Genpact LTD
Form 10-Q
August 09, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period ended June 30, 2013

Or

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Transition Period from _________ to _________

Commission file number: 001-33626

GENPACT LIMITED

(Exact name of registrant as specified in its charter)

Bermuda	**98-0533350**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

Canon s Court

22 Victoria Street

Hamilton HM 12

Bermuda

(441) 295-2244

(Address, including zip code, and telephone number, including area code, of registrant s principal executive office)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of accelerated filer , large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of the registrant s common shares, par value $0.01 per share, outstanding as of July 31, 2013 was 229,587,199.

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Item 1. Financial Statements

GENPACT LIMITED AND ITS SUBSIDIARIES

Consolidated Balance Sheets

(Unaudited)

(In thousands, except per share data and share count)

	Notes	As of December 31, 2012	As of June 30, 2013
Assets			
Current assets			
Cash and cash equivalents	4	$ 459,228	$ 519,127
Accounts receivable, net	5	451,960	474,702
Accounts receivable from related party, net	5, 20	29	63
Short term deposits		18,292	16,791
Deferred tax assets	19	48,489	53,774
Prepaid expenses and other current assets		150,769	178,159
Total current assets		$ **1,128,767**	$ **1,242,616**
Property, plant and equipment, net	8	200,362	180,606
Deferred tax assets	19	91,383	96,187
Investment in equity affiliates	20	416	334
Customer-related intangible assets, net	9	84,748	83,190
Marketing-related intangible assets, net	9	21,585	22,136
Other intangible assets, net	9	6,054	6,461
Goodwill	9	956,064	962,933
Other assets		116,548	105,866
Total assets		**$ 2,605,927**	**$ 2,700,329**

See accompanying notes to the Consolidated Financial Statements.

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GENPACT LIMITED AND ITS SUBSIDIARIES

Consolidated Balance Sheets

(Unaudited)

(In thousands, except per share data and share count)

	Notes	As of December 31, 2012	As of June 30, 2013
Liabilities and equity			
Current liabilities			
Short-term borrowings	13	$ 80,000	$ 115,000
Current portion of long-term debt	14	4,982	4,250
Current portion of capital lease obligations		1,301	1,379
Accounts payable		18,652	13,915
Income taxes payable	19	22,304	41,065
Deferred tax liabilities	19	538	379
Accrued expenses and other current liabilities		390,041	386,026
Total current liabilities		**$ 517,818**	**$ 562,014**
Long-term debt, less current portion	14	656,879	655,726
Capital lease obligations, less current portion		2,533	2,784
Deferred tax liabilities	19	6,068	6,046
Other liabilities		250,848	277,137
Total liabilities		**$ 1,434,146**	**$ 1,503,707**
Shareholders equity			
Preferred shares, $0.01 par value, 250,000,000 authorized, none issued			
Common shares, $0.01 par value, 500,000,000 authorized, 225,480,172 and 229,513,754 issued and outstanding as of December 31, 2012 and June 30, 2013, respectively		2,253	2,294
Additional paid-in capital		1,202,448	1,238,983
Retained earnings		281,982	392,595
Accumulated other comprehensive income (loss)		(318,272)	(439,458)
Genpact Limited shareholders equity		**$ 1,168,411**	**$ 1,194,414**
Noncontrolling interest		3,370	2,208
Total equity		**$ 1,171,781**	**$ 1,196,622**
Commitments and contingencies	21		
Total liabilities and equity		**$ 2,605,927**	**$ 2,700,329**

See accompanying notes to the Consolidated Financial Statements.

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GENPACT LIMITED AND ITS SUBSIDIARIES

Consolidated Statements of Income

(Unaudited)

(In thousands, except per share data and share count)

	Notes	Three months ended June 30, 2012	Three months ended June 30, 2013	Six months ended June 30, 2012	Six months ended June 30, 2013
Net revenues					
Net revenues from services others		$ 467,469	$ 534,614	902,793	1,038,271
Net revenues from services related party	20	162	190	317	381
Total net revenues		467,631	534,804	903,110	1,038,652
Cost of revenue					
Services	15, 20	285,222	332,714	550,687	644,440
Total cost of revenue		285,222	332,714	550,687	644,440
Gross profit		**$ 182,409**	**$ 202,090**	**352,423**	**394,212**
Operating expenses:					
Selling, general and administrative expenses	16, 20	114,253	118,403	219,258	231,627
Amortization of acquired intangible assets	9	5,790	6,185	11,080	11,736
Other operating (income) expense, net	17	(801)	(486)	(1,513)	(1,088)
Income from operations		**$ 63,167**	**$ 77,988**	**123,598**	**151,937**
Foreign exchange (gains) losses, net		(21,977)	(17,184)	(18,306)	(13,802)
Other income (expense), net	18	(699)	(10,539)	(823)	(15,650)
Income before Equity-method investment activity, net and income tax expense		**$ 84,445**	**$ 84,633**	**141,081**	**150,089**
Equity-method investment activity, net		13	(63)	26	(107)
Income before income tax expense		**$ 84,432**	**$ 84,696**	**141,055**	**150,196**
Income tax expense	19	21,633	19,234	38,000	36,482
Net Income		**$ 62,799**	**$ 65,462**	**103,055**	**113,714**
Net income attributable to noncontrolling interest		1,699	1,586	3,415	3,101
Net income attributable to Genpact Limited shareholders		**$ 61,100**	**$ 63,876**	**99,640**	**110,613**
Net income available to Genpact Limited common shareholders	12	$ 61,100	$ 63,876	99,640	110,613
Earnings per common share attributable to Genpact Limited common shareholders	12				
Basic		$ 0.27	$ 0.28	0.45	0.48
Diluted		$ 0.27	$ 0.27	0.44	0.47
Weighted average number of common shares used in computing earnings per common share attributable to Genpact Limited common shareholders					

Basic	223,182,251	229,237,503	222,996,243	228,232,364
Diluted	227,880,427	235,329,303	227,676,670	234,475,027

See accompanying notes to the Consolidated Financial Statements.

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GENPACT LIMITED AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

(In thousands)

	Three months ended June 30,				Six months ended June 30,			
	2012		2013		2012		2013	
	Genpact Limited Shareholders	Noncontrolling interest	Genpact Limited Shareholders	Noncontrolling interest	Genpact Limited Shareholders	Noncontrolling interest	Genpact Limited Shareholders	Noncontrolling interest
Net Income	61,100	1,699	63,876	1,586	99,640	3,415	110,613	3,101
Other comprehensive income:								
Currency translation adjustments	(108,619)	(136)	(93,571)	47	(65,464)	(99)	(91,738)	34
Net income (loss) on cash flow hedging derivatives, net of taxes (Note 7)	(77,768)		(48,978)		(33,241)		(29,448)	
Other comprehensive income (loss)	(186,387)	(136)	(142,549)	47	(98,705)	(99)	(121,186)	34
Comprehensive income (loss)	(125,287)	1,563	(78,673)	1,633	935	3,316	(10,573)	3,135

See accompanying notes to the Consolidated Financial Statements.

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GENPACT LIMITED AND ITS SUBSIDIARIES

Consolidated Statements of Equity

(Unaudited)

(In thousands, except share count)

	Genpact Limited Shareholders						
	Common shares		Additional Paid-in	Retained	Accumulated Other Comprehensive	Non controlling	Total
	No. of Shares	Amount	Capital	Earnings	Income (loss)	interest	Equity
Balance as of January 1, 2012	**222,347,968**	**$ 2,222**	**$ 1,146,203**	**$ 605,386**	**$ (320,753)**	**$ 2,625**	**$ 1,435,683**
Issuance of common shares on exercise of options (Note 11)	375,088	4	3,146				3,150
Issuance of common shares under the employee stock purchase plan (Note 11)	44,916		638				638
Net settlement on vesting of restricted share units (Note 11)	229,100	2	(1,411)				(1,409)
Distribution to noncontrolling interest						(2,762)	(2,762)
Stock-based compensation expense (Note 11)			17,243				17,243
Comprehensive income:							
Net income				99,640		3,415	103,055
Other comprehensive income					(98,705)	(99)	(98,804)
Balance as of June 30, 2012	**222,997,072**	**$ 2,228**	**$ 1,165,819**	**$ 705,026**	**$ (419,458)**	**$ 3,179**	**$ 1,456,794**

See accompanying notes to the Consolidated Financial Statements

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GENPACT LIMITED AND ITS SUBSIDIARIES

Consolidated Statements of Equity

(Unaudited)

(In thousands, except share count)

	Genpact Limited Shareholders						
	Common shares		Additional		Accumulated Other	Non	
	No. of Shares	Amount	Paid-in Capital	Retained Earnings	Comprehensive Income (loss)	controlling interest	Total Equity
Balance as of January 1, 2013	**225,480,172**	**$ 2,253**	**$ 1,202,448**	**$ 281,982**	**$ (318,272)**	**$ 3,370**	**$ 1,171,781**
Issuance of common shares on exercise of options (Note 11)	3,184,358	32	26,548				26,580
Issuance of common shares under the employee stock purchase plan (Note 11)	53,671	1	897				898
Net settlement on vesting of restricted share units (Note 11)	299,441	3	(5,129)				(5,126)
Net settlement on vesting of performance units (Note 11)	496,112	5	(2,400)				(2,395)
Disposition of noncontrolling interest						(1,055)	(1,055)
Distribution to noncontrolling interest						(3,242)	(3,242)
Stock-based compensation expense (Note 11)			16,619				16,619
Comprehensive income:							
Net income				110,613		3,101	113,714
Other comprehensive income					(121,186)	34	(121,152)
Balance as of June 30, 2013	**229,513,754**	**$ 2,294**	**$ 1,238,983**	**$ 392,595**	**$ (439,458)**	**$ 2,208**	**$ 1,196,622**

See accompanying notes to the Consolidated Financial Statements

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GENPACT LIMITED AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Six months ended June 30, 2012	Six months ended June 30, 2013
Operating activities		
Net income attributable to Genpact Limited shareholders	$ 99,640	$ 110,613
Net income attributable to noncontrolling interest	3,415	3,101
Net income	**$ 103,055**	**$ 113,714**
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	28,145	27,318
Amortization of debt issue costs (including loss on extinguishment of debt)	1,307	4,392
Amortization of acquired intangible assets	11,118	11,736
Reserve for doubtful receivables	(151)	5,070
Reserve for mortgage loans	107	
Unrealized (gain) loss on revaluation of foreign currency asset/liability	(18,962)	(14,067)
Equity-method investment activity, net	26	(107)
Stock-based compensation expense	17,243	16,619
Deferred income taxes	(8,728)	1,589
Others, net	90	6,087
Change in operating assets and liabilities:		
Increase in accounts receivable	(16,791)	(25,492)
Increase in other assets	(36,308)	(25,385)
Decrease in accounts payable	(5,076)	(3,060)
Decrease in accrued expenses and other current liabilities	(1,321)	(33,809)
Increase in income taxes payable	30,611	18,826
Increase in other liabilities	27,707	4,244
Net cash provided by operating activities	**$ 132,072**	**$ 107,675**
Investing activities		
Purchase of property, plant and equipment	(41,602)	(25,635)
Proceeds from sale of property, plant and equipment	283	283
Investment in affiliates	(205)	
Short term deposits placed	(26,493)	(36,769)
Redemption of short term deposits	20,410	36,769
Payment for business acquisitions, net of cash acquired	(36,927)	(46,134)
Proceeds from divestiture of business, net of cash divested (refer note 3C(a))		(1,049)
Net cash used for investing activities	**$ (84,534)**	**$ (72,535)**
Financing activities		
Repayment of capital lease obligations	(1,162)	(874)
Proceeds from long-term debt		121,410
Repayment of long-term debt	(15,000)	(119,723)
Proceeds from Short-term borrowings		35,000
Repayment of Short-term borrowings	(1,000)	

Proceeds from issuance of common shares under stock based compensation plans	3,788	27,478
Payment for net settlement of stock based awards	(1,409)	(7,521)
Payment of earn-out consideration		(2,993)
Cost incurred in relation to debt amendment and refinancing		(7,908)
Distribution to noncontrolling interest	(2,762)	(3,242)
Net cash provided by (used for) financing activities	**$ (17,545)**	**$ 41,627**
Effect of exchange rate changes	(1,703)	(16,868)
Net increase in cash and cash equivalents	29,993	76,767
Cash and cash equivalents at the beginning of the period	408,020	459,228
Cash and cash equivalents at the end of the period	**$ 436,310**	**$ 519,127**
Supplementary information		
Cash paid during the period for interest	$ 4,212	$ 18,474
Cash paid during the period for income taxes	$ 40,266	$ 38,909
Property, plant and equipment acquired under capital lease obligation	$ 1,178	$ 1,385

See accompanying notes to the Consolidated Financial Statements.

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GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data and share count)

1. Organization

Nature of Operations

The Company is a global leader in business process management and technology services, leveraging the power of smarter processes, smarter analytics and smarter technology to help its clients drive intelligence across the enterprise. The Company believes that its Smart Enterprise Processes (SEP^{SM}) framework, its unique science of process combined with deep domain expertise in multiple industry verticals, leads to superior business outcomes. The Company s Smart Decision Services deliver valuable business insights to its clients through targeted analytics, re-engineering expertise, and advanced risk management. Making technology more intelligent by embedding it with process and data insights, the Company also offers a wide range of technology services. Driven by a passion for process innovation and operational excellence built on its Lean and Six Sigma DNA and the legacy of serving GE for more than 15 years, its 60,000+ professionals around the globe deliver services to more than 700 clients from a network of 68 delivery centers across 18 countries supporting more than 30 languages.

Prior to December 30, 2004, the business of the Company was conducted through various entities and divisions of the General Electric Company (GE). On December 30, 2004, in a series of transactions referred to as the 2004 Reorganization , GE transferred such operations to the Company. In August 2007, the Company completed an initial public offering of its common shares, pursuant to which the Company and certain of its existing shareholders each sold 17,647,059 common shares. On March 24, 2010, the Company completed a secondary offering of its common shares pursuant to which GE s shareholding in the Company decreased to 9.1% and it ceased to be a significant shareholder, although it continued to be a related party. During the year ended December 31, 2012, GE s shareholding subsequently declined to less than 5.0%, as a result of which GE is no longer considered a related party.

On December 14, 2012, a secondary offering of the Company s common shares by General Atlantic (GA) and Oak Hill Capital Partners (OH) was completed. Upon the completion of the secondary offering, GA and OH each owned approximately 2.4% of the Company s common shares outstanding, and they ceased to be significant shareholders and related parties.

2012 Recapitalization

On August 1, 2012, the Company announced that Glory Investments A Limited, formerly known as South Asia Private Investments and an affiliate of Bain Capital Investors, LLC (Bain Capital) had entered into an agreement to purchase approximately 67,750,678 common shares of the Company from affiliates of GA and OH for $14.76 per share, or approximately $1,000,000, after payment by the Company of a special cash dividend of $2.24 per share. The special cash dividend was declared by the Company s board of directors on August 30, 2012, and paid on September 24, 2012 to holders of record as of September 10, 2012. On October 25, 2012, Bain Capital and its affiliated assignees completed the purchase of 57,537,264 common shares of the Company. As permitted under the share purchase agreement, two additional co-investors (RGIP, LLC, an investor in certain investment funds which are affiliated with Bain Capital, and Twickenham Investment Private Limited, an affiliate of the Government of Singapore Investment Corporation Private Limited) purchased the remaining 50,812 shares and 10,162,602 shares of the Company, respectively, covered by the share purchase agreement.

On August 30, 2012, the Company terminated its existing credit facility of $380,000 and entered into a new credit facility of $925,000, to repay the previous existing credit facility, fund a portion of the special cash dividend, pay fees and expenses in connection with the foregoing and to provide for general corporate purposes of the Company, including working capital requirements. Net proceeds from the credit facility along with cash on hand were partially used to fund the dividend payment of $2.24 per share, or $501,620 in the aggregate, which was paid on all issued and outstanding common shares. In accordance with the terms of the Company s stock-based compensation plans, in order to preserve the value of stock-based awards outstanding as of the record date, the Company reduced the exercise price per share of each outstanding stock option award and increased the number of shares in relation to all outstanding stock-based awards as of the record date of the special cash dividend. This transaction, together with other related transactions, is referred to as the 2012 Recapitalization . In June 2013, the Company amended its credit facility with the consortium of financial institutions as explained in Note 14.

The Company incurred expenses of approximately $23,464 for the 2012 Recapitalization excluding the fees associated with the previous existing credit facility and the new credit facility. Out of the total expenses of $23,464, $6,237 was incurred and recorded as a part of selling, general and administrative expenses in the Consolidated Statements of Income for the year ended December 31, 2012. The balance of the total expenses of approximately $17,227 relating to the share purchase transaction were incurred and accrued as of December 31, 2012 and reported as a part of other income (expense), net in the Consolidated Statements of Income for the year ended December 31, 2012. GA and OH, collectively, reimbursed $17,000 of the $17,227 to the Company on October 25, 2012 at the closing of the share purchase transaction in accordance with the letter agreement among the Company, GA and OH. This reimbursement was recorded as a part of other income (expense), net in the Consolidated Statements of Income for the year ended December 31, 2012.

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GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data and share count)

2. Summary of significant accounting policies

(a) Basis of preparation and principles of consolidation

The unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and the rules and regulations of the Securities and Exchange Commission for reporting on Form 10-Q. Accordingly, they do not include certain information and footnote disclosures required by generally accepted accounting principles for annual financial reporting and should be read in conjunction with the consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

The unaudited interim consolidated financial statements reflect all adjustments that management considers necessary for a fair presentation of the results of operations for these periods. The results of operations for the interim periods are not necessarily indicative of the results for the full year.

The accompanying unaudited interim consolidated financial statements have been prepared on a consolidated basis and reflect the financial statements of Genpact Limited and all of its subsidiaries that are more than 50% owned and controlled. When the Company does not have a controlling interest in an entity, but exerts a significant influence on the entity, the Company applies the equity method of accounting. All inter-company transactions and balances are eliminated in consolidation.

The noncontrolling interest disclosed in the accompanying unaudited interim consolidated financial statements represents the noncontrolling partners interest in the operation of Genpact Netherlands B.V. and the noncontrolling shareholders interest in the operation of Hello Communications (Shanghai) Co., Ltd. and the profits or losses associated with the noncontrolling interest in those operations. The noncontrolling partners of Genpact Netherlands B.V. are individually liable for the tax obligations on their shares of profit as it is a partnership and, accordingly, noncontrolling interest relating to Genpact Netherlands B.V. has been computed prior to tax and disclosed accordingly in the unaudited interim Consolidated Statements of Income.

(b) Use of estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Significant items subject to such estimates and assumptions include the useful lives of property, plant and equipment, the carrying amount of property, plant and equipment, intangibles and goodwill, the reserve for doubtful receivables, the valuation allowance for deferred tax assets, the valuation of derivative financial instruments, the measurements of stock-based compensation, assets and obligations related to employee benefits, income tax uncertainties and other contingencies. Management believes that the estimates used in the preparation of the consolidated financial statements are reasonable. Although these estimates are based upon management s knowledge of current events and actions, actual results could differ from these estimates. Any changes in estimates are adjusted prospectively in the consolidated financial statements.

(c) Business combinations, goodwill and other intangible assets

The Company accounts for its business combinations by recognizing the identifiable tangible and intangible assets acquired and liabilities assumed, and any noncontrolling interest in the acquired business, measured at their acquisition date fair values. Contingent consideration is included within the acquisition cost and is recognized at its fair value on the acquisition date. A liability resulting from contingent consideration is remeasured to fair value at each reporting date until the contingency is resolved. Changes in fair value are recognized in earnings. All assets and liabilities of the acquired businesses, including goodwill, are assigned to reporting units. Acquisition related costs are expensed as incurred under Selling, General and Administrative Expenses.

GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data and share count)

2. Summary of significant accounting policies (Continued)

Goodwill represents the cost of acquired businesses in excess of the fair value of identifiable tangible and intangible net assets purchased. Goodwill is not amortized but is tested for impairment at least on an annual basis on December 31, based on a number of factors including operating results, business plans and future cash flows. The Company performs an assessment of qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Based on the assessment of events or circumstances, the Company performs the quantitative assessment of goodwill impairment if it determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If based on the quantitative impairment analysis the carrying value of the goodwill of the reporting unit exceeds the fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess. In addition, the Company shall perform the qualitative assessment of Goodwill impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. See note 9 for information and related disclosures.

Intangible assets acquired individually or with a group of other assets or in a business combination are carried at cost less accumulated amortization based on their estimated useful lives as follows:

Customer-related intangible assets	1 14 years
Marketing-related intangible assets	1 10 years
Contract-related intangible assets	1 year
Other intangible assets	3 9 years

Intangible assets are amortized over their estimated useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise realized.

In business combinations, where the fair value of identifiable tangible and intangible net assets purchased exceeds the cost of the acquired business, the Company recognizes the resulting gain under Other operating (income) expense, net in the Consolidated Statements of Income.

(d) Financial instruments and concentration of credit risk

Financial instruments that potentially subject the Company to concentration of credit risk are reflected principally in cash and cash equivalents, short term deposits, derivative financial instruments and accounts receivable. The Company places its cash and cash equivalents and derivative financial instruments with corporations and banks with high investment grade ratings, limits the amount of credit exposure with any one corporation or bank and conducts ongoing evaluations of the credit worthiness of the corporations and banks with which it does business. To reduce its credit risk on accounts receivable, the Company conducts ongoing credit evaluations of customers. GE accounted for 30% and 26% of receivables as of December 31, 2012 and June 30, 2013, respectively. GE accounted for 27% and 23% of revenues for the six months and three months ended June 30, 2012 and 2013, respectively.

(e) Recently adopted accounting pronouncements

The authoritative bodies release standards and guidance which are assessed by management for impact on the Company s consolidated financial statements.

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GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data and share count)

2. Summary of significant accounting policies (Continued)

The following recently released accounting standard has been adopted by the Company and certain disclosures in the consolidated financial statements and notes to the consolidated financial statements have been modified accordingly. Adoption of this standard did not have a material impact on the consolidated results of operations, cash flows, financial position or disclosures:

Effective January 1, 2013, the Company adopted FASB ASU 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (ASU 2013-02). ASU 2013-02 amended existing guidance by requiring additional disclosure either on the face of the income statement or in the notes to the financial statements of significant amounts reclassified out of accumulated other comprehensive income. ASU 2013-02 requires prospective adoption and affects financial statement disclosure only.

(f) *Reclassification*

Certain reclassifications have been made in the consolidated financial statements of prior periods to conform to the classification used in the current period.

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GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data and share count)

3. Business acquisitions and divestitures

A. Acquisitions

(a) *NGEN Media Services Private Limited*

On March 28, 2013, the Company acquired the remaining 50% of the outstanding equity interest in NGEN Media Services Private Limited, a private limited company organized under the laws of India (NGEN), and thereby increased its interest from 50% to 100%, providing the Company control over NGEN as a wholly owned subsidiary. NGEN is engaged in the business of media services outsourcing.

The Company acquired the remaining 50% equity interest for cash consideration of $158. There are no contingent consideration arrangements in connection with the acquisition. The Company previously accounted for its 50% interest in NGEN as an equity method investment. The Company re-measured this equity interest to fair value at the acquisition date and recognized a loss of $5 in the Consolidated Statements of Income under equity-method investment activity, net .

The following table summarizes the consideration to acquire NGEN and the amounts of identified assets acquired and liabilities assumed at the acquisition date, as well as the fair value of the Company s existing investment in NGEN at the acquisition date:

Cash consideration	$ 158
Acquisition date fair value of the Company s investment in NGEN held before the business combination	158
Total	**$ 316**
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	$ 432
Current assets	402
Tangible fixed assets	27
Other non-current assets	89
Current liabilities	(337)
Other liabilities	(274)
Total identifiable net assets acquired	**$ 339**
Gain recognized on acquisition	(23)
Total	**$ 316**

(b) Jawood Business Process Solutions, LLC and Felix Software Solutions Private Limited

On February 6, 2013, the Company completed its acquisition of 100% of the outstanding membership interest in Jawood Business Process Solutions, LLC, a Michigan limited liability company (Jawood) for cash consideration of $51,000, subject to adjustment based on closing date net working capital, indebtedness and cash and cash equivalents. There are no contingent consideration arrangements in connection with the acquisition of Jawood.

The transaction also included acquisition of 100% of the outstanding shares of Felix Software Solutions Private Limited, a company organized under the laws of India (Felix), for cash consideration of $2,295, subject to adjustment based on closing date net working capital. There are no contingent consideration arrangements in connection with the acquisition of Felix.

Jawood and Felix (collectively referred to as the Jawood business) are, respectively, US and India based providers of business consulting and information technology services to the healthcare payer industry. Felix is a key sub-contractor to Jawood. This transaction strengthens the Company s solutions and services offerings in the healthcare payer market.

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3. Business acquisitions (Continued)

Pursuant to the terms of the acquisition agreements with the respective sellers, the preliminary estimated purchase consideration for the Jawood business is comprised of the following:

Base purchase price	$ 53,295
Estimated closing date net working capital adjustment	(2,663)
Estimated closing date indebtedness adjustment	(2,146)
Estimated closing date cash adjustment	1,179
Estimated seller expenses	(1,379)
Total preliminary estimated purchase price	**$ 48,286**

The acquisition of the Jawood business has been accounted for under the acquisition method of accounting in accordance with ASC 805, Business Combinations. The assets and liabilities of the Jawood business are recorded at fair value at the date of acquisition. The following table summarizes the allocation of the preliminary estimated purchase price based on the fair value of the assets acquired and the liabilities assumed at the date of acquisition:

Preliminary estimated purchase price	$ 48,286
Acquisition related costs included in selling, general and administrative expenses	310
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	$ 1,364
Current assets	6,477
Tangible fixed assets	704
Intangible assets	11,200
Other non-current assets	548
Current liabilities	(7,866)
Long term liabilities	(56)
Total identifiable net assets acquired	**$ 12,371**
Goodwill	35,915
Total	**$ 48,286**

As of the date of these financial statements, the purchase consideration is pending final adjustment for closing date net working capital, indebtedness and cash in accordance with the terms of the acquisition agreement and may result in a corresponding adjustment to goodwill during the measurement period. The measurement period will not exceed one year from the acquisition date. The total amount paid by the Company to acquire the Jawood business, net of cash acquired of $1,364, a holdback amount of $2,000 pursuant to the acquisition agreement, and seller expenses amounting to $1,379, is $46,301.

Goodwill representing the excess of the preliminary estimated purchase price over the net assets acquired is deductible for tax purposes to the extent of $33,830, and has been allocated to the India reporting unit. The amortizable intangible assets are being amortized over their estimated useful lives using a method of amortization that reflects the expected pattern in which the economic benefits of the intangible assets will be consumed or otherwise realized. The value and estimated useful lives of the intangible assets are follows:

	Value	Estimated useful life
Customer related intangible assets	$ 10,200	1 7 years
Marketing related intangible assets	1,000	1 5 years

The weighted average amortization period in respect of the acquired intangible assets is 6 years.

The results of operations of the Jawood business and the fair value of the assets and liabilities are included in the Company s Consolidated Financial Statements with effect from February 6, 2013, the date of acquisition.

GENPACT LIMITED AND ITS SUBSIDIARIES

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3. Business acquisitions (Continued)

(c) Atyati Technologies Private Limited

On September 4, 2012, the Company acquired 100% of the outstanding common and preferred stock of Atyati Technologies Private Limited, an Indian private limited company (Atyati), a cloud-hosted technology platform provider for the rural banking sector in India. This acquisition gives the Company a platform-based banking solution for the rural and semi-rural consumer market.

The Company acquired Atyati for an initial cash consideration of $19,368 subject to adjustment based on the closing date final working capital amount. The acquisition agreement also provided for additional deferred consideration which had a discounted value of $2,539 and earn-out consideration (ranging from $0 to $14,372 based on gross profit for the year ending March 31, 2014) which had an estimated fair value of $1,487.

As of the date of these financial statements, the purchase consideration for the acquisition is pending adjustment for the final working capital amount and may result in a corresponding adjustment to goodwill during the measurement period. The measurement period will not exceed one year from the acquisition date. Pursuant to the terms of the acquisition agreement with the sellers, the preliminary estimated purchase consideration is comprised of the following:

Cash consideration	$ 19,368
Acquisition date discounted value of deferred consideration	2,539
Acquisition date fair value of earn-out consideration	1,487
Estimated working capital adjustment	
Total preliminary estimated purchase price	$ 23,394

During the period ended June 30, 2013, the Company recorded a measurement period adjustment which resulted in a decrease in the deferred tax asset of $827, an increase in other non-current assets of $194 and an increase in goodwill of $633. The measurement period adjustments did not have a significant impact on our consolidated statements of income, balance sheets or cash flows in any period and, thus, were recorded in the consolidated balance sheet as of June 30, 2013.

The acquisition has been accounted for under the acquisition method of accounting in accordance with ASC 805, Business Combinations. The assets and liabilities of Atyati were recorded at fair value at the date of acquisition. The following table summarizes the preliminary allocation of the preliminary estimated purchase price based on the fair value of the assets acquired and the liabilities assumed at the date of acquisition:

Preliminary estimated purchase price	**$ 23,394**
Acquisition related costs included in selling, general and administrative expenses	164
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	$ 2,000
Current assets	5,265
Tangible fixed assets	426
Intangible assets	8,767
Deferred tax asset/ (liability), net	(2,557)

Other non-current assets	369
Current liabilities	(3,424)
Short term borrowings	(654)
Other liabilities	(737)
Total identifiable net assets acquired	**$ 9,455**
Goodwill	13,939
Total	**$ 23,394**

Goodwill recorded in connection with the Atyati acquisition amounted to $13,939, representing the excess of the preliminary estimated purchase price over the net assets (including deferred taxes) acquired, has been allocated to the India reporting unit and is not deductible for tax purposes. The amortizable intangible assets are being amortized over their estimated useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise realized.

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3. Business acquisitions (Continued)

The value and estimated useful lives of the intangibles are as follows:

	Value	Estimated useful life
Customer related intangibles	$ 5,408	4 9 years
Other intangibles	3,359	7 years

The weighted average amortization period in respect of the acquired intangible assets is 7 years. The results of operations of Atyati and the fair value of its assets and liabilities are included in the Company s Consolidated Financial Statements with effect from September 4, 2012, the date of acquisition.

(d) Triumph Engineering, Corp. and Triumph On-Demand, Inc.

On August 17, 2012, the Company acquired 100% of the outstanding equity interest in Triumph Engineering, Corp. and Triumph On-Demand Inc., both Ohio corporations (collectively the Triumph Companies). The Triumph Companies are U.S. based Providers of engineering services to the aviation, energy, and oil and gas industries. This acquisition provides the Company with capabilities in the engineering services space.

The Company acquired the Triumph Companies for initial cash consideration of $3,600, subject to adjustment based on working capital and closing indebtedness. The acquisition agreement provided for additional deferred consideration which had a discounted value of $379, and earn-out consideration (ranging from $0 to $4,500 based on gross profit for the years ending December 31, 2013 and 2014) which had an estimated fair value of $3,256.

Pursuant to the terms of the acquisition agreement with the seller, the purchase consideration is comprised of the following:

Cash consideration	$ 3,600
Acquisition date fair value of deferred consideration	379
Acquisition date fair value of earn-out consideration	3,256
Working capital adjustment	(848)
Closing indebtedness adjustment	(941)
Total purchase price	**$ 5,446**

During the period ended June 30, 2013, the Company recorded a measurement period adjustment which resulted in a decrease in the purchase consideration of $13 with a corresponding change to goodwill.

The acquisition has been accounted for under the acquisition method of accounting in accordance with ASC 805, Business Combinations. The assets and liabilities of the Triumph Companies were recorded at fair value at the date of acquisition. The following table summarizes the allocation of the purchase price based on the fair value of the assets acquired and the liabilities assumed at the date of acquisition:

Purchase price	**$ 5,446**
Acquisition related costs included in selling, general and administrative expenses	134
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	$ 312
Current assets	1,708
Tangible fixed assets	175
Intangible assets	382
Deferred tax asset/ (liability), net	(565)
Current liabilities	(720)
Short term borrowing	(350)
Total identifiable net assets acquired	**$ 942**
Goodwill	4,504
Total	**$ 5,446**

GENPACT LIMITED AND ITS SUBSIDIARIES

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(In thousands, except per share data and share count)

3. Business acquisitions (Continued)

Goodwill recorded in connection with the acquisition of the Triumph Companies amounted to $4,504, representing the excess of the purchase price over the net assets (including deferred taxes) acquired, has been allocated to the India reporting unit and is not deductible for tax purposes. The amortizable intangible assets are being amortized over their estimated useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise realized. The value and estimated useful lives of the intangibles are as follows:

	Value	Estimated useful life
Customer related intangibles	$ 382	1 to 10 years

The weighted average amortization period in respect of the acquired intangible assets is 8 years. The results of operations of the Triumph Companies and the fair value of the assets and liabilities are included in the Company s Consolidated Financial Statements with effect from August 17, 2012, the date of acquisition.

(e) Accounting Plaza B.V.

On April 25, 2012, the Company acquired 100% of the outstanding equity interest in Accounting Plaza B.V., a private limited liability company organized under the laws of the Netherlands (Accounting Plaza). Accounting Plaza is a provider of finance and accounting, human resources and PeopleSoft ERP services. This acquisition strengthens the Company s domain expertise in the retail industry and significantly expands its presence in Europe.

The Company acquired Accounting Plaza for cash consideration of $38,698 subject to adjustments based on transfer of pension funds, underfunding in pension funds, and sellers warranty breaches including certain other transactions and transaction costs. There are no contingent consideration arrangements in connection with the acquisition.

Pursuant to the terms of the acquisition agreement with the sellers, the purchase consideration is comprised of the following:

Initial consideration	$ 38,698
Adjustment for transfer of pension funds	
Adjustment for underfunding in pension funds	
Adjustment for sellers warranty breaches and certain other transactions	
Adjustment for transaction costs	
Purchase consideration	**$ 38,698**

The acquisition has been accounted for under the acquisition method of accounting in accordance with ASC 805, Business Combinations. The assets and liabilities of Accounting Plaza were recorded at fair value as of the date of acquisition. The following table summarizes the allocation of the purchase consideration based on the fair value of the assets acquired and the liabilities assumed as of the date of acquisition:

Purchase consideration	**$ 38,698**
Acquisition related costs included in selling, general and administrative expenses	434
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	$ 1,664
Current assets	11,327
Tangible fixed assets	2,010
Intangible assets	13,138
Deferred tax asset/ (liability), net	(2,711)
Other non-current assets	971
Current liabilities	(9,062)
Other liabilities	(4,188)
Total identifiable net assets acquired	**$ 13,149**
Goodwill	25,549
Total	**$ 38,698**

GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data and share count)

3. Business acquisitions (Continued)

The fair value of the current assets acquired included trade receivables with a fair value of $9,744. The gross amount due was $9,917, of which $173 was expected to be uncollectable.

During the period ended March 31, 2013, the Company recorded a measurement period adjustment which resulted in an increase in the purchase consideration by $107 with a corresponding increase in goodwill. The measurement period adjustments did not have a significant impact on our consolidated statements of income, balance sheets or cash flows in any period and, thus, were recorded in the consolidated balance sheet as of March 31, 2013.

Goodwill representing the excess of the purchase price over the fair value of the net assets (including deferred taxes) acquired is not deductible for tax purposes and has been allocated to the Europe reporting unit.

The amortizable intangible assets acquired are being amortized over their estimated useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise realized. The value and estimated useful life of the intangible asset is as follows:

	Value	Estimated useful life
Customer related intangible	$ 13,138	3 10 years

The weighted average amortization period in respect of the acquired intangible assets is 7 years. The results of operations of Accounting Plaza and the fair value of the assets and liabilities are included in the Company s Consolidated Financial Statements with effect from April 25, 2012, the date of acquisition.

B. Earn-out consideration and deferred consideration

The Company acquired Akritiv Technologies, Inc. (Akritiv), High Performance Partners, LLC (HPP), Empower Research, LLC (Empower), Atyati and the Triumph Companies on March 14, 2011, August 24, 2011, October 3, 2011, September 4, 2012 and August 17, 2012, respectively. The terms of the acquisition agreements for these business acquisitions provided for payment of additional earn-out consideration if certain future events or conditions are met. These earn-outs were recorded as liabilities based on their fair values as of the acquisition dates. The Company evaluates the fair value of earn-out consideration for the respective acquisitions for changes at each reporting period. As of June 30, 2013, the Company re-measured the fair value of such earn-out consideration with corresponding changes in the Consolidated Statements of Income as follows:

Decrease in fair value of earn-out consideration for Empower	$ (145)
Decrease in fair value of earn-out consideration for Triumph Companies	(1,409)
Decrease in fair value of earn-out consideration for Atyati	(717)
	$ (2,271)

Further, during the period ended June 30, 2013, the Company paid earn-out consideration of $85, $3,274 and $565 for HPP, Akritiv and Empower, respectively due to the fulfillment of certain earn-out conditions set forth in the acquisition agreements. Additionally, during the period ended June 30, 2013, the Company also paid deferred consideration of $617 to the Empower sellers pursuant to the terms of the acquisition agreement.

C. Divestitures

(a) Hello Communications (Shanghai) Co., Ltd.

On February 22, 2013, the Company completed the divestiture of Hello Communications (Shanghai) Co. Ltd., a subsidiary engaged in the business of providing offshore tele-sales and other voice-based support services to telecom carriers and IT/telecom equipment manufacturers in Asia for cash consideration of $998 resulting in loss of $447. The expected loss on sale was recorded within other income (expense), net in the Consolidated Statements of Income for the year ended December 31, 2012 and was not materially different from the actual realized loss. The balance of cash and cash equivalents of Hello Communications (Shanghai) Co., Ltd. on the date of sale was $2,047, resulting in a net cash outflow of $1,049. The results of operations of Hello Communications (Shanghai) Co., Ltd. are not material to the Company s results of operations or financial condition and, therefore, are not reflected as discontinued operations for the periods presented.

(b) Clearbizz B.V.

During the period ended June 30, 2013, the Company decided to divest or discontinue Clearbizz, B.V., a subsidiary engaged in the business of providing electronic invoicing services in the Netherlands. An amount of $1,325 has been reserved within other income (expense), net in the Consolidated Statements of Income representing the estimated loss on the said transaction. The results of operations of Clearbizz B.V. are not material to the Company s results of operations or financial condition and, therefore, are not reflected as discontinued operations for the periods presented.

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3. Business acquisitions (Continued)

(c) Gantthead.com, Inc.

During the period ended June 30, 2013, the Company decided to divest or discontinue Gantthead.com, Inc., a subsidiary engaged in the business of operating an online technology portal for project management. An amount of $2,336 has been reserved within other income (expense), net in the Consolidated Statements of Income representing estimated loss on the expected divestiture of Gantthead.com, Inc.. The results of operations of Gantthead.com, Inc. are not material to the Company s results of operations or financial condition and, therefore, are not reflected as discontinued operations for the periods presented.

4. Cash and cash equivalents

Cash and cash equivalents as of December 31, 2012 and June 30, 2013 comprise:

	As of December 31, 2012	As of June 30, 2013
Deposits with banks	$ 283,660	$ 332,642
Other cash and bank balances	175,568	186,485
Total	**$ 459,228**	**$ 519,127**

The cash and cash equivalents as of December 31, 2012 and June 30, 2013 include restricted cash balances of $628 and $826, respectively. Restrictions primarily consist of margin balances against bank guarantees and deposits for foreign currency advances on which the bank has created a lien.

5. Accounts receivable, net of reserve for doubtful receivables

The following table provides details of the reserve for doubtful receivables as recorded by the Company:

	As of December 31, 2012	As of June 30, 2013
Opening balance as at January 1	$ 8,704	$ 9,073
Additions due to acquisitions	184	
Additions charged to cost and expense	3,878	5,070
Deductions	(3,693)	(1,949)
Closing balance	$ 9,073	$ 12,194

Accounts receivable were $461,062 and $486,959 and the reserves for doubtful receivables were $9,073 and $12,194, resulting in net accounts receivable balances of $451,989 and $474,765 as of December 31, 2012 and June 30, 2013, respectively. In addition, accounts receivable due after one year of $19,140 and $19,180 as of December 31, 2012 and June 30, 2013, respectively are included under other assets in the Consolidated Balance Sheets.

Accounts receivable from related parties were $64 and $63, and the reserve for doubtful receivables were $35 and $0, resulting in net accounts receivable balances of $29 and $63, as of December 31, 2012 and June 30 2013, respectively.

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6. Fair Value Measurements

The Company measures certain financial assets and liabilities, including derivative instruments, at fair value on a recurring basis. The fair value measurements of these derivative instruments were determined using the following inputs as of December 31, 2012 and June 30, 2013:

	As of December 31, 2012 Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets				
Derivative Instruments (Note a)	$ 10,645	$	$ 10,645	$
Total	$ 10,645	$	$ 10,645	$
Liabilities				
Derivative Instruments (Note b)	$ 174,076	$	$ 174,076	$
Total	$ 174,076	$	$ 174,076	$

	As of June 30, 2013 Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets				
Derivative Instruments (Note a)	$ 11,590	$	$ 11,590	$
Total	$ 11,590	$	$ 11,590	$
Liabilities				
Derivative Instruments (Note b)	$ 232,100	$	$ 232,100	$
Total	$ 232,100	$	$ 232,100	$

(a) Included in prepaid expenses and other current assets and other assets in the consolidated balance sheets.
(b) Included in accrued expenses and other current liabilities and other liabilities in the consolidated balance sheets.

The following table sets forth the reconciliation of loans held for sale that were outstanding as of June 30, 2012 but settled during the year ended December 31, 2012, which were measured at fair value using significant unobservable inputs:

	Three months ended June 30, 2012	Six months ended June 30, 2012
Opening balance, net	$ 448	$ 469
Impact of fair value included in earnings	(88)	(108)
Settlements		(1)
Closing balance, net	$ 360	$ 360

The Company values its derivative instruments based on market observable inputs including both forward and spot prices for respective currencies. The quotes are taken from an independent market database.

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7. Derivative financial instruments

The Company is exposed to the risk of rate fluctuations on foreign currency assets and liabilities, and foreign currency denominated forecasted cash flows. The Company has established risk management policies, including the use of derivative financial instruments to hedge foreign currency assets and liabilities, and foreign currency denominated forecasted cash flows. These derivative financial instruments are largely deliverable and non-deliverable forward foreign exchange contracts. The Company enters into these contracts with counterparties which are banks or other financial institutions, and the Company considers the risk of non-performance by the counterparties to be not material. The forward foreign exchange contracts mature between zero and forty-two months and the forecasted transactions are expected to occur during the same period.

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

	Notional principal amounts (Note a)		Balance sheet exposure asset (liability) (Note b)	
	As of December 31, 2012	As of June 30, 2013	As of December 31, 2012	As of June 30, 2013
Foreign exchange forward contracts denominated in:				
United States Dollars (sell) Indian Rupees (buy)	$ 1,706,000	$ 1,621,000	$ (160,432)	$ (227,629)
United States Dollars (sell) Mexican Peso (buy)	8,400	15,600	306	(259)
United States Dollars (sell) Philippines Peso (buy)	58,800	64,900	2,237	(1,945)
Euro (sell) United States Dollars (buy)	79,501	76,512	(420)	155
Euro (sell) Hungarian Forints (buy)	9,968	6,894	(10)	55
Euro (sell) Romanian Leu (buy)	64,870	71,291	(645)	485
Japanese Yen (sell) Chinese Renminbi (buy)	26,214	36,838	1,451	3,220
Pound Sterling (sell) United States Dollars (buy)	92,165	86,703	(2,494)	1,946
Australian Dollars (sell) United States Dollars (buy)	60,626	66,406	(3,424)	3,462
			$ (163,431)	$ (220,510)

(a) Notional amounts are key elements of derivative financial instrument agreements but do not represent the amount exchanged by counterparties and do not measure the Company s exposure to credit or market risks. However, the amounts exchanged are based on the notional amounts and other provisions of the underlying derivative financial instruments agreements.

(b) Balance sheet exposure is denominated in U.S. Dollars and denotes the mark-to-market impact of the derivative financial instruments on the reporting date.

FASB guidance on Derivatives and Hedging requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position. In accordance with the FASB guidance on Derivatives and Hedging, the Company designates foreign exchange forward contracts as cash flow hedges for forecasted revenues and the purchase of services. In addition to this program, the Company has derivative instruments that are not accounted for as hedges under the FASB guidance in order to hedge the foreign exchange risks related to balance sheet items such as receivables and inter-company borrowings denominated in currencies other than the underlying functional currency.

The fair value of the derivative instruments and their location in the financial statements of the Company is summarized in the table below:

	Cash flow hedges		Non-designated	
	As of December 31, 2012	As of June 30, 2013	As of December 31, 2012	As of June 30, 2013
Assets				
Prepaid expenses and other current assets	$ 6,972	$ 8,503	$ 1,742	$ 333
Other assets	$ 1,931	$ 2,754	$	$
Liabilities				
Accrued expenses and other current liabilities	$ 60,229	$ 80,122	$ 1,417	$ 13,471
Other liabilities	$ 112,430	$ 138,507	$	$

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7. Derivative financial instruments (Continued)

Cash flow hedges

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain (loss) on the derivative instrument is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction is recognized in the consolidated statements of income. Gains (losses) on the derivatives representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in earnings as incurred.

In connection with cash flow hedges, the gains (losses) recorded as a component of other comprehensive income (loss) or OCI and the related tax affect are summarized below:

	Three months ended June 30, 2012			Three months ended June 30, 2013			Six months ended June 30, 2012			Six months ended June 30, 2013		
	Before-Tax amount	Tax (Expense) or Benefit	Net of tax Amount	Before-Tax amount	Tax (Expense) or Benefit	Net of tax Amount	Before-Tax amount	Tax (Expense) or Benefit	Net of tax Amount	Before-Tax amount	Tax (Expense) or Benefit	Net of tax Amount
Opening balance	$ (135,486)	$ (48,132)	$ (87,354)	$ (134,217)	$ (49,061)	$ (85,156)	$ (203,006)	$ (71,125)	$ (131,881)	$ (163,756)	$ (59,070)	$ (104,686)
Net gains (losses) reclassified into statement of income on completion of hedged transactions	(6,959)	(2,379)	(4,580)	(13,645)	(5,382)	(8,263)	(6,840)	(2,253)	(4,587)	(20,885)	(8,302)	(12,583)
Changes in fair value of effective portion of outstanding derivatives, net	(127,035)	(44,687)	(82,348)	(86,801)	(29,560)	(57,241)	(59,396)	(21,568)	(37,828)	(64,502)	(22,471)	(42,031)
Gain (loss) on cash flow hedging derivatives, net	(120,076)	(42,308)	(77,768)	(73,156)	(24,178)	(48,978)	(52,556)	(19,315)	(33,241)	(43,617)	(14,169)	(29,448)

Closing balance as of June 30	**$ (255,562)**	**$ (90,440)**	**$ (165,122)**	**$ (207,373)**	**$ (73,239)**	**$ (134,134)**	**$ (255,562)**	**$ (90,440)**	**$ (165,122)**	**$ (207,373)**	**$ (73,239)**	**$ (134,134)**

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7. Derivative financial instruments (Continued)

The gains or losses recognized in other comprehensive income (loss), and their effect on financial performance are summarized below:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) recognized in OCI on Derivatives (Effective Portion)		Location of Gain (Loss) reclassified from OCI into Statement of Income (Effective Portion)	Amount of Gain (Loss) reclassified from OCI into Statement of Income (Effective Portion)				Location of Gain (Loss) recognized in Income on Derivatives (Ineffective Portion and Amount excluded from Effectiveness Testing)	Amount of Gain (Loss) recognized in income on Derivative (Ineffective Portion and Amount excluded from Effectiveness Testing)			
	Six months ended June 30,			Three months ended June 30,		Six months ended June 30,			Three months ended June 30,		Six months ended June 30,	
	2012	2013		2012	2013	2012	2013		2012	2013	2012	2013
Forward foreign exchange contracts	$ (59,396)	$ (64,502)	Revenue	$ (1,156)	$ 2,386	$ (2,442)	$ 3,367	Foreign exchange (gains) losses, net	$	$	$	$
			Cost of revenue	(4,518)	(13,007)	(3,411)	(19,616)					
			Selling, general and administrative expenses	(1,286)	(3,024)	(987)	(4,636)					
	$ (59,396)	$ (64,502)		$ (6,960)	$ (13,645)	$ (6,840)	$ (20,885)		$	$	$	$

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7. Derivative financial instruments (Continued)

Non designated Hedges

Derivatives not designated as hedging instruments	Location of (Gain) Loss recognized in Statement of Income on Derivatives	Amount of (Gain) Loss recognized in Statement of Income on Derivatives — Three months ended June 30, 2012	Three months ended June 30, 2013	Six months ended June 30, 2012	Six months ended June 30, 2013
Forward foreign exchange contracts (Note a)	Foreign exchange (gains) losses, net	$ 10,566	$ 13,586	$ 1,587	$ 9,585
		$ 10,566	**$ 13,586**	**$ 1,587**	**$ 9,585**

(a) These forward foreign exchange contracts were entered into to hedge the fluctuations in foreign exchange rates for recognized balance sheet items such as receivables and inter-company borrowings, and were not originally designated as hedges under FASB guidance on derivatives and hedging. Realized (gains) losses and changes in the fair value of these derivatives are recorded in foreign exchange (gains) losses, net in the consolidated statements of income.

8. Property, plant and equipment, net

Property, plant and equipment, net consist of the following:

	As of December 31, 2012	As of June 30, 2013
Property, plant and equipment, gross	$ 513,540	$ 496,435
Less: Accumulated depreciation and amortization	(313,178)	(315,829)
Property, plant and equipment, net	$ 200,362	$ 180,606

Depreciation expense on property, plant and equipment for the six months ended June 30, 2012 and 2013 was $22,422, and $23,417, respectively, and for the three months ended June 30, 2012 and 2013 was $11,316 and $11,984, respectively. The amount of computer software amortization for the six months ended June 30, 2012 and 2013 was $5,958, and $5,103, respectively and for the three months ended June 30, 2012 and 2013 was $2,987 and $2,546, respectively.

The above depreciation and amortization expense includes the effect of reclassification of foreign exchange (gains) losses related to the effective portion of the foreign currency derivative contracts amounting to $235 and $1,202 for the six months ended June 30, 2012 and 2013, respectively, and $312 and $791 for the three months ended June 30, 2012 and 2013, respectively.

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9. Goodwill and intangible assets

The following table presents the changes in goodwill for the year ended December 31, 2012 and six months ended June 30, 2013:

	As of December 31, 2012	As of June 30, 2013
Opening balance	$ 925,339	$ 956,064
Goodwill relating to acquisitions consummated during the period	43,265	35,915
Adjustment to preliminary purchase accounting for acquisitions	(3,213)	727
Effect of exchange rate fluctuations	(9,327)	(29,773)
Closing balance	$ 956,064	$ 962,933

The total amount of goodwill deductible for tax purposes is $6,779 and $39,139 as of December 31, 2012 and June 30, 2013, respectively.

The Company s intangible assets acquired either individually or with a group of other assets or in a business combination are as follows:

	As of December 31, 2012			As of June 30, 2013		
	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Customer-related intangible assets	$ 291,735	$ 206,987	$ 84,748	$ 291,314	$ 208,124	$ 83,190
Marketing-related intangible assets	40,386	18,801	21,585	40,907	18,771	22,136
Contract-related intangible assets	1,182	1,182		1,085	1,085	
Other intangible assets	7,069	1,015	6,054	8,075	1,614	6,461
	$ 340,372	$ 227,985	$ 112,387	$ 341,381	$ 229,594	$ 111,787

Amortization expenses for intangible assets as disclosed in the consolidated statements of income under amortization of acquired intangible assets for the six months ended June 30, 2012 and 2013 were $11,080 and $11,736, respectively, and for the three months ended June 30, 2012 and 2013 were $5,790 and $6,185, respectively. Intangible assets recorded for the 2004 Reorganization include the incremental value of the minimum volume commitment from GE, entered into contemporaneously with the 2004 Reorganization, over the value of the pre-existing customer relationship with GE. The amortization of this intangible asset for the six months ended June 30, 2012 and 2013 was $38 and $0, respectively, and for the three months ended June 30, 2012 and 2013 was $18 and $0, respectively, and has been reported as a reduction of revenue.

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10. Employee benefit plans

The Company has employee benefit plans in the form of certain statutory and other schemes covering its employees.

Defined benefit plans

In accordance with Indian law, the Company provides a defined benefit retirement plan (the Gratuity Plan) covering substantially all of its Indian employees. In addition, in accordance with Mexican law, the Company provides termination benefits to all of its Mexican employees. In addition, some of the Company s subsidiaries in the Philippines and Japan have sponsored defined benefit retirement programs.

Net defined benefit plan costs for the three months and six months ended June 30, 2012 and 2013 include the following components:

	Three months ended June 30,		Six months ended June 30,	
	2012	2013	2012	2013
Service costs	$ 961	$ 810	$ 1,974	$ 1,746
Interest costs	445	436	915	887
Amortization of actuarial loss	166	283	339	450
Expected return on plan assets	(202)	(209)	(412)	(429)
Net Gratuity Plan costs	$ 1,370	$ 1,320	$ 2,816	$ 2,654

Defined contribution plans

During the three months and six months ended June 30, 2012 and 2013, the Company contributed the following amounts to defined contribution plans in various jurisdictions:

	Three months ended June 30,		Six months ended June 30,	
	2012	2013	2012	2013
India	$ 3,439	$ 3,784	$ 6,917	$ 7,489
U.S.	739	694	1,766	1,941
U.K.	442	571	750	947
Hungary	7	6	46	12
China	2,958	3,413	5,791	6,882
Mexico	4	6	21	20
Morocco	59	21	89	51
South Africa	84	57	164	126
Hong Kong	9	5	17	11
Philippines	4	4	7	8

Singapore		3		6
Netherlands	429	726	429	1,082