non-Executive Director

Auditors

Price Waterhouse
Chartered Accountants
Gurgaon

Bankers**Citibank, N.A.**

Global Corporate & Investment Banking
DLF Centre, 5th Floor
Parliament Street
New Delhi-110 001

Deutsche Bank AG

Corp. Office – DLF Square
4th Floor, Jacaranda Marg,
DLF City, Phase – II
Gurgaon-122 002

Standard Chartered Bank

Corporate & Institutional Banking
Credit Operations, India
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
Opp. Deer Park
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 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, performances 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. Readers are cautioned as not to place undue reliance on the forward-looking statements as they speak only as of their dates. 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

Current State of Indian IT Industry

Indian IT/BPO Export revenues have more than doubled during the last 3 years. The total export revenues (excluding hardware exports of \$0.5 billion) have grown by 128% from \$17.7 billion in FY05 to \$40.3 billion in FY08e. *There are 3 broad segments, IT Services is leading with export revenues of \$23.1 Billion in FY08e (57% of total export revenues in FY08e). It is followed by BPO (27% of total export revenues in FY08e) and Products & Engineering services (16% of total export revenues in FY08e).*

Chart 1

Indian IT/BPO Exports Revenues	FY05	FY06	FY07	FY08E	3-yr Growth (FY05 to FY08E)
IT Services	10.0	13.3	18.0	23.1	131%
BPO Services	4.6	6.3	8.4	10.9	137%
Software Products and Engineering Services	3.1	4.0	4.9	6.3	103%
Total	17.7	23.6	31.3	40.3	128%

(Revenues Numbers in USD Billion)

Source: NASSCOM Strategic Review 2008, NASSCOM Strategic Review 2007, HCL Analysis

An analysis of IT Services Exports by different service lines shows that contribution of Custom Application development services is declining. It has declined from 49.1% in FY06 to 43.0% in FY08e. *Infrastructure Services (IS) Outsourcing (includes data centre operations, desktop management, local and wide area network operations management, help desk support, disaster recovery services and related consulting and systems integration activities) is the fastest growing service line.* IS Outsourcing exports have grown by 288% from \$0.9 billion in FY06 to \$3.3 billion in FY08e.

Chart 2

IT Services Exports (excluding BPO and engg. Services) by Service Line	FY06 Split	FY06 Revenues	FY08E Split	FY08E Revenues	2-yr Growth (FY06 to FY08E)
Custom Application Development	49.1%	6.5	43.0%	9.9	52%
Application Management	11.9%	1.6	15.4%	3.6	125%
IS Outsourcing	6.4%	0.9	14.3%	3.3	288%
Support & Training	9.3%	1.2	8.0%	1.8	49%
Systems Integration	2.8%	0.4	3.0%	0.7	86%
IT Consulting	2.6%	0.3	2.8%	0.6	87%
Software Testing	2.1%	0.3	1.7%	0.4	41%
Network Consulting & Integration	1.3%	0.2	1.2%	0.3	60%
Others*	14.5%	1.9	10.6%	2.4	27%
Total		13.3		23.1	74%

(Revenues Numbers in USD Billion)

* Others include SOA & Web Services, E-Business/E-commerce etc.

Source: NASSCOM Strategic Review 2008, NASSCOM Strategic Review 2007, HCL Analysis

An analysis of IT/BPO Exports by different verticals shows that BFSI, Hi-tech/ Telecom, and Manufacturing are the dominating verticals for Indian IT exports. Their total contribution has increased from 70.8% in FY06 to 74.5% in FY07.

Chart 3

IT/BPO Exports by Vertical	FY06 Split	FY06 Revenues	FY07 Split	FY07 Revenues	Growth (FY06 to FY07)
BFSI	38.1%	9.0	40.4%	12.6	41%
Hi-tech/Telecom	19.8%	4.7	19.1%	6.0	28%
Manufacturing	12.9%	3.0	15.0%	4.7	54%
Retail	7.6%	1.8	8.0%	2.5	40%
Construction & Utilities	4.0%	0.9	3.5%	1.1	16%
Airlines and Transportation	2.1%	0.5	3.4%	1.1	115%
Media and Entertainment	4.2%	1.0	3.3%	1.0	4%
Healthcare	3.0%	0.7	2.5%	0.8	11%
Others	8.3%	2.0	4.8%	1.5	-23%
Total		23.6		31.3	33%

(Revenues Numbers in USD Billion)

Source: NASSCOM Strategic Review 2008, NASSCOM Strategic Review 2007, HCL Analysis

An analysis of IT/BPO exports by geography shows that Indian vendors are focusing more and more on Europe. Their dependence on the US geography is decreasing. US contribution to Indian IT exports has declined from 66.5% in FY06 to 61.4% in FY07. On the contrary, export revenues contribution from Europe has increased from 25.1% to 30.1%.

Chart 4

IT/BPO Exports by Geography	FY06 Split	FY06 Revenues	FY07 Split	FY07 Revenues	Growth (FY06 to FY07)
US	66.5%	15.7	61.4%	19.2	22%
UK	15.3%	3.6	17.8%	5.6	54%
Continental Europe	9.8%	2.3	12.3%	3.8	66%
APAC	7.1%	1.7	6.4%	2.0	20%
RoW	1.3%	0.3	2.1%	0.7	114%
Total		23.6		31.3	33%

(Revenues Numbers in USD Billion)

Source: NASSCOM Strategic Review 2008, NASSCOM Strategic Review 2007, HCL Analysis

Drivers for Future Growth

The drivers for global sourcing are likely to remain strong in the near future. There are three primary drivers for global sourcing:

1. Reduction in Costs – Cost pressures will remain strong as customers demand more value and businesses are faced with increasing global competition. A potential economic slowdown in the near future could force businesses to cut costs even further.
2. Access to new Talent pools – Developed countries are already facing skill shortages in many areas such as mainframe computing, analytics, and engineering R&D which need to be filled by sourcing globally. From a medium-to-long term perspective, the ageing population in most developed countries will intensify talent crunch across business and technology.
3. Improvements in specific aspects of business other than costs – Business improvements will become increasingly critical as companies touch minimum cost thresholds but remain under pressure to continuously improve financial performance. Need for differentiation in the lines such as quality, customer satisfaction and speed-to-market will gain importance as the competition increases.

Apart from these core drivers, following 3 factors will further add to the momentum of global sourcing:

1. Increase in Technology-related spending (including the spending on technology enabled business processes).
2. Propensity to outsource IT and business processes.
3. Conduciveness of the business environment in the sourcing destinations.

Industry Outlook

- o As per NASSCOM Strategic Review 2008, Worldwide IT Outsourcing Market is expected to grow from \$183 Billion in 2007 to \$242 Billion in 2011 at a CAGR of 7.2%. At the same time, The BPO market is expected to grow from \$462 Billion in 2007 to \$677 Billion in 2011 at a CAGR of 10%.
- o As per NASSCOM-BAH study titled 'Globalization of Engineering Services – The next frontier for India', Worldwide Offshored Engineering Services Market will grow to \$60 Billion by 2010. Out of that, India will have a share of 20-25 percent share and expected market potential for India is \$12 to \$16 billion.

- o As per NASSCOM Strategic Review 2008, the currently low levels of market penetration reflect enough headroom for growth. The total value of technology-related services from offshore locations is expected to reach \$70-76 billion in FY08. Of that, India has a share of nearly 55%. Yet, this represents less than a fifth of the current global market potential for these services, which is estimated at over \$380 billion.
- o US and UK markets would continue to dominate the global IT services spending with 75% share estimated for 2010. In APAC, Japan is a large untapped market for Indian IT vendors.
- o To compete globally, Indian IT vendors would develop competencies in the consulting space since consulting engagements increasingly trickle down to large deals.
- o The BPO and Infrastructure sectors are 3-4 times the size of application development and maintenance. They are likely to be key focus areas of growth given their ability to address the talent shortage with acceptance of graduates not limited to professionally qualified workforce.
- o In the Infrastructure Management Services space, the reducing hardware costs are offset by the increasing labour costs. Clients therefore prefer IT vendors who do not take over assets but are able to deliver services remotely in low cost countries. Remote infrastructure delivery would likely form a key component of large sized outsourcing deals in future.
- o In the BPO space, non voice and platform based assignments would likely dominate and the Indian IT vendors are geared well to capitalize on the opportunities having steadily built capabilities in the past few years.
- o With business transformation playing an important role in sourcing deals, Outcome-based pricing/output based pricing that aligns sourcing interests is increasingly gaining acceptance. Revenues in such arrangements depend on the value provider can add. Providers are expected to put their skin into the game.
- o Continued growth across product development and engineering services reflects India's increasing role in global technology IP creation; India would become a strategic hub for R&D, accounting for a growing proportion of Global Product development resources.
- o Larger deals are likely to be unbundled resulting in reduced deal size for incumbents while still being bigger for Indian IT. This could be challenging for incumbents and serve as an opportunity for Indian IT vendors since the former may need to prove cost and delivery advantages for execution of such deals. Moreover, the earlier advantage of taking over people / assets may no longer hold good.
- o India's attractiveness as a preferred destination for the offshore model is not expected to be much dented even against the backdrop of emerging low cost locations like Latin America, East Europe and China. India would continue to dominate with the potential skilled workforce. The talent pool is large and growing steadily; while gaps in talent suitability are challenges, they are being addressed by strong provider-level efforts on skill development. Moreover, there is no other global sourcing destination

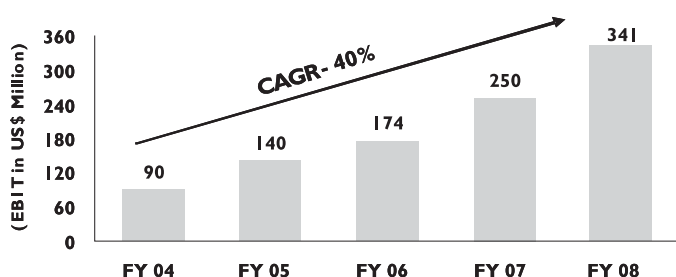
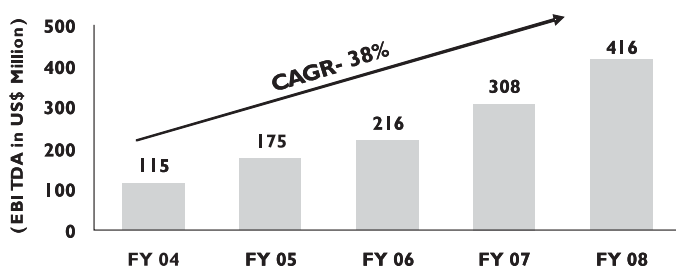
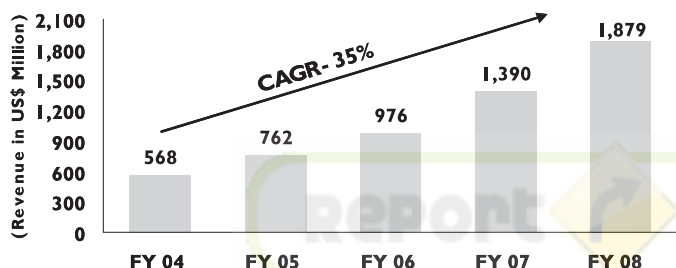
that offers a comparable suite (IT services/BPO/ engineering services/ software product licensing/ development) and scale of services.

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 Business Process Outsourcing (BPO) services. HCL has been in operation since 1999 and focuses on transformational outsourcing, working with clients in areas that impact and re-define the core of their business. The company leverages its extensive global offshore infrastructure spread across 60 locations and its global network of offices in 18 countries to deliver solutions across select verticals like Financial Services, Retail & Consumer, Life Sciences and Healthcare, Hi-Tech, Telecom and Media & Entertainment. HCL has established key business relationships with clients across geographies belonging to Fortune 500/1000 category offering mix of IT and BPO services.

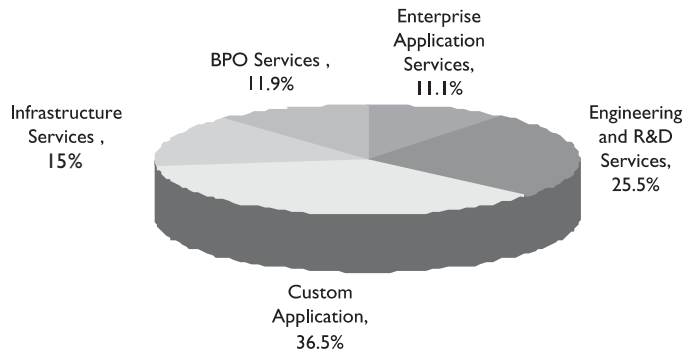


Service Offerings

HCL offers a diversified portfolio of service offerings as defined below. It is important to note that no single service line contributes more than 37% to the total revenue, while maintaining a leading edge in key verticals where the company has chosen to focus. Moreover, HCL has built sustainable business models

in each of its service lines long term perspective. Today, each of these service lines has a robust and resilient business model in place.

FY'08



1. Custom Application Services

Customized software and applications are transforming the way organizations are doing businesses to achieve their specific objectives. Recognizing the growing industry need of custom applications and outsourcing requirements, HCL is committed to provide world-class application development, maintenance, and consulting outsourcing-services to satisfy customers to help increase their productivity and minimize their total cost of ownership. The service line accounts for 36.5% to the total revenue.

HCL offers services ranging from custom application development, deployment, and integration to maintenance, and production support. HCL was one of the first to bring multi-service delivery capability that combines customized application services with other key services like packaged application services, remote infrastructure management, and enterprise transformation services.

The company adds value to customer's businesses enabling IT technology transformation that brings transition and transforms approach with unique combination of multi service capability, outcome based pricing, tools and methodologies like ASSET™ for transition.

With a focus on quality and keeping with the customers' information security requirements, all company software development centers are certified with ISO 9001:2000, Level 5 of Software Engineering Institute's Capability Maturity Model (CMM Level 5) standards, and British Security Standard—BS7799.

2. Engineering and R&D Services

Engineering and R&D Services account for 25.5% of the Company's revenues. HCL understands the importance of Research & Development (R&D) for its customers businesses and is committed to provide world-class R&D and Technology Services to them. HCL offers comprehensive range of R&D and Engineering services to component vendors, OEMs, ODMs and ISVs across multiple industry segments and domains. The company has a proven track record in providing "end to end solutions" that span concept to manufacture and ability to consistently deliver complex and critical products.

With its significant product engineering strength and experience, HCL provides full lifecycle product engineering services, spanning from requirements definition to prototype architecture, development, testing, and manufacturing technical help desk to field support, maintenance and upgrades.

Other services offered include unique integrated services that span hardware, software, electronic packaging, and value-added services to customers, especially in mission-critical, complex product engineering areas. Our investments in test labs (the first private sector lab in India), tools, and infrastructure coupled with our rich portfolio of reusable components help to reduce both cost and time-to-market.

HCL has initiated the first real business outcome based engagement model - Global Risk Reward Partnership (GRRP). GRRP is based on the fundamental of joint outcome ownership of a product. HCL has successfully partnered with global technology leaders to positively influence revenues of their products under a risk-reward sharing partnership.

HCL offers a unique end-to-end Software as a Service (SaaS) offering which encompasses consulting, development, hosting and management through integrated SaaS. This integrated offering speeds up the time to market by 40%. HCL's SaaS offerings leverage HCL's investments in SaaS such as 'Agora' SaaS Delivery Platform and more than a decade of SaaS experience with 80+ clients.

3. Enterprise Application Services (EAS)

This service accounts for about 11.1% of the Company's revenue. HCL's Enterprise Application Services line of business is focused on providing package and platform-led services ranging from blue printing, development, deployment, global rollouts, helpdesk support, to application maintenance in areas such as ERP, CRM, SCM, and Middleware. The EAS group uses a platform-focused approach to provide technology-based business optimization.

Technology-based business optimization is the cornerstone of HCL's enterprise applications line of business that is achieved through Stage-based offerings and Process-driven optimization. Stage-based offerings are focused on application consolidation, global single instance, platform development, and service enablement, while Process-driven optimization deals with processes like partner integration, unified customer view and single sign-on to deliver business optimization.

Some of the EAS unique service offerings include State-based offerings like Upgrade Competency Center and eZ.Migrate, Integrated offerings like iERP (integrated applications, infrastructure and helpdesk support), Competency-based offerings like Middleware integration competency center for WebMethods and Tibco, SOA-driven integration etc., Platform-based services like SAP NetWeaver and Fusion Middleware and Consulting services like Application Portfolio Optimization and platform section.

HCL enjoys multi-faceted relationships and high-level strategic partnerships with some of the biggest ISVs and IT and Technology firms like Microsoft, SAP, Oracle, TIBCO, etc. HCL has recently joined the SAP Global Partner – Services program where both firms teamed up for solution definition and co-develop new and extended functionalities to implement enterprise SOA based services.

4. Enterprise Transformation Services (ETS)

The competitive environment with increasing customer demand for innovation and higher value is transforming the current business processes in all the industries. The clients are looking for new business models that are aligned to changed business scenario to improve productivity, efficiency, market share and profitability in the market place. HCL's ETS practice offers Business Consulting services to customers to satisfy the demand of innovation and higher value of their customers.

HCL's ETS group offers services that bring Business, Technology, Application and Data Transformation to customers. Services like Application Portfolio Optimization and Management analyzes and audits the applications, and develops a business plan that aligns applications with business needs and organizational objectives.

HCL offers end-to-end data warehouse & Business Intelligence (DW/BI) services at all levels of enterprise through unique Data Transformation Methodology (DTM) and reduces the complexity of data view across various data types and complex business processes.

Quality Process Consulting services offer process improvement services that span the entire continuum ranging from Process definition, implementation & training to Process assessments for model and non-model based improvement initiatives.

HCL's Technology Transformation Services are designed to ensure that IT systems are optimized and managed to transform business functions and ensure operational efficiency.

5. Infrastructure Management Services (IMS)

HCL is the pioneer of Infrastructure Management Services (IMS) in India since 1993 and today, it is one of the fastest growing service line at HCL. HCL's IMS pioneering leadership has been recognized by various independent analyst and media firms. This year HCL's IMS was acknowledged by Brown & Wilson Global User Survey 2008 as World's No. 1 Infrastructure Outsourcing Vendor. HCL has been rated as leader in Global Delivery Infrastructure Management Wave, June 07.

A focused player in the IT services arena, HCL's Infrastructure Management Services seek 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's IMS accounts for about 15% of the Company revenues. It has, over the past few years, evolved into an "End-to-End" Remote Infrastructure Services provider.

HCL has grown from being a pure play IT Operations player to offering “Design - Implement - Operate” services across the IT Infrastructure Lifecycle.

HCL addresses the growing demand for the cost-effective management of technology infrastructure across geographically dispersed locations. With a mission to develop innovative solutions for enterprises worldwide, the company has developed and pioneered a unique model for Remote IT infrastructure management that enables customer organizations to achieve superior infrastructure performance and significantly reduced costs.

HCL’s Remote Infrastructure Management (RIM) services provide a single window that cater all IT infrastructure needs and aim at transforming the IT infrastructure of customers that not only ensure a well managed Infrastructure support services but also provide competitive advantage by delivering more value to the end user.

The company’s IMS services include, End User Computing, Datacenter, Network Services, Information Security Services, Pioneer IOMC and emerging areas like IT Service Management. These services are delivered through an ISO 9002, ISO 27001 and ISO 20000 certified Operations Management Center to 70+ G1000 companies from various industries such as manufacturing, hi-tech, retail, banking and finance, pharma and automobiles.

6. **Business Process Outsourcing (BPO)**

HCL’s BPO services contribute to about 11.9% of the company’s revenue. HCL BPO focuses on a combination of voice and non voice based processes that relate to:

- Business Generation (Contact Scoring/Customer acquisition/Post Sales Service) ,
- Operations Management (Technical desk support/ Procurement Services/Transaction Processing / Collection Services etc) and,
- Management Support (Primary/Secondary Research/ Data Analysis and Modeling)

The driving objective is to enhance business performance of clients while at the same time cost optimization through matured off shoring processes. HCL BPO has made significant investments in its service delivery capabilities like technology, human resources, intellectual property and capacity. The suite of BPO services is configured to address the generic and specific requirements of existing and potential client base. HCL BPO has vertical driven business strategy spanning verticals such as Telecom, BFSI, Retail and Hi Tech. The division boasts of global delivery centers in India and abroad compliant with ISO 27001 security standards as also ISO 9001-2000 standards in addition to other quality accreditations and standards.

The HCL Strategy

Differentiation Strategy

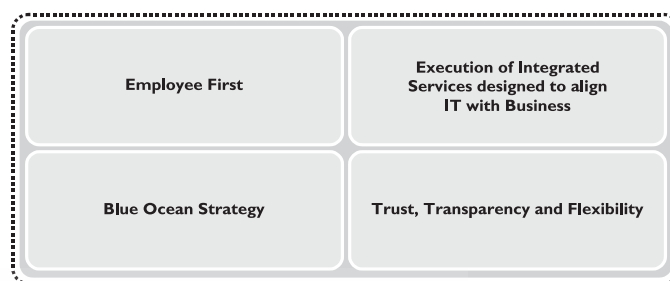
During the early phase of the Transformation journey, HCL spotted an inflection point in the industry driven by a need for transformation, dissatisfaction with large deals, an insatiable desire to optimize and reduce cost, performance based pay and increased adoption of Global Delivery in emerging areas. This

meant a shift in focus from pure cost considerations to innovation, value creation and flexibility for clients premised on trust, transparency and flexibility in relationships.

The initial years of transformation was focused on key initiatives like “Employee First”, Multi Service offerings, Innovative Pricing models etc. HCL has also established a strong foundation of Collaborative Transformation as a way of business. HCL’s unique business approach has resulted in creation of a “Differentiated Positioning” in the market place. This strategy has helped HCL to grow not only its existing relationships but also resulted in new wins of transformational deals in different markets. Today HCL leads in execution of large integrated multi service transformational deals.

HCL continues to be a “Thought Leader” by gauging and anticipating inflection points early in the industry and changing the paradigm in a rapidly dynamic IT environment.

The HCL differentiation strategy is four fold:



The ‘Employee First’ philosophy at HCL

At the core of HCL’s Employee First philosophy is the concept of talent transformation—recognition and enablement of competencies, as opposed to skilling employees in necessary technical, business and behavioral areas. HCL follows a five fold path of individual enlightenment – Support, Knowledge, Empowerment, Transformation and Recognition. Technology is heavily used in this path resulting in the enlightenment of nearly 50,000 employees. The strategy is based on the fact that employee enlightenment transpires to customer enlightenment.

HCL’s Employee First philosophy has been captured by the Harvard Business School in a case study and is now being taught to future business leaders in their ‘Strategy and Leadership’ classes.

Blue Ocean Strategy

In 2005, HCL adopted a “Blue Ocean” approach by gauging early-on that the new generation outsourcers needed more transformational gains, value and innovative business models.

HCL has a four Pronged Blue Ocean Strategy all of which have legitimacy with proof points:

1. Pricing Innovation: **Output Based Pricing Model**
2. Technology Disruption: **Business led Transformation**
3. Market Creation: **Building new service markets**
4. Service Innovation: **Through heavy investments in IP and Solution Accelerators**

HCL is uniquely positioned with its perfect blend of onshore presence and offshore economics. Building competitive

advantage also demands a shift from the earlier fee-driven/ service provider model to a new age outcome-based/partnership model. At HCL, IT driven business innovation, emergence of new disruptive technologies, business models, and widespread acceptance of global delivery models are some of the transformational forces at work today.

HCL being a disruptive force in technology is one amongst the leading organizations that offer SOA driven integration to global organizations. HCL's SOA driven integration solutions for business processes are aided by IP and Frameworks to enable automated offshore development to continuously optimize the customer's business processes.

HCL's investment in this arena has won several accolades for the company. Crossfit™, an automation SOA testing framework has won the Technology Innovation award at the Financial Services Outsourcing Annual Summit 2008.

Execution of Integrated Services designed to align IT with Business

HCL's integrated service offerings, backed by its investments in innovative IPs & Frameworks, help customers to align their application and IT portfolio with Business objectives. These frameworks not only strengthen HCL's execution capabilities but also provide a single window to client to monitor the progress of their projects. ASSET™ is once such framework that provides a comprehensive and re-usable end-to-end framework to professionally Advice, Plan, Execute and Manage transition in large deals.

HCL brings unique strengths to organizations engaged in a significant business transformation exercise to create new competitive advantages. For such organizations, HCL has one of the most mature portfolio of services among all offshore providers—across Application Services, Core Infrastructure support, Business Process Outsourcing, as also R&D and Technology services. Multi-integrated solutions enable customers achieve significant optimization not only within one area but also at interface points (viz integrated help-desk for applications and infrastructure).

Trust, Transparency and Flexibility

At HCL, all relationships –be it with employees, customers, partners or stakeholders – need to be built on the foundation of trust, transparency and flexibility. HCL's Employee First philosophy has led to empowered employees in the organization. This has been reflected in a Survey of more than 250 Customers and 830 respondents with Excellent feedback scores of Flexibility (5.95) Trustworthy (6.31) and Loyalty (6.21) - on a scale of 7. HCL's clients increasingly feel, "the employees stand out as more empowered when compared to like companies" and "Deliver on promise, even if circumstances are tough."

Growth Strategy

HCL is a dominant player in its own niche and is uniquely positioned as a co-sourcing vendor because of the experience it has created for its clients. The unique positioning lends HCL to be different in its Business Model from other Indian IT Services players.

During the last 3 years, HCL has focused on the following 5 strategies for growth:

1. Create **"New markets"**, which it could lead. Establish growth by being **"first to market"**.
2. Create **"Diversity in Service lines"** and *not be dependent* on one Service line alone.
3. Secure **"higher proportion of annuity revenues"** through focus on Operations, Output-based Pricing, Risk-Reward model and Long Term contracts.
4. Create **"Differentiators"** through investments in **"Disruptive Technologies"** such as SOA, BI and APO.
5. Focus on doing **more (work) for less (clients)** rather than less for more.

The creation of unique positioning of HCL through its "Run the business" approach has been well received in the market by Fortune-1000 clients. HCL has also made significant investments in tools/ processes/ methodologies/ business models to gain competitive advantage in the market. HCL has proven its superior delivery and execution capabilities by successfully moving large engagements to a steady state. Today, HCL works with Fortune 100, Fortune Global 500 and Fortune 1000+ clients globally. The Company has done well in maintaining and growing its large existing customer relationships as also securing new clients that has brought overall consistency in its growth.

Going forward, HCL will continue to focus on the aforementioned strategies.

Opportunities, Threats, Risks & Concerns

Opportunities

The Indian ITES and IT-BPO industry has come a long way from early years in 2000 and has been successful in establishing its credentials in delivering value based superior IT services to clients across the world through its global delivery model. The resilience of Indian the IT industry has been proved in facing challenging times faced last year and that emanated primarily from a slowing US economy coupled with developments like the sub prime crisis, elections in US, appreciating Indian Rupee against US Dollar, high inflation rate in India and a challenging business environment with IT MNC's increasing their presence in India. The downtrend in the US helped HCL to push forward with our sweet spot, although the overall strategy was to de-risk US and move towards Europe and Asia, we saw high growth potential in US.

The industry is now poised for next phase of growth with global IT environment pointing towards increasing propensity for outsourcing / offshoring to countries like India. According to Nasscom, India continues to be the "nerve center" for global sourcing with over two-third of the Fortune 500 and majority of Global 2000 firms leveraging global sourcing delivery. Positive market indicators and strong track record supports the industry optimism in achieving its aspired target of USD 73-75 bn in overall software and services revenues by FY 2010. The global regional spending patterns are also showing an increased importance of Europe and Asia Pacific regions in growth contribution while the share of US reflecting marginal decline.

Within the overall industry environment as it unfolds, HCL is strategically geared to steer its growth. HCL has always been the thought leader in gauging the inflection points in the industry trends. It is always prepared to capitalize on the potential opportunities made available by the external environment.

HCL has adopted the Blue Ocean approach of doing business and has been successful in reaping the benefit of its business strategy. HCL's Blue Ocean approach to business paid rich dividends and we were ranked No. 1 ahead of all global players in Remote Infrastructure Management (RIM) by the Black Book of Outsourcing and awarded the Highly Commended Vendor title by the National Outsourcing Association in Europe. HCL becomes SAP Global Services partner to deliver joint business value through Customer Centric Ecosystem. This milestone partnership based on Blue Ocean thinking is aimed at enabling customers to access the business benefits of SAP's enterprise service-oriented architecture (enterprise SOA) and draw upon HCL's strengths in emerging geographies, strong domain experience, risk taking and service innovation capabilities.

It has successfully identified newer markets, verticals and services to drive its business growth. HCL's Multi-service; Multi-year; Multi-million dollar deals drove growth in 2007-08 and contributed significantly to HCL's top line and bottom line.

The domain focused approach of the Company has yielded rich dividends strengthening the vertical strategy. HCL has penetrated verticals like Media Publishing and Entertainment, Life Sciences and Healthcare that are not the conventional segments to offshore business process. The successes in its approach in these verticals would be replicated in other micro verticals and geographies also.

HCL has differentiated itself in the market place in being "first to market" its unique offerings. HCL has delivered and executed innovative Multi Service engagements of larger size and successfully able to move forward from "Transition" phase to "Steady" phase thereby establishing HCL's superior delivery and execution capabilities.

HCL has been in the forefront of developing and deploying the new breed of technologies for its customers with ensuing value proposition.

Threats

Market-place & Competition

The industry is becoming increasingly converging in terms of players having wider portfolio of service offerings as well as varied business models with similar set of value propositions to be offered to customers. This entail a more challenging environment with increased competition and customer demands for value creation in IT Infrastructure and IT Applications.

Increasingly, the Indian IT service providers have not only to compete among themselves in the global market but have to face stiff competition from the multinational IT vendors who have made significant investments in India in setting captive global offshore delivery centers.

Other low-cost countries

Further, various other countries are competing with India in offering superior service quality and delivery capabilities through low cost options. The countries like China, Poland, Brazil, Philippines etc are fast catching up in offering significant cost advantages to customers through offshore options.

Increased customer demand for value enhancement

The evolving dynamics in the market place necessitates that players continue to differentiate themselves in being able to offer

superior value by maximizing the client's Return on Investments (ROI) on IT deployment while retaining cost competitiveness.

The portfolio of service mix has to be constantly reviewed in line with the evolving business needs of the clients. This necessitates that players should be able to continuously anticipate the future technological trends and make suitable investments in R&D, Intellectual Property based products & tools as also investment in HR Assets i.e. training initiatives etc. in acquiring, developing & re-skilling the human resources

Risks and Concerns

Operating Business Environment Risk

The business environment deteriorated sharply in the past year particularly in US primarily due to the subprime banking crisis emanating in US and its spiral-down effect to other parts of the world. Most of the IT service providers derive significant business from the Banking, Financial Services & Insurance (BFSI) vertical and consequent upon the US slowdown led by financial sector, the service providers are facing challenging times with the clients adopting a "Wait and Watch" approach before finalizing their respective IT spends.

Inflationary trend in agro-commodities and crude oil has also caused deterioration of global macroeconomic environment and spending pattern

HCL Strategy

HCL is well diversified geographically, to reduce its dependence on any particular market. Moreover, it has a vertically focused business approach and offers combination of service mix reducing its dependence on any particular service. The Company's business is spread over five distinct service lines and no single business line contributed more than 37% of the total revenue. Similarly, our revenue from biggest industry vertical (BFSI) is also within 30% of overall revenue which is well lower than few of our competitors. This diversification strategy seems to have paid-off wherein slow-down of BFSI sector caused by sub-prime had very limited impact on HCL's revenue projections.

The Company is confident that the long term potential for the industry is quite favorable in view of global tech spending forecasts remaining strong, aided by growth momentum witnessed in Europe, Asia Pacific and Rest of the World.

Competition Related Risks

The Company faces competition not only from the India based IT services providers but increasingly from the multinational IT vendors who are expanding their presence in the country owing to attractiveness of the Offshoring model.

HCL Strategy

HCL's differentiation strategy incorporating its unique business approach has led to its emerging as a "Thought Leader" in the rapidly dynamic IT industry. HCL's differentiation strategy is four fold which includes Employee First initiative, Blue Ocean strategy, Execution of Integrated Services designed to align IT with Business and Trust, Transparency & Flexibility.

Employee Related Risks

Managing attrition rates and availability of talented and skilled pool of manpower are the two key challenges that are facing the industry today. The other key industry challenge is the acute