Genpact LTD
Form 10-Q
August 14, 2008

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, 2008

Or

o **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
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 o

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

The number of the registrant s common shares, par value $0.01 per share, outstanding as of August 11, 2008 was 213,921,752.

TABLE OF CONTENTS

PART I

Item 1. Financial Statements

GENPACT LIMITED AND ITS SUBSIDIARIES

Consolidated Balance Sheets

(unaudited)

(In thousands, except per share data)

	Notes		As of December 31, 2007		As of June 30, 2008
Assets					
Current assets					
Cash and cash equivalents	3	$	279,306	$	297,978
Accounts receivable, net	4		99,354		131,377
Accounts receivable from a significant shareholder, net	4		93,307		89,993
Short term deposits with a significant shareholder			35,079		25,602
Deferred tax assets			9,683		8,956
Due from a significant shareholder			8,977		6,084
Prepaid expenses and other current assets			146,155		130,650
Total current assets			**671,861**		**690,640**
Property, plant and equipment, net	7		195,660		177,959
Deferred tax assets			2,196		58,580
Investment in equity affiliate			197		760
Customer-related intangible assets, net	8		99,257		77,390
Other intangible assets, net	8		10,375		7,491
Goodwill	8		601,120		588,741
Other assets			162,800		79,858
Total assets		**$**	**1,743,466**	**$**	**1,681,419**

See accompanying notes to the Consolidated Financial Statements.

GENPACT LIMITED AND ITS SUBSIDIARIES

Consolidated Balance Sheets

(unaudited)

(In thousands, except per share data)

		As of December 31, 2007		As of June 30, 2008
Liabilities and shareholders equity				
Current liabilities				
Current portion of long-term debt	$	19,816	$	19,872
Current portion of long-term debt from a significant shareholder		1,125		1,231
Current portion of capital lease obligations		38		40
Current portion of capital lease obligations payable to a significant shareholder		1,826		1,666
Accounts payable		12,446		11,110
Income taxes payable		7,035		21,372
Deferred tax liabilities		20,561		6,206
Due to a significant shareholder		8,930		8,736
Accrued expenses and other current liabilities		197,298		244,821
Total current liabilities	**$**	**269,075**	**$**	**315,054**
Long-term debt, less current portion		100,041		90,090
Long-term debt from a significant shareholder, less current portion		2,740		2,352
Capital lease obligations, less current portion		137		120
Capital lease obligations payable to a significant shareholder, less current portion		2,969		2,503
Deferred tax liabilities		40,738		12,626
Due to a significant shareholder		8,341		6,525
Other liabilities		65,630		192,197
Total liabilities	**$**	**489,671**	**$**	**621,467**
Minority interest		3,066		2,841
Shareholders equity				
Preferred shares, $0.01 par value, 250,000,000 authorized, none issued				
Common shares, $0.01 par value, 500,000,000 authorized, 212,101,874 and 213,861,157 issued and outstanding as of December 31, 2007 and June 30, 2008, respectively		2,121		2,139
Additional paid-in capital		1,000,179		1,017,344
Retained earnings		26,469		70,979
Accumulated other comprehensive income (loss)		221,960		(33,351)
Total shareholders equity		**1,250,729**		**1,057,111**
Commitments and contingencies				
Total liabilities, minority interest and shareholders equity	**$**	**1,743,466**	**$**	**1,681,419**

See accompanying notes to the Consolidated Financial Statements.

GENPACT LIMITED AND ITS SUBSIDIARIES

Consolidated Statements of Income

(Unaudited)

(In thousands, except per share data)

	Notes	Three months ended June 30, 2007	Three months ended June 30, 2008	Six months ended June 30, 2007	Six months ended June 30, 2008
Net revenues					
Net revenues from services significant shareholder	17	$ 124,218	$ 125,851	$ 244,990	$ 240,174
Net revenues from services others		76,041	127,721	130,473	248,008
Other revenues		427	4	1,382	20
Total net revenues	**2(f)**	200,686	253,576	376,845	488,202
Cost of revenue					
Services	2(f),13,17	120,444	147,092	228,566	293,173
Others	13	299	-	1,034	
Total cost of revenue		120,743	147,092	229,600	293,173
Gross profit		**79,943**	**106,484**	**147,245**	**195,029**
Operating expenses:					
Selling, general and administrative expenses	2(f),14,17	52,516	66,632	100,644	128,769
Amortization of acquired intangible assets	8	9,437	9,601	18,629	19,825
Other operating (income) expense, net	17	(1,160)	1,073	(1,723)	(64)
Income from operations		**$ 19,150**	**$ 29,178**	**$ 29,695**	**$ 46,499**
Foreign exchange (gains) losses, net	2(f)	(431)	883	(457)	(5,833)
Other income (expense), net	15	(3,498)	3,148	(7,078)	5,022
Income before share of equity in (earnings) loss of affiliate, minority interest and income tax expense		**16,083**	**31,443**	**23,074**	**57,354**
Equity in loss of affiliate		7	110	80	319
Minority interest		2,788	3,141	3,692	5,982
Income taxes expense		6,195	3,376	10,363	6,543
Net Income		**$ 7,093**	**$ 24,816**	**$ 8,939**	**$ 44,510**
Net income (loss) available to common shareholders	12	(11,913)	24,816	(26,613)	44,510
Earnings (loss) per common share -	12				
Basic		$ (0.17)	$ 0.12	$ (0.39)	$ 0.21
Diluted		$ (0.17)	$ 0.11	$ (0.39)	$ 0.20
Weighted average number of common shares used in computing earnings (loss) per common share -					
Basic		69,462,052	213,001,442	68,841,133	212,599,543

Diluted	69,462,052	218,863,648	68,841,133	218,151,069

See accompanying notes to the Consolidated Financial Statements.

GENPACT LIMITED AND ITS SUBSIDIARIES

Consolidated Statements of Shareholders Equity and Comprehensive Income (Loss)

(Unaudited)

(In thousands, except share data)

	2% Cumulative Series A Convertible Preferred stock Shares (Nos)	2% Cumulative Series A Convertible Preferred stock Amounts	5% Cumulative Series B Convertible Preferred stock Shares (Nos)	5% Cumulative Series B Convertible Preferred stock Amounts	Common shares Shares (Nos)	Common shares Amounts	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Common shares (Nos)	Treasury Stock Series A Preferred stock (Nos)	Treasury Stock Amounts	Total Shareholders Equity	Comprehensive Income (Loss)
Balance as of January 1, 2007	**3,077,868**	**$ 95,414**	**3,017,868**	**$ 93,554**	**71,390,738**	**$ 714**	**$ 494,325**	**$ 5,978**	**$ (15,295)**	**(3,628,130)**	**(59,000)**	**$ (49,995)**	**$ 624,695**	
Issuance of Common shares on exercise of options					355,830	4	1,221						1,225	
Treasury Stock issued in business combination							8,045			1,442,316		15,220	23,265	
Cancellation of common shares held in treasury					(2,032,050)	(20)	(21,424)			2,032,050		21,444		
Repurchase and retirement of Common shares from employees					(106,007)	(1)	(1,709)						(1,710)	
Repurchase and retirement of Cumulative Series A convertible Preferred stock from employees	(522)	(16)					(126)						(142)	
Repurchase and retirement of Cumulative Series B convertible Preferred stock from employees			(522)	(16)			(126)						(142)	
Share-based compensation expense (note 11)							5,231						5,231	
Accrual of dividend on Preferred stock							33,463	(33,463)						
Comprehensive income:														
Net income								8,939					8,939	$ 8,939
Other comprehensive income:														

Unrealized gain on cash flow hedging derivatives, net of taxes									93,678				93,678	93,678
Currency translation adjustments									74,524				74,524	74,524
Comprehensive income (loss)														$ 177,141
Balance as of June 30, 2007	**3,077,346**	**$ 95,398**	**3,017,346**	**$ 93,538**	**69,608,511**	**$ 697**	**$ 518,900**	**$ (18,546)**	**$ 152,907**	**(153,764)**	**(59,000)**	**$ (13,331)**	**$ 829,563**	

See accompanying notes to the Consolidated Financial Statements.

GENPACT LIMITED AND ITS SUBSIDIARIES

Consolidated Statements of Shareholders Equity and Comprehensive Income (Loss)

(Unaudited)

(In thousands, except share data)

	Common shares No. of shares	Common shares Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity	Comprehensive Income (Loss)
Balance as of January 1, 2008	**212,101,874**	**$ 2,121**	**$ 1,000,179**	**$ 26,469**	**$ 221,960**	**$ 1,250,729**	
Issuance of common shares on exercise of options (including the fringe benefit tax recovered)	1,759,283	18	8,856			8,874	
Share-based compensation expense (Note 11)			8,309			8,309	
Comprehensive income:							
Net income				44,510		44,510	$ 44,510
Other comprehensive income:							
Unrealized loss on cash flow hedging derivatives, net of taxes					(175,703)	(175,703)	(175,703)
Currency translation adjustments					(79,608)	(79,608)	(79,608)
Comprehensive income (loss)							$ (210,801)
Balance as of June 30, 2008	**213,861,157**	**$ 2,139**	**$ 1,017,344**	**$ 70,979**	**$ (33,351)**	**$ 1,057,111**	

See accompanying notes to the Consolidated Financial Statements.

GENPACT LIMITED AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Six months ended June 30, 2007		Six months ended June 30, 2008	
Operating activities				
Net income	$	8,939	$	44,510
Adjustments to reconcile net income to net cash provided by (used for) operating activities:				
Depreciation and amortization		22,509		28,952
Amortization of debt issue costs		318		332
Amortization of acquired intangible assets		19,155		20,325
Loss (gain) on sale of property, plant and equipment, net		40		2,228
Provision for doubtful receivables		1,675		2,022
Provision for mortgage loans				580
Unrealized (gain) loss on revaluation of foreign currency asset/liability		1,647		(2,684)
Equity in loss of affiliate		80		319
Minority interest		3,692		5,982
Share-based compensation expense		5,231		8,309
Deferred income taxes		(1,799)		(9,932)
Change in operating assets and liabilities:				
Decrease (increase) in accounts receivable		(14,883)		(30,341)
Decrease (increase) in other assets		(462)		(16,380)
(Decrease) increase in accounts payable		3,818		(1,164)
(Decrease) increase in accrued expenses and other current liabilities		(8,514)		(3,856)
(Decrease) increase in income taxes payable		7,741		14,220
(Decrease) increase in other liabilities		3,608		5,959
Net cash provided by operating activities	**$**	**52,795**	**$**	**69,381**
Investing activities				
Purchase of property, plant and equipment		(23,289)		(31,921)
Proceeds from sale of property, plant and equipment		1,156		3,790
Investment in affiliates		(455)		(883)
Short term deposits placed		(73,561)		(122,673)
Redemption of short term deposits		62,313		129,627
Payment for business acquisition, net of cash acquired		(14,771)		
Net cash used in investing activities	**$**	**(48,607)**	**$**	**(22,060)**
Financing activities				
Repayment of capital lease obligations		(1,381)		(1,356)
Proceeds from long-term debt		1,525		
Repayment of long-term debt		(10,711)		(10,458)
Short-term borrowings, net		14,675		
Repurchase of common shares and preferred stock		(1,995)		
Deferred IPO cost		(1,492)		
Proceeds from issuance of common shares on exercise of options		1,225		8,874
Payment to minority shareholders		(2,104)		(5,631)
Net cash used by financing activities	**$**	**(258)**	**$**	**(8,571)**

Effect of exchange rate changes		9,664		(20,078)
Net increase (decrease) in cash and cash equivalents		3,930		38,750
Cash and cash equivalents at the beginning of the period		35,430		279,306
Cash and cash equivalents at the end of the period	**$**	**49,024**	**$**	**297,978**
Supplementary information				
Cash paid during the period for interest	$	7,318	$	3,404
Cash paid during the period for income taxes	$	4,337	$	12,937
Property, plant and equipment acquired under capital lease obligation	$	930	$	1,057
Shares issued for business acquisition	$	23,265	$	

See accompanying notes to the Consolidated Financial Statements.

GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data)

1. Nature of Operations

(a) Organization

Genpact Limited (the Company) was incorporated in Bermuda on March 29, 2007 as a subsidiary of Genpact Global Holdings SICAR S.à.r.l. (GGH) with the intent of making it the new holding company of our business. On July 13, 2007, the Company effectuated a transaction that resulted in the shareholders of GGH exchanging their common stock in GGH for common shares of the Company, and the shareholders of Genpact Global (Lux) S.à.r.l. (GGL) exchanging their preferred and common stock in GGL for common shares of the Company. As a result, Genpact Limited became the owner of all the capital stock of GGL and GGH. This transaction and other related transactions commencing on this date are referred to as the 2007 Reorganization.

We use the terms Genpact , Company , we and us to refer to both GGH and its subsidiaries prior to July 13, 2007 and Genpact Limit subsidiaries after such date.

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 a newly formed entity, GGH.

(b) Nature of Operations

The Company manages business processes for companies worldwide, combining its process expertise, information technology expertise and analytical capabilities, together with operational insight derived from its experience in diverse industries, to provide a wide range of services using its global delivery platform. The Company s service offerings include finance and accounting, collections and customer service, insurance services, supply chain and procurement, analytics, enterprise application services and IT infrastructure services. The Company delivers services from a global network of more than 30 locations in nine countries. The Company s service delivery locations, referred to as Delivery Centers, are in India, China, Hungary, Mexico, the Philippines, the Netherlands, Romania, Spain and the United States (U.S.).

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 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, 2007.

The unaudited interim consolidated financial statements reflect all adjustments, which 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 unaudited interim consolidated 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 minority interest disclosed in the unaudited interim consolidated financial statements represents the minority partners interest in the operation of Genpact Netherlands B.V. and the profits associated with the minority partners interest in those operations. The minority partners are individually liable for the tax obligations on their share of profit and, accordingly, minority interest has been computed prior to tax and disclosed accordingly in the unaudited interim consolidated statements of income.

GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data)

2. Summary of significant accounting policies (continued)

(b) Use of estimates

The preparation of consolidated financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in consolidated financial statements. Significant items subject to such estimates and assumptions include the useful lives of property, plant and equipment, carrying amount of property, plant and equipment, intangibles and goodwill, provision for doubtful receivables and valuation allowance for deferred tax assets, valuation of derivative financial instruments, measurements of share-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 unaudited interim consolidated financial statements are prudent and reasonable. Although these estimates are based upon management s best knowledge of current events and actions, actual results could differ from these estimates.

(c) 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 with corporations and banks with high investment grade ratings. Short term deposits are with GE, a significant shareholder, and with other financial institutions of repute. To reduce its credit risk on accounts receivable, the Company performs an ongoing credit evaluation of customers. GE accounted for 48% and 41% of receivables as of December 31, 2007 and June 30, 2008, respectively. GE accounted for 65% and 49% of revenues for the six months ended June 30, 2007 and 2008, respectively, and for 62% and 50% of revenues for the three months ended June 30, 2007 and 2008, respectively.

(d) Recently adopted accounting pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value , establishes a framework for the measurement of fair value and enhances disclosures about fair value measurements. The statement does not require any new fair value measures but its provisions apply when fair value measurements are performed under other accounting pronouncements. In February 2008, the FASB approved FASB Staff Position No.157-2, Effective Date of FASB statement No. 157 , which grants a one-year deferral of SFAS No. 157 s fair-value measurement requirements for non-financial assets and liabilities, except for items that are measured or disclosed at fair value in the financial statements on a recurring basis. Effective January 1, 2008, the Company adopted SFAS No. 157 for financial assets and liabilities recognized at fair value on a recurring basis. The partial adoption of SFAS No. 157 for financial assets and liabilities did not have a material impact on the Company s financial position and results of operations. See note 5 for information and related disclosures regarding our fair value measurements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an Amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 permits entities to elect to measure many financial instruments and certain other eligible items at fair value. The issuance of SFAS No. 159 is expected to expand the use of fair value measurement in the preparation of financial statements. However, SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. Effective January 1, 2008, the Company adopted the provisions of SFAS No. 159. The Company has not elected to use fair value measurements under SFAS No. 159 with respect to any existing eligible instruments.

(e) Recently issued accounting pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141R), which is a revision of SFAS No. 141, Business Combinations . This Statement establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Company will be required to comply with the provisions of SFAS No. 141R for acquisitions made in fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact of SFAS No. 141R on its consolidated financial statements.

GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data)

2. Summary of significant accounting policies (continued)

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 establishes accounting and reporting standards that require (i) the ownership interest in subsidiaries held by parties other than the parent to be clearly identified and presented in the consolidated balance sheet within equity, but separate from the parent s equity, (ii) the amount of consolidated net income attributable to the parent and the non-controlling interest to be clearly identified and presented on the face of the consolidated statement of income, and (iii) changes in a parent s ownership interest while the parent retains its controlling financial interest in its subsidiary to be accounted for consistently. SFAS No. 160 applies to fiscal years beginning after December 15, 2008. Earlier adoption is prohibited. The Company is currently evaluating the impact of SFAS No. 160 on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (SFAS No. 161). SFAS No. 161 requires enhanced disclosures about an entity s derivative instruments and hedging activities with a view toward improving the transparency of financial reporting. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged, however does not require comparative disclosures for earlier periods at initial adoption. The Company is currently evaluating the impact of adopting SFAS No. 161 on its consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position No. 142-3, Determination of the Useful Life of Intangible Assets (FSP FAS No. 142-3). FSP FAS No. 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under FASB Statement No. 142, Goodwill and Other Intangible Assets . This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. FSP FAS No. 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Early adoption is prohibited. The Company is currently evaluating the impact of adopting FSP FAS No. 142-3 on its consolidated financial statements.

(f) Reclassification

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

In the second quarter of 2008, the Company reclassified certain amounts relating to the effective portion of the (gains) losses on foreign currency derivative contracts in order to clearly reflect the Company s costs, including the impact of its foreign exchange hedging strategy. Such (gains) losses have been reclassified from Foreign exchange (gains) losses, net to the underlying hedged item and disclosed within Income from operations as part of Total net revenues , Cost of revenue or Selling, general and administrative expenses , as applicable. Further, Foreign exchange (gains) losses, net have been reclassified from operating income to non-operating income, and disclosed separately, and include the ineffective portion of the (gains) losses on foreign currency derivative contracts as well as all other foreign exchange (gains) losses.

	Three months ended June 30, 2007		Six months ended June 30, 2007	
	As Originally reported	As Reclassified	As Originally reported	As Reclassified
Total net revenues	$ 200,492	$ 200,686	$ 376,473	$ 376,845
Cost of revenue	128,547	120,743	238,432	229,600
Gross profit	71,945	79,943	138,041	147,245
Selling, general and administrative expenses	55,565	52,516	104,120	100,644
Foreign exchange (gains) losses, net	(11,478)		(13,137)	
Income from operations	19,581	19,150	30,152	29,695
Foreign exchange (gains) losses, net		(431)		(457)
Income before share of equity in (earnings) loss of affiliate, minority interest and income tax expense	$ 16,083	$ 16,083	$ 23,074	$ 23,074

GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data)

3. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2007 and June 30, 2008 are comprised of the following:

		As of December 31, 2007		As of June 30, 2008
Deposits with banks	$	218,824	$	233,519
Other cash and bank balances		60,482		64,459
	$	279,306	$	297,978

4. Accounts receivable, net of provision for doubtful receivables

Accounts receivable were $198,166 and $228,265, and provision for doubtful receivables was $5,505 and $6,895, resulting in net accounts receivable balances of $192,661 and $221,370, as of December 31, 2007 and June 30, 2008, respectively.

Accounts receivable from a significant shareholder, GE, were $95,018 and $91,911, and provision for doubtful receivables was $1,711 and $1,918, resulting in net accounts receivable balances of $93,307 and $89,993, as of December 31, 2007 and June 30, 2008, respectively.

5. Financial Instruments

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including derivative instruments and loans held for sale. The fair value measurements of these derivative instruments and loans held for sale were determined using the following inputs of June 30, 2008:

	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Other Unobservable Inputs

		Total		(Level 1)		(Level 2)		(Level 3)
Assets								
Derivative Instruments (Note a)	$	38,017	$		$	38,017	$	
Loans held for sale (Note a)		1,265						1,265
Total	$	39,282	$		$	38,017	$	1,265
Liabilities								
Derivative Instruments (Note b)	$	159,544	$		$	159,544	$	
Total	$	159,544	$		$	159,544	$	

(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.

Following is the reconciliation of loans held for sale which have been measured at fair value using significant unobservable inputs:

GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data)

5. Financial Instruments (continued)

	Three months ended June 30, 2008		Six months ended June 30, 2008	
Opening balance, net	$	1,265	$	1,743
Impact of fair value included in earnings (Refer note 9)				(478)
Closing balance	$	1,265	$	1,265

6. Derivative financial instruments

The Company is exposed to foreign currency fluctuations on foreign currency assets and forecasted cash flows denominated in a foreign currency. The Company has established risk management policies, including the use of derivative financial instruments to hedge foreign currency assets and foreign currency forecasted cash flows. These derivative financial instruments are largely forward foreign exchange contracts. The counterparties are reputable banks and the Company considers the risks of non-performance by the counterparties as non-material. The forward foreign exchange contracts mature between one to 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 the outstanding derivative financial instruments together with the related balance sheet exposure:

	Notional principal amounts as of (Note a)				Balance sheet exposure asset (liability) as of (Note b)			
	December 31, 2007		June 30, 2008		December 31, 2007		June 30, 2008	
Foreign exchange forward contracts denominated in:								
United States Dollars (sell) Indian Rupees (buy)	$	1,867,500	$	2,384,000	$	154,736	$	(113,146)
United States Dollars (sell) Mexican Peso (buy)		24,500		12,000		608		1,183
United States Dollars (sell) Philippines Peso (buy)		9,400		6,300		421		(299)
Euro (sell) Hungarian Forints (buy)		30,406		30,819		1,650		2,281
Euro (sell) Romanian Leu (buy)		119,024		106,356		(9,163)		(12,279)
Japanese Yen (sell) Chinese Renminbi (buy)		27,164		34,722		1,567		237
Pound Sterling (sell) United States Dollars (buy)		51,053		25,674		558		495
Australian Dollars (sell) United States Dollars (buy)				2,826				1
Interest rate swaps (floating to fixed)		30,000				40		