Genpact LTD
Form 10-Q
August 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period ended June 30, 2018

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 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 No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section l3(a) of the Exchange Act.

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

The number of the registrant’s common shares, par value $0.01 per share, outstanding as of August 2, 2018 was 189,949,196.

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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, 2017	As of June 30, 2018
Assets			
Current assets			
Cash and cash equivalents	4	$ 504,468	$333,903
Accounts receivable, net	5	693,085	691,347
Prepaid expenses and other current assets	8	236,342	207,334
Total current assets		$ 1,433,895	$1,232,584
Property, plant and equipment, net	9	207,030	202,669
Deferred tax assets	24	76,929	88,278
Investment in equity affiliates	25	886	834
Intangible assets, net	10	131,590	120,624
Goodwill	10	1,337,122	1,311,361
Contract cost assets	19	—	162,178
Other assets		262,169	147,550
Total assets		$ 3,449,621	$3,266,078
Liabilities and equity			
Current liabilities			
Short-term borrowings	11	$ 170,000	$215,000
Current portion of long-term debt	12	39,226	39,249
Accounts payable		15,050	20,942
Income taxes payable	24	30,026	54,513
Accrued expenses and other current liabilities	13	584,482	483,241
Total current liabilities		$ 838,784	$812,945
Long-term debt, less current portion	12	1,006,687	987,314
Deferred tax liabilities	24	6,747	7,036
Other liabilities	14	168,609	162,358
Total liabilities		$ 2,020,827	$1,969,653
Redeemable non-controlling interest		4,750	—
Shareholders' equity			
Preferred shares, $0.01 par value, 250,000,000 authorized, none issued		—	—
Common shares, $0.01 par value, 500,000,000 authorized, 192,825,207 and 189,876,061 issued and outstanding as of December 31, 2017 and June		1,924	1,895

30, 2018, respectively			
Additional paid-in capital		1,421,368	1,438,072
Retained earnings		355,982	338,120
Accumulated other comprehensive income (loss)		(355,230)	(481,662)
Total equity		$ 1,424,044	$ 1,296,425
Commitments and contingencies	27		
Total liabilities, redeemable non-controlling interest and equity		$ 3,449,621	$ 3,266,078

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, 2017 (1)	Three months ended June 30, 2018 (1)	Six months ended June 30, 2017 (1)	Six months ended June 30, 2018 (1)
Net revenues	19	$670,697	$728,561	$1,293,692	$1,417,473
Cost of revenue	20, 25	414,508	462,898	797,845	907,222
Gross profit		$256,189	$265,663	$495,847	$510,251
Operating expenses:					
Selling, general and administrative expenses	21, 25	167,758	176,166	328,616	347,275
Amortization of acquired intangible assets	10	8,387	9,826	15,629	19,762
Other operating (income) expense, net	22	(915)	149	(8,453)	(69)
Income from operations		$80,959	$79,522	$160,055	$143,283
Foreign exchange gains (losses), net		1,913	2,805	(3,000)	7,603
Interest income (expense), net	23	(9,850)	(10,407)	(15,343)	(18,507)
Other income (expense), net	26	11,560	9,748	12,113	25,298
Income before equity-method investment activity, net and income tax expense		$84,582	$81,668	$153,825	$157,677
Equity-method investment activity, net		(9)	(15)	(4,567)	(15)
Income before income tax expense		$84,573	$81,653	$149,258	$157,662
Income tax expense	24	15,471	17,079	27,716	29,154
Net income		$69,102	$64,574	$121,542	$128,508
Net loss (income) attributable to redeemable non-controlling interest		(156)	-	742	761
Net income attributable to Genpact Limited shareholders		$68,946	$64,574	$122,284	$129,269
Net income available to Genpact Limited common shareholders		$68,946	$64,574	$122,284	$129,269
Earnings per common share attributable to Genpact Limited common shareholders	18				
Basic		$0.36	$0.34	$0.63	$0.68
Diluted		$0.36	$0.33	$0.62	$0.66
Weighted average number of common shares used in computing earnings per common share attributable to Genpact Limited common shareholders	18				
Basic		191,469,593	190,132,664	195,269,561	191,474,645
Diluted		193,732,406	193,365,974	198,194,172	194,827,272

(1) Cost of revenue, selling and administrative expenses, other income (expense) and income from operations for the three and six months ended June 30, 2017 have been restated due to the adoption of ASU No. 2017-07 with effect

from January 1, 2018.

See accompanying notes to the Consolidated Financial Statements.

GENPACT LIMITED AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

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

	Three months ended June 30,				Six months ended June 30,			
	2017		2018		2017		2018	
	Genpact Limited Shareholders	Redeemable Non-controlling interest	Genpact Limited Shareholders	Redeemable Non-controlling interest	Genpact Limited Shareholders	Redeemable Non-controlling interest	Genpact Limited Shareholders	Redeemable Non-controlling interest
Net income (loss)	$68,946	$ 156	$64,574	$ —	$122,284	$ (742)	$129,269	$ (761)
Other comprehensive income:								
Currency translation adjustments	20,085	(66)	(73,681)	—	71,712	(78)	(83,016)	(424)
Net income (loss) on cash flow hedging derivatives, net of taxes (Note 7)	(9,611)	—	(27,879)	—	9,247	—	(46,811)	—
Retirement benefits, net of taxes	223	—	617	—	342	—	1,130	—
Other comprehensive income (loss)	10,697	(66)	(100,943)	—	81,301	(78)	(128,697)	(424)
Comprehensive income (loss)	$79,643	$ 90	$(36,369)	$ —	$203,585	$ (820)	$572	$ (1,185)

See accompanying notes to the Consolidated Financial Statements.

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GENPACT LIMITED AND ITS SUBSIDIARIES

Consolidated Statements of Equity and Redeemable Non-controlling Interest

(Unaudited)

(In thousands, except share count)

	Common shares				Accumulated Other Comprehensive		Redeemable
	No. of Shares	Amount	Additional Paid-in Capital	Retained Earnings	Income (Loss)	Total Equity	non-controlling interest
Balance as of January 1, 2017	198,794,052	$ 1,984	$ 1,384,468	$ 358,121	$ (457,925)	$ 1,286,648	$ 4,520
Issuance of common shares on exercise of options (Note 16)	548,086	5	7,762	—	—	7,767	—
Issuance of common shares under the employee stock purchase plan (Note 16)	100,357	1	2,312	—	—	2,313	—
Net settlement on vesting of restricted share units (Note 16)	81,471	1	(11)	—	—	(10)	—
Net settlement on vesting of performance units (Note 16)	731,701	7	(9,946)	—	—	(9,939)	—
Stock repurchased and retired (Note 17)	(7,387,240)	(74)	(40,000)	(179,710)	—	(219,784)	—
Expenses related to stock repurchase (Note 17)	—	—	—	(16)	—	(16)	—
Stock-based compensation expense (Note 16)	—	—	12,351	—	—	12,351	—
Change in fair value of redeemable	—	—	—	(980)	—	(980)	980

non-controlling interest							
Comprehensive income (loss):							
Net income (loss)	—	—	—	122,284	—	122,284	(742)
Other comprehensive income (loss)	—	—	—	—	81,301	81,301	(78)
Dividend (Note 17)	—	—	—	(23,515)	—	(23,515)	—
Balance as of June 30, 2017	192,868,427	$ 1,924	$ 1,356,936	$ 276,184	$ (376,624)	$ 1,258,420	$ 4,680

See accompanying notes to the Consolidated Financial Statements.

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GENPACT LIMITED AND ITS SUBSIDIARIES

Consolidated Statements of Equity and Redeemable Non-controlling Interest

(Unaudited)

(In thousands, except share count)

	Common shares				Accumulated Other Comprehensive		Redeemable
	No. of Shares	Amount	Additional Paid-in Capital	Retained Earnings	Income (Loss)	Total Equity	non-controlling interest
Balance as of January 1, 2018, as previously reported	192,825,207	$ 1,924	$ 1,421,368	$ 355,982	$ (355,230)	$ 1,424,044	$ 4,750
Adoption of ASU 2014-09 (Note 2(f))	—	—	—	17,924	—	17,924	—
Adjusted balance as of January 1, 2018	192,825,207	$ 1,924	$ 1,421,368	$ 373,906	$ (355,230)	$ 1,441,968	$ 4,750
Adoption of ASU 2018-02 (Note 7, 24)	—	—	—	(2,265)	2,265	—	—
Issuance of common shares on exercise of options (Note 16)	366,382	4	6,207	—	—	6,211	—
Issuance of common shares under the employee stock purchase plan (Note 16)	114,951	1	3,176	—	—	3,177	—
Net settlement on vesting of restricted share units (Note 16)	156,420	2	(947)	—	—	(945)	—
Net settlement on vesting of performance units (Note 16)	691,958	7	(13,291)	—	—	(13,284)	—
Stock repurchased and retired (Note 17)	(4,278,857)	(43)	4,000	(134,060)	—	(130,103)	—
Expenses related to stock repurchase (Note 17)	—	—	—	(82)	—	(82)	—
Stock-based compensation expense (Note 16)	—	—	18,724	—	—	18,724	—
Payment for purchase of redeemable	—	—	(1,165)	—	—	(1,165)	(3,565)

non-controlling interest							
Comprehensive income (loss):							
Net income (loss)	—	—	—	129,269	—	129,269	(761)
Other comprehensive income (loss)	—	—	—	—	(128,697)	(128,697)	(424)
Dividend (Note 17)	—	—	—	(28,648)	—	(28,648)	—
Balance as of June 30, 2018	189,876,061	$ 1,895	$ 1,438,072	$ 338,120	$ (481,662)	$ 1,296,425	$ —

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,	
	2017	2018
Operating activities		
Net income attributable to Genpact Limited shareholders	$122,284	$129,269
Net loss attributable to redeemable non-controlling interest	(742)	(761)
Net income	$121,542	$128,508
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	27,312	31,613
Amortization of debt issuance costs	877	979
Amortization of acquired intangible assets	15,629	19,762
Write-down of intangible assets and property, plant and equipment	-	850
Reserve for doubtful receivables	1,793	1,347
Unrealized loss (gain) on revaluation of foreign currency asset/liability	2,956	(7,350)
Equity-method investment activity, net	4,567	15
Stock-based compensation expense	12,351	18,724
Deferred income taxes	(5,260)	(4,194)
Others, net	(4,816)	294
Change in operating assets and liabilities:		
Increase in accounts receivable	(1,958)	(4,548)
Increase in prepaid expenses, other current assets, contract cost assets and other assets	(35,248)	(71,559)
Increase in accounts payable	1,624	6,289
Decrease in accrued expenses, other current liabilities and other liabilities	(52,022)	(96,965)
Increase in income taxes payable	25,977	25,719
Net cash provided by operating activities	$115,324	$49,484
Investing activities		
Purchase of property, plant and equipment	(29,350)	(37,703)
Payment for internally generated intangible assets (including intangibles under development)	(8,950)	(11,544)
Proceeds from sale of property, plant and equipment	566	309
Investment in equity affiliates	(496)	—
Payment for business acquisitions, net of cash acquired	(207,181)	(728)
Payment for purchase of redeemable non-controlling interest	—	(4,730)
Net cash used for investing activities	$(245,411)	$(54,396)
Financing activities		
Repayment of capital lease obligations	(1,106)	(1,108)
Payment of debt issuance costs	(1,481)	—
Proceeds from long-term debt	350,000	—
Repayment of long-term debt	(20,000)	(20,000)
Proceeds from short-term borrowings	230,000	105,000
Repayment of short-term borrowings	(185,000)	(60,000)
Proceeds from issuance of common shares under stock-based compensation plans	10,080	9,388

Payment for net settlement of stock-based awards	(9,949)	(14,229)
Payment of earn-out/deferred consideration	(1,287)	(1,476)
Dividend paid	(23,515)	(28,648)
Payment for stock repurchased and retired	(219,784)	(130,103)
Payment for expenses related to stock repurchase	(16)	(82)
Net cash provided by/(used for) financing activities	$127,942	$(141,258)
Effect of exchange rate changes	20,586	(24,395)
Net increase (decrease) in cash and cash equivalents	(2,145)	(146,170)
Cash and cash equivalents at the beginning of the period	422,623	504,468
Cash and cash equivalents at the end of the period	$441,064	$333,903
Supplementary information		
Cash paid during the period for interest	$10,648	$21,808
Cash paid during the period for income taxes	$28,649	$34,809
Property, plant and equipment acquired under capital lease obligations	$1,485	$668

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 and share count)

1. Organization

The Company is a global professional services firm that drives digitally-led innovation and runs digitally-enabled intelligent operations for its clients, guided by its experience running thousands of processes for hundreds of Fortune Global 500 clients. The Company has over 80,000 employees serving clients in key industry verticals from more than 20 countries.

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 note 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, 2017.

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 interim periods are not necessarily indicative of 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, a Bermuda company, 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 significant influence on the entity, the Company applies the equity method of accounting. All intercompany transactions and balances are eliminated in consolidation.

Non-controlling interest in subsidiaries that is redeemable outside of the Company's control for cash or other assets is reflected in the mezzanine section between liabilities and equity in the consolidated balance sheets at the redeemable value, which approximates fair value. Redeemable non-controlling interest is adjusted to its fair value at each balance sheet date. Any resulting increases or decreases in the estimated redemption amount are affected by corresponding changes to additional paid in capital. The share of non-controlling interest in subsidiary earnings is reflected in net loss (income) attributable to redeemable non-controlling interest in the 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, intangibles and goodwill, revenue recognition, reserves for doubtful receivables, valuation allowances for deferred tax assets, the valuation of derivative financial instruments, measurements of stock-based compensation, assets and obligations related to employee benefits, determining the nature and timing of satisfaction of performance obligations, determining the standalone selling price of performance obligations, variable consideration, and other obligations for revenue recognition

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)

and 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 best knowledge of current events and actions, actual results could differ from these estimates. Any changes in estimates are adjusted prospectively in the Company's consolidated financial statements.

(c) Business combinations, goodwill and other intangible assets

The Company accounts for its business combinations using the acquisition method of accounting in accordance with ASC 805, Business Combinations, by recognizing the identifiable tangible and intangible assets acquired and liabilities assumed, and any non-controlling 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 as of 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.

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 a 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 a reporting unit exceeds the fair value of such goodwill, an impairment loss is recognized in an amount equal to the excess. In addition, the Company performs a 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 a reporting unit below its carrying amount. See Note 10 for information and related disclosures.

Intangible assets acquired individually or with a group of other assets or in a business combination and developed internally 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
Technology-related intangible assets	2-8 years
Other intangible assets	3-5 years

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)

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, 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 creditworthiness 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 its clients. GE accounted for 11% and 12% of receivables as of December 31, 2017 and June 30, 2018, respectively. GE accounted for 10% of total revenue for the six months ended June 30, 2017 and 2018.

(e) Accounts receivable

Accounts receivable are recorded at the invoiced or to be invoiced amount and do not bear interest. Amounts collected on trade accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions and clients' financial condition, the amount of receivables in dispute, and the current receivables' aging and current payment patterns. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its clients.

(f) Changes in accounting policies

Except as described below, the Company has applied accounting policies consistently to all periods presented in these consolidated financial statements. The Company adopted Topic 606, Revenue from Contracts with Customers, effective January 1, 2018. As a result, the Company has changed its accounting policy for revenue recognition as detailed below. The Company applied Topic 606 using the modified retrospective method, which involves recognizing the cumulative effect of initially applying Topic 606 as an adjustment to the Company's opening equity balance as of January 1, 2018. Therefore, comparative information has not been adjusted and continues to be reported under Topic 605. As a result of the Company's adoption of this new standard, certain sales incentive programs meet the requirements for capitalization. Such costs are amortized over the period of expected benefit rather than expensed as incurred as was the Company's prior practice. The cumulative impact of the adoption of this standard resulted in an increase in retained earnings of $17,924 as of January 1, 2018 with a corresponding impact on contract cost assets of $23,227 and deferred tax liabilities of $5,303. As of January 1, 2018, contract assets and contract liabilities of $21,348 relating to the same customer contracts have been offset against each other.

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)

Revenue Recognition

The Company derives its revenue primarily from business process outsourcing and information technology services, which are provided primarily on a time-and-material, transaction or fixed-price basis. The Company recognizes revenue when the promised services are delivered to customers for an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services. Revenues from services rendered under time-and-material and transaction-based contracts are recognized as the services are provided. The Company's fixed-price contracts include contracts for application development, maintenance and support services. Revenues from these contracts are recognized ratably over the term of the agreement. The Company accrues for revenue and unbilled receivables for services rendered between the last billing date and the balance sheet date.

The Company's customer contracts sometimes also include incentive payments received for discrete benefits delivered or promised to be delivered to clients or service level agreements that could result in credits or refunds to the customer. Revenues relating to such arrangements are accounted for as variable consideration when the amount of revenue to be recognized can be estimated to the extent that it is probable that a significant reversal of any incremental revenue will not occur.

The Company records deferred revenue attributable to certain process transition activities where such activities do not represent separate performance obligations. Revenues relating to such transition activities are classified under contract liabilities and subsequently recognized ratably over the period in which the related services are performed. Costs relating to such transition activities are fulfillment costs which are directly related to the contract and result in the generation or enhancement of resources. Such costs are expected to be recoverable under the contract and are therefore classified as contract cost assets and recognized ratably over the estimated expected period of benefit under cost of revenue.

Revenues are reported net of value-added tax, business tax and applicable discounts and allowances. Reimbursements of out-of-pocket expenses received from clients have been included as part of revenues.

Revenue for performance obligations that are satisfied over time is recognized in accordance with the methods prescribed for measuring progress. The input (effort or cost expended) method has been used to measure progress towards completion as there is a direct relationship between input and productivity. Provisions for estimated losses, if any, on uncompleted contracts are recorded in the period in which such losses become probable based on the current contract estimates.

The Company enters into multiple-element revenue arrangements in which a client may purchase a combination of products or services. Revenue from multiple-element arrangements is recognized, for each element, based on an allocation of the transaction price to each performance obligation on a relative standalone basis.

Certain contracts may include offerings such as sale of licenses, which may be perpetual or subscription-based. Revenue from distinct perpetual licenses is recognized upfront at the point in time when the software is made available to the customer. Revenue from subscription-based licenses is recognized ratably over the subscription term.

All incremental and direct costs incurred for acquiring contracts, such as certain sales commissions, are classified as contract cost assets. Such costs are amortized over the expected period of benefit and recorded under selling, general and administrative expenses.

Other upfront fees paid to customers are classified as contract assets. Such costs are amortized over the expected period of benefit and recorded as an adjustment to the transaction price and subtracted from revenue.

Timing of revenue recognition may differ from the timing of invoicing. If a payment is received in respect of services prior to the delivery of services, the payment is recognized as an advance from customers and classified as a contract liability. Contract assets and contract liabilities relating to the same customer contract are offset against each other and presented on a net basis in the consolidated financial statements. See note 19 for information and related disclosures regarding contract balances.

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)

For a description of the Company's revenue recognition accounting policy in effect before the Company's adoption of ASC 606, see Note 2—"Summary of significant accounting policies" to the consolidated financial statements and Part II, Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations"—"Critical Accounting Policies and Estimates" in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Significant judgements

The Company often enters into contracts with customers that include promises to transfer multiple products and services to the customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately rather than together may require significant judgment.

Judgment is also required to determine the standalone selling price for each distinct performance obligation. In instances where the standalone selling price is not directly observable, it is determined using information that may include market conditions and other observable inputs.

Customer contracts sometimes include incentive payments received for discrete benefits delivered to clients or service level agreements that could result in credits or refunds to the customer. Such amounts are estimated at contract inception and are adjusted at the end of each reporting period as additional information becomes available only to the extent that it is probable that a significant reversal of any incremental revenue will not occur.

Impact on consolidated financial statements

The following tables summarize the impact of the Company's adoption of Topic 606 on its consolidated financial statements for the three and six months ended June 30, 2018.

GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

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

Consolidated Balance Sheet
As of June 30, 2018

	As reported	Adjustments	Balances without adoption of Topic 606
Assets			
Current assets			
Cash and cash equivalents	$333,903		$333,903
Accounts receivable, net	691,347		691,347
Prepaid expenses and other current assets (a, c)	207,334	79,777	287,111
Total current assets	$1,232,584	79,777	$1,312,361
Property, plant and equipment, net	202,669		202,669
Deferred tax assets (b)	88,278	5,635	93,913
Investment in equity affiliates	834		834
Intangible assets, net	120,624		120,624
Goodwill	1,311,361		1,311,361
Contract cost assets (a, b)	162,178	(162,178)	—
Other assets (a, c)	147,550	81,328	228,878
Total assets	$3,266,078	4,562	$3,270,640
Liabilities and equity			
Current liabilities			
Short-term borrowings	215,000		215,000
Current portion of long-term debt	39,249		39,249
Accounts payable	20,942		20,942
Income taxes payable	54,513		54,513
Accrued expenses and other current liabilities (c)	483,241	10,996	494,237
Total current liabilities	$812,945	10,996	$823,941
Long-term debt, less current portion	987,314		987,314
Deferred tax liabilities	7,036		7,036
Other liabilities (c)	162,358	12,739	175,097
Total liabilities	$1,969,653	23,735	$1,993,388
Redeemable non-controlling interest	—		—
Shareholders' equity			
Preferred shares, $0.01 par value, 250,000,000 authorized, none issued	—		—
Common shares, $0.01 par value, 500,000,000 authorized,192,825,207 and 189,876,061 issued and outstanding as of December 31, 2017 and June 30, 2018, respectively	1,895		1,895

Additional paid-in capital	1,438,072		1,438,072
Retained earnings (b)	338,120	(19,173)	318,947
Accumulated other comprehensive income (loss)	(481,662)		(481,662)
Total equity	$1,296,425	(19,173)	$1,277,252
Commitments and contingencies			
Total liabilities, redeemable non-controlling interest and equity	$3,266,078	4,562	$3,270,640

(a) As a result of its adoption of ASC 606, the Company has reclassified deferred transition costs from “Prepaid expenses and other current assets” amounting to $68,781 and “Other assets” amounting to $68,589 to “Contract cost assets” amounting to $137,370.

(b) The cumulative impact of the adoption of ASC 606 resulted in a $162,178 increase in "Contract cost assets," which includes the reclassification of $137,370 (refer to note (a) in the table above) and a closing balance of $24,808 related to sales incentive programs, with a corresponding impact on retained earnings of $19,173 and on deferred tax liabilities of $5,635 which has been offset against deferred tax assets.

(c) As a result of its adoption of ASC 606, the Company has offset (i) contract assets amounting to $10,996 under “Prepaid expenses and other current assets” against contract liabilities under “Accrued expenses and other current liabilities” related to the same customer contract and (ii) contract assets amounting to $12,739 under “Other assets” against contract liabilities under “Other liabilities” related to the same customer contract.

GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

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

Consolidated Statement of Income

Three months ended June 30, 2018	As reported	Adjustments	Balances without adoption of Topic 606
Net revenues	$728,561		$728,561
Cost of revenue	462,898		462,898
Gross profit	$265,663	—	$265,663
Operating expenses:			—
Selling, general and administrative expenses (d)	176,166	1,537	177,703
Amortization of acquired intangible assets	9,826		9,826
Other operating (income) expense, net	149		149
Income from operations	$79,522	(1,537)	$77,985
Foreign exchange gains (losses), net	2,805		2,805
Interest income (expense), net	(10,407)		(10,407)
Other income (expense), net	9,748		9,748
Income before equity-method investment activity, net and income tax expense	$81,668	(1,537)	$80,131
Equity-method investment activity, net	(15)	—	(15)
Income before income tax expense	$81,653	(1,537)	$80,116
Income tax expense	17,079	(332)	16,747
Net income	$64,574	(1,205)	$63,369
Net loss (income) attributable to non-controlling interest	—	—	—
Net income attributable to Genpact Limited shareholders	$64,574	(1,205)	$63,369

(d) During the three months ended June 30, 2018, the Company amortized $3,604 in contract costs related to obtaining a contract. Following the adoption of ASC 606, the Company capitalized such costs in an amount of $5,141, resulting in a net adjustment of $1,537 with a corresponding impact on income tax expense of $332.

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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)

Consolidated Statement of Income

Six months ended June 30, 2018	As reported	Adjustments	Balances without adoption of Topic 606
Net revenues	$1,417,473		$1,417,473
Cost of revenue	907,222		907,222
Gross profit	$510,251	—	$510,251
Operating expenses:			
Selling, general and administrative expenses (e)	347,275	1,581	348,856
Amortization of acquired intangible assets	19,762		19,762
Other operating (income) expense, net	(69)		(69)
Income from operations	$143,283	(1,581)	$141,702
Foreign exchange gains (losses), net	7,603		7,603
Interest income (expense), net	(18,507)		(18,507)
Other income (expense), net	25,298		25,298
Income before equity-method investment activity, net and income tax expense	$157,677	(1,581)	$156,096
Equity-method investment activity, net	(15)	—	(15)
Income before income tax expense	$157,662	(1,581)	$156,081
Income tax expense	29,154	(332)	28,822
Net income	$128,508	(1,249)	$127,259
Net loss (income) attributable to non-controlling interest	761	—	761
Net income attributable to Genpact Limited shareholders	$129,269	(1,249)	$128,020

(e) During the six months ended June 30, 2018, the Company amortized $6,843 in contract costs related to obtaining a contract. Following the adoption of ASC 606, the Company capitalized such costs in an amount of $8,424, resulting in a net adjustment of $1,581 with a corresponding impact on income tax expense of $332.

GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

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

Consolidated Statement of Cash flow
Six months ended June 30, 2018

	As reported	Adjustments	Balances without adoption of Topic 606
Operating activities			
Net income attributable to Genpact Limited shareholders (f)	$129,269	(1,249)	$128,020
Net loss attributable to redeemable non-controlling interest	(761)		(761)
Net income (f)	$128,508	(1,249)	$127,259
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Depreciation and amortization	31,613		31,613
Amortization of debt issuance costs	979		979
Amortization of acquired intangible assets	19,762		19,762
Write-down of intangible assets and property, plant and equipment	850		850
Reserve for doubtful receivables	1,347		1,347
Unrealized loss (gain) on revaluation of foreign currency asset/liability	(7,350)		(7,350)
Equity-method investment activity, net	15		15
Stock-based compensation expense	18,724		18,724
Deferred income taxes (f)	(4,194)	(332)	(4,526)
Others, net	294		294
Change in operating assets and liabilities:			
Increase in accounts receivable	(4,548)		(4,548)
Increase in prepaid expenses, other current assets, contract cost assets and other assets (f, g)	(71,559)	(805)	(72,364)
Increase in accounts payable	6,289		6,289
Decrease in accrued expenses, other current liabilities and other liabilities (g)	(96,965)	2,386	(94,579)
Increase in income taxes payable	25,719		25,719
Net cash provided by operating activities	$49,484	—	$49,484
Investing activities			
Purchase of property, plant and equipment	(37,703)		(37,703)
Payment for internally generated intangible assets (including intangibles under development)	(11,544)		(11,544)
Proceeds from sale of property, plant and equipment	309		309
Payment for business acquisitions, net of cash acquired	(728)		(728)
Payment for redeemable non-controlling interest	(4,730)		(4,730)
Net cash used for investing activities	$(54,396)	—	$(54,396)
Financing activities			
Repayment of capital lease obligations	(1,108)		(1,108)
Repayment of long-term debt	(20,000)		(20,000)

Proceeds from short-term borrowings	105,000		105,000
Repayment of short-term borrowings	(60,000)		(60,000)
Proceeds from issuance of common shares under stock-based compensation plans	9,388		9,388
Payment for net settlement of stock-based awards	(14,229)		(14,229)
Payment of earn-out/deferred consideration	(1,476)		(1,476)
Dividend paid	(28,648)		(28,648)
Payment for stock repurchased and retired	(130,103)		(130,103)
Payment for expenses related to stock repurchase	(82)		(82)
Net cash used for financing activities	$(141,258)	—	$(141,258)
Effect of exchange rate changes	(24,395)		(24,395)
Net increase (decrease) in cash and cash equivalents	(146,170)		(146,170)
Cash and cash equivalents at the beginning of the period	504,468		504,468
Cash and cash equivalents at the end of the period	$333,903	—	$333,903

(f) During the six months ended June 30, 2018, the Company amortized $6,843 in contract costs related to obtaining a contract. Following the adoption of ASC 606, the Company capitalized such costs in an amount of $8,424, resulting in a net adjustment of $1,581 and a tax impact of $332 which is further adjusted by note (g) below.

(g) Following the adoption of ASC 606, the Company offset certain contract assets against contract liabilities related to the same customer contract in an amount of $2,386.

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)

(g) Recently issued accounting pronouncements

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

The Company has adopted the following recently released accounting standards:

The Company adopted Topic 606, Revenue from Contracts with Customers, with a date of initial application of January 1, 2018 using the modified retrospective method. The cumulative impact of the adoption of this standard has been described in section (f) above.

In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-02, "Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." The new standard provides guidance to "allow a reclassification from accumulated other comprehensive income ("AOCI") to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act." The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those years, and the guidance may be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal income tax rate in the Tax Cuts and Jobs Act is recognized. Early adoption is permitted. On January 1, 2018, the Company elected the early adoption of ASU 2018-02, which was adopted at the beginning of the period and no prior periods have been adjusted.

In addition, the Company has adopted the following recently released accounting standards. Adoption of these standards did not have a material impact on the Company's consolidated results of operations, cash flows, financial position or disclosures:

Effective January 1, 2017, the Company adopted FASB ASU 2016-06, Derivatives and Hedging (Topic 815). The amendments in this update clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendments in this update is required to assess the embedded call (put) options solely in accordance with a four-step decision sequence.

Effective January 1, 2018, the Company adopted FASB ASU 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business.” The new guidance revises the definition of a business. The definition of a business affects many areas of accounting (e.g., acquisitions, disposals, goodwill impairment, consolidation).

Effective January 1, 2018, the Company adopted FASB ASU 2016-16, “Intra-Entity Transfers of Assets Other Than Inventory.” The new guidance eliminates the exception for deferment of tax recognition until the transferred asset is sold to a third party or otherwise recovered through use for all intra-entity sales of assets other than inventory.

Effective January 1, 2018, the Company adopted FASB ASU 2017-07, “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.” The ASU requires entities to (1) disaggregate the current-service-cost component from the other components of net benefit cost (the “other components”) and present it with other current compensation costs for related employees in the income statement and (2) present the other components elsewhere in the income statement and outside of income from operations if that subtotal is presented. In addition, the

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)

ASU requires entities to disclose the income statement lines that contain the other components if they are not presented on appropriately described separate lines.

Effective January 1, 2017, the Company early adopted FASB ASU 2016-15, "Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments." The new guidance is intended to reduce diversity in how certain transactions are classified in the statement of cash flows.

The following recently released accounting standards have not yet been adopted by the Company:

In February 2016, the FASB issued ASU No. 2016-02, “Leases.” The core principle of the ASU is that a lessee should recognize the assets and liabilities that arise from its leases other than those that meet the definition of a short-term lease. The ASU requires extensive qualitative and quantitative disclosures, including with respect to significant judgments made by management. Subsequently, the FASB issued ASU No. 2017-13, in September 2017, which amends and clarifies ASU 2016-02. The ASU will be effective for the Company beginning January 1, 2019, including interim periods in the fiscal year 2019. Early adoption is permitted. The Company will use a modified retrospective adoption approach. The Company expects to complete its assessment of adopting ASU No. 2016-02 in the third quarter of 2018. The Company’s implementation efforts include reviewing existing leases and service contracts, which may include embedded leases. The Company expects a gross-up on its consolidated statements of financial position upon recognition of the right-of-use assets and lease liabilities. The Company continues to evaluate the impact of its pending adoption of ASU 2016-02, which may identify additional impacts this guidance will have on its consolidated results of operations, cash flows, financial position and disclosures.

In June 2016, the FASB issued ASU No. 2016-13, “Measurement of credit losses on financial instruments.” The ASU requires measurement and recognition of expected credit losses for financial assets held by the Company. The ASU is effective for the Company beginning January 1, 2020, including interim periods in fiscal year 2020. Early adoption is permitted. The Company is in the process of assessing the impact of this ASU on its consolidated results of operations, cash flows, financial position and disclosures.

In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging.” The amendment expands an entity’s ability to hedge accounting to non-financial and financial risk components and requires changes in fair value of hedging instruments to be presented in the same income statement line as the hedged item. The ASU also amends the presentation and disclosure requirements for the effect of hedge accounting. The ASU must be adopted using a modified retrospective approach with a cumulative effect adjustment recorded to the opening balance of retained earnings as of the initial application date. The ASU is effective for the Company beginning January 1, 2019, including interim periods in the fiscal year 2019. Early adoption is permitted. The Company is in the process of assessing the impact of this ASU on its consolidated results of operations, cash flows, financial position and disclosures.

(h) Reclassification

Certain reclassifications have been made in the consolidated financial statements of prior periods to conform to the classification used in the current period. The impact of such reclassifications on the consolidated financial statements is not material.

GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

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

3. Business acquisitions

A. Certain acquisitions

(a) Strategic Sourcing Excellence Limited

On January 8, 2016, the Company acquired 51% of the outstanding equity interest in Strategic Sourcing Excellence LLC ("SSE"), a Delaware limited liability company. The total consideration paid by the Company to the selling equity holders for the acquired interest in SSE was $14,541. This amount includes the fair value of earn-out consideration, cash consideration of $2,550, adjusted for working capital, transaction expenses, indebtedness and measurement period adjustments which did not have a significant impact on the Company' consolidated statements of income, balance sheets or cash flows in the adjustment periods. The equity purchase agreement between the Company and the selling equity holders of SSE also provided for contingent earn-out consideration of up to $20,000, payable by the Company to the selling equity holders based on the future performance of the acquired business relative to the thresholds specified in the earn-out calculation. Up to $9,800 of the total potential earn-out consideration, representing the selling equity holders' redeemable, non-controlling 49% interest in SSE, was payable only if either the put or call option, each as described below, was exercised. This acquisition enhanced the Company's sourcing and procurement consulting domain expertise.

The equity purchase agreement granted the Company a call option to purchase the remaining 49% equity interest in SSE, which the Company had the right to exercise between January 1, 2018 and January 31, 2018. As the Company did not exercise its call option during such period, the selling equity holders exercised their put option on March 1, 2018 in accordance with the terms of the equity purchase agreement to require the Company to purchase their 49% interest in SSE for $2,950. The Company also paid $1,780 in earn-out consideration to the selling equity holders during the three months ended March 31, 2018. The amount paid in excess of carrying amount has been recorded in additional paid-in capital.

Acquisition-related costs of $164 have been included in selling, general and administrative expenses as incurred. Through this transaction, the Company acquired assets with a value of $412 and assumed liabilities amounting to $617. The results of operations of the acquired business, the fair value of the acquired assets and assumed liabilities, and redeemable non-controlling interest are included in the Company's Consolidated Financial Statements with effect from the date of the acquisition.

In connection with the transaction, the Company recorded $300 in customer-related intangible assets with an amortization period of five years. Goodwill arising from the acquisition amounted to $14,445, which has been allocated to the Company’s India reporting unit and is deductible for tax purposes. The goodwill represents future economic benefits the Company expects to derive from its expanded presence in the sourcing and procurement consulting domains, operating synergies and other anticipated benefits of combining the acquired operations with those of the Company.

(b) TandemSeven, Inc.

On September 5, 2017, the Company acquired 100% of the outstanding equity interest in TandemSeven, Inc. (“TandemSeven”), a Massachusetts corporation, for total purchase consideration of $35,637. This amount includes cash consideration of $31,784, net of cash acquired of $3,853, and an adjustment for working capital and indebtedness. During the quarter ended March 31, 2018, the Company recorded certain measurement period adjustments. These adjustments did not have a significant impact on the Company’s consolidated statements of income, balance sheets or cash flows. TandemSeven’s focus on improving the design of customer experiences complements the Company’s existing capabilities aimed at transforming clients’ processes end-to-end.

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)

In connection with the acquisition of TandemSeven, the Company recorded $2,000 in customer-related intangibles, $1,700 in marketing-related intangibles and $800 in technology-related intangible assets, which have a weighted average amortization period of two years. Goodwill arising from the acquisition amounted to $25,227, which has been allocated to the Company's India reporting unit and is deductible for tax purposes. The goodwill represents primarily the acquired design expertise, operating synergies and other benefits expected to result from combining the acquired operations with those of the Company.

Acquisition-related costs of $932 have been included in selling, general and administrative expenses as incurred. In connection with the transaction, the Company also acquired certain assets with a value of $7,378, assumed certain liabilities amounting to $1,207 and recognized a net deferred tax liability of $260. The results of operations of the acquired business and the fair value of the acquired assets and assumed liabilities are included in the Company's consolidated financial statements with effect from the date of the acquisition.

(c) BrightClaim LLC and associated companies

On May 3, 2017, the Company acquired 100% of the outstanding equity interest in each of BrightClaim LLC, a Delaware limited liability company, BrightServe LLC, a Georgia limited liability company, National Vendor LLC, a Delaware limited liability company, and BrightClaim Blocker, Inc., a Delaware corporation (collectively referred to as "BrightClaim") for total purchase consideration of $56,461. This amount includes cash consideration of $52,395, net of cash acquired of $4,002, adjusted for working capital, net debt, transaction expenses and measurement period adjustments which did not have a significant impact on the Company' consolidated statements of income, balance sheets or cash flows in the period of adjustments. This acquisition enhanced the Company's breadth and depth of service offerings for clients in the insurance industry.

In connection with the acquisition of BrightClaim, the Company recorded $8,000 in customer-related intangibles, $3,200 in marketing related intangibles, $2,200 in technology-related intangibles and $200 in other intangibles, which have a weighted average amortization period of four years. Goodwill arising from the acquisition amounted to $42,638, which has been allocated to the Company's India reporting unit and is partially deductible for tax purposes. The goodwill represents primarily the capabilities, operating synergies and other benefits expected to result from combining the acquired operations with those of the Company.

Acquisition-related costs of $1,563 have been included in selling, general and administrative expenses as incurred. In connection with the transaction, the Company also acquired certain assets with a value of $10,367, assumed certain liabilities amounting to $7,415, and recognized a net deferred tax liability of $2,728. The results of operations of the acquired business and the fair value of the acquired assets and assumed liabilities are included in the Company’s consolidated financial statements with effect from the date of the acquisition.

(d) RAGE Frameworks, Inc.

On April 13, 2017, the Company acquired 100% of the outstanding equity interest in RAGE Frameworks, Inc. (“RAGE”), a Delaware corporation, for total consideration of $125,329. This amount includes cash consideration of $124,149, net of cash acquired of $1,605, and an adjustment for working capital and indebtedness. During the quarters ended December 31, 2017 and June 30, 2018, the Company recorded certain measurement period adjustments. These measurement period adjustments did not have a significant impact on the Company’s consolidated statements of income, balance sheets or cash flows. This acquisition enhances the Company’s digital and artificial intelligence capabilities by adding knowledge-based automation technology and services.

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)

In connection with the acquisition of RAGE, the Company recorded $1,600 in customer-related intangibles, $600 in marketing-related intangibles, $12,400 in technology-related intangible assets and $100 in other intangible assets, which have a weighted average amortization period of seven years. Goodwill arising from the acquisition amounted to $105,451, which has been allocated to the Company’s India reporting unit and is not deductible for tax purposes. The goodwill represents primarily the acquired digital and artificial intelligence capabilities, operating synergies and other benefits expected to result from combining the acquired operations with those of the Company.

Acquisition-related costs of $881 have been included in selling, general and administrative expenses as incurred. In connection with the transaction, the Company also acquired certain assets with a value of $13,836 and assumed certain liabilities amounting to $9,752. The Company also recognized a net deferred tax asset of $1,094. The results of operations of the acquired business and the fair value of the acquired assets and assumed liabilities are included in the Company’s consolidated financial statements with effect from the date of the acquisition.

(e) Other acquisitions in 2017

In 2017, the Company also completed five individually immaterial business acquisition transactions, namely the acquisition of a supply chain management delivery center in the U.S. (“U.S. Delivery Center”), the purchase of all of the outstanding equity interest in OnSource, LLC (“OnSource”), the purchase of the IT business of Birlasoft (“Birlasoft”), the purchase of the image processing business of Fiserv Solutions of Australia Pty Ltd. (“Fiserv”) and the purchase of all of the outstanding equity interest in Lease Dimensions, Inc. (“Lease Dimensions”). The aggregate total estimated consideration the Company paid to consummate these acquisitions was $87,586. This aggregate amount includes the estimated fair value of contingent earn-out consideration, cash consideration of $76,612, net of cash acquired of $254, and adjustments for closing date working capital, indebtedness, value transfer, seller transaction expenses and certain employee-related liabilities. In addition, this amount reflects measurement period adjustments related to the Birlasoft and Fiserv transactions. These adjustments did not have a significant impact on the Company’s consolidated statements of income, balance sheets or cash flows in the periods in which they were made.

The U.S. Delivery Center acquisition enhanced the Company’s supply chain management capabilities for its clients in the consumer packaged goods industry. The OnSource acquisition brought incremental digital capabilities to the

Company’s insurance service offerings. The Birlasoft transaction expanded the Company’s end-to-end capabilities for its clients in the healthcare and aviation industries. The Fiserv transaction strengthened the Company’s financial services portfolio and expanded its Australia footprint. The Lease Dimensions acquisition enhanced the Company’s capabilities in commercial lending and leasing.

The purchase agreement for the acquisition of the U.S. Delivery Center provides for contingent earn-out consideration ranging from $0 to $10,000, payable by the Company to the seller based on the achievement of certain milestones relative to the thresholds specified in the earn-out calculation. The purchase agreement for the Lease Dimensions acquisition provides for contingent earn-out consideration ranging from $0 to $3,000, payable by the Company to the sellers based on the future performance of the business relative to the thresholds specified in the earn-out calculation.

In connection with these transactions, the Company recorded $33,494 in customer-related intangibles, $1,936 in marketing-related intangibles, $2,956 in technology-related intangibles and $100 in other intangibles, which have a weighted average amortization period of five years. Goodwill arising from these acquisitions amounted to $56,521. The goodwill represents primarily the capabilities, operating synergies and other benefits expected to result from combining the acquired operations with those of the Company.

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 following table sets forth, with respect to each of the five acquisitions, the acquisition date, goodwill reporting unit and the tax deductibility of the goodwill:

Acquisition	Acquisition date	Goodwill reporting unit	Tax deductibility - goodwill
U.S. Delivery Center	October 16, 2017	India	Deductible
OnSource	July 18, 2017	India	Deductible
Birlasoft	July 18, 2017	IT Services	Deductible
Fiserv	May 11, 2017	India	Non-deductible
Lease Dimensions	February 15, 2017	Americas	Non-deductible

Acquisition-related costs for these acquisitions, amounting to $2,369 in the aggregate, have been included in selling, general and administrative expenses as incurred. Through these transactions, the Company acquired assets with a value of $10,387, assumed liabilities amounting to $11,239, and recognized a net deferred tax liability of $6,570. The results of operations of the acquired businesses and the fair value of the acquired assets and assumed liabilities are included in the Company's consolidated financial statements with effect from the respective dates of the acquisitions.

B. Divestiture

(a) A portion of IT support business in Europe

In November 2017, the Company completed the sale of a portion of its legacy IT support business in Europe (the "Business"). Sale proceeds were $0. During the year ended December 31, 2017, the Business recorded net revenues of $4,546 and a net loss of $9,706.

The Company recorded a loss of $5,668 in its consolidated statement of income in connection with the sale of the Business, calculated as follows:

Net sale proceeds	$	—
Net assets of the business, including the translation impact thereof		5,569
Selling expenses		99
Loss on divestiture included in other income (expense), net	$	5,668

GENPACT LIMITED AND ITS SUBSIDIARIES

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(Unaudited)

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

4. Cash and cash equivalents

Cash and cash equivalents as of December 31, 2017 and June 30, 2018 are set out in the table below:

	As of December 31, 2017	As of June 30, 2018
Cash and other bank balances	504,468	333,903
Total	$ 504,468	$ 333,903

5. Accounts receivable, net of reserve for doubtful receivables

The following table provides details of the Company's reserve for doubtful receivables:

	Year ended December 31, 2017	Six months ended June 30, 2018
Opening balance as of January 1	$ 15,519	$ 23,660
Additions due to acquisitions	235	—
Additions charged/reversal released to cost and expense	9,819	1,347
Deductions/effect of exchange rate fluctuations	(1,913)	(617)
Closing balance	$ 23,660	$ 24,390

Accounts receivable were $716,745 and $715,737, and reserves for doubtful receivables were $23,660 and $24,390, resulting in net accounts receivable balances of $693,085 and $691,347 as of December 31, 2017 and June 30, 2018, respectively. In addition, accounts receivable due after one year amounting to $1,624 and $3,880 as of December 31, 2017 and June 30, 2018, respectively, are included under other assets in the consolidated balance sheets.

Accounts receivable from related parties were $36 and $183 as of December 31, 2017 and June 30, 2018, respectively. There are no doubtful receivables in amounts due from related parties.

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 financial assets and liabilities were determined using the following inputs as of December 31, 2017 and June 30, 2018:

	As of December 31, 2017 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, c)	$73,098	$ —	$ 73,098	$ —
Total	$ 73,098	$ —	$ 73,098	$ —
Liabilities				
Earn-out consideration (Note b, d)	$24,732	$ —	$ —	$ 24,732
Derivative instruments (Note b, c)	$18,188	$ —	$ 18,188	$ —
Total	$42,920	$ —	$ 18,188	$ 24,732
Redeemable non-controlling interest (Note e)	$4,750	$ —	$ —	$ 4,750

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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)

6. Fair value measurements (Continued)

	As of June 30, 2018 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, c)	$32,095	$ —	$ 32,095	$ —
Total	$32,095	$ —	$ 32,095	$ —
Liabilities				
Earn-out consideration (Note b, d)	$23,609	$ —	$ —	$ 23,609
Derivative instruments (Note b, c)	$49,378	$ —	$ 49,378	$ —
Total	$72,987	$ —	$ 49,378	$ 23,609

(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.
(c) The Company values its derivative instruments based on market observable inputs, including both forward and spot prices for the relevant currencies and interest rate indices for relevant interest rates. The quotes are taken from an independent market database.
(d) The fair value of earn-out consideration, calculated as the present value of expected future payments to be made to the sellers of acquired businesses, was derived by estimating the future financial performance of the acquired businesses using the earn-out formula and performance targets specified in each purchase agreement and adjusting the result to reflect the Company's estimate of the likelihood of achievement of such targets. Given the significance of the unobservable inputs, the valuations are classified in level 3 of the fair value hierarchy.
(e) The Company's estimate of the fair value of redeemable non-controlling interest is based on unobservable inputs considering the assumptions that market participants would make in pricing the obligation. Given the significance of the unobservable inputs, the valuation is classified in level 3 of the fair value hierarchy. See Note 3—Business Acquisitions.

The following table provides a roll-forward of the fair value of earn-out consideration categorized as level 3 in the fair value hierarchy for the three and six months ended June 30, 2017 and 2018:

	Three months ended June 30,		Six months ended June 30,	
	2017	2018	2017	2018
Opening balance	$21,262	$23,900	$22,435	$24,732
Earn-out consideration payable in connection with acquisitions	—	—	2,320	—
Payments made on earn-out consideration	(275)	—	(1,482)	(1,476)
Change in fair value of earn-out consideration (Note a)	1,713	(650)	(1,425)	(633)
Others (Note b)	574	359	1,426	986
Ending balance	$23,274	$23,609	$23,274	$23,609

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(a) Changes in the fair value of earn-out consideration are reported in "other operating (income) expense, net" in the consolidated statements of income.

(b) Others is comprised of interest expense included in "interest income (expense), net" and the impact of changes in foreign exchange reported in "foreign exchange gains (losses), net" in the consolidated statements of income. This change also includes a cumulative translation adjustment reported as a component of other comprehensive income (loss).

7. Derivative financial instruments

The Company is exposed to the risk of rate fluctuations on its foreign currency assets and liabilities and on foreign currency denominated forecasted cash flows and interest rate. The Company has established risk management policies, including the use of derivative financial instruments to hedge foreign currency assets and liabilities, foreign currency denominated forecasted cash flows and interest rate risk. These derivative financial instruments are largely deliverable and non-deliverable forward foreign exchange contracts and interest rate swaps. The Company enters into these contracts with counterparties that are banks or other financial institutions, and the Company considers the risk of non-performance by such counterparties not to be material. The forward foreign exchange contracts and interest rate swaps mature during a period of up to 54 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, 2017	As of June 30, 2018	As of December 31, 2017	As of June 30, 2018
Foreign exchange forward contracts denominated in:				
United States Dollars (sell) Indian Rupees (buy)	$ 1,289,400	$ 1,255,200	$ 54,398	$ (28,423)
United States Dollars (sell) Mexican Peso (buy)	9,000	6,000	(441)	(72)

United States Dollars (sell) Philippines Peso (buy)	76,650	58,250	69	(3,309)
Euro (sell) United States Dollars (buy)	170,542	134,950	(2,069)	3,715
Pound Sterling (buy) United States Dollars (sell)	24,041	27,675	253	(1,333)
Euro (sell) Romanian Leu (buy)	35,826	20,929	(892)	(267)
Japanese Yen (sell) Chinese Renminbi (buy)	60,768	47,243	1,918	(418)
Pound Sterling (sell) United States Dollars (buy)	80,871	54,194	(2,478)	(460)
Australian Dollars (sell) United States Dollars (buy)	136,092	102,782	(5,180)	1,435
Interest rate swaps (floating to fixed)	432,117	419,771	9,332	11,849
			54,910	(17,283)

(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 foreign exchange, interest rate or market risks. However, the amounts exchanged are based on the notional amounts and other provisions of the underlying derivative financial instrument 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 balance sheet. In accordance with the FASB guidance on derivatives and hedging, the Company designates foreign exchange forward contracts and interest rate swaps as cash flow hedges. Foreign exchange forward contracts are entered into to cover the effects of future exchange rate variability on forecasted revenues and purchases of services, and interest rate swaps are entered into to cover interest rate fluctuation risk. In addition to this program, the Company uses derivative instruments that are not accounted for as hedges under the FASB guidance in order to hedge foreign exchange risks related to balance sheet items, such as receivables and intercompany borrowings, that are denominated in currencies other than the Company’s underlying functional currency.

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

7. Derivative financial instruments (Continued)

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

	Cash flow hedges		Non-designated	
	As of December 31,	As of June 30,	As of December 31,	As of June 30,
	2017	2018	2017	2018
Assets				
Prepaid expenses and other current assets	$ 43,557	$ 18,782	$ 4,635	$ 1,655
Other assets	$ 24,906	$ 11,658	$ —	$ —
Liabilities				
Accrued expenses and other current liabilities	$ 10,092	$ 16,099	$ 254	$ 8,661
Other liabilities	$ 7,842	$ 24,618	$ —	$ —

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 effects are summarized below:

Three months ended June 30,		Six months ended June 30,	
2017	2018	2017	2018
		Before-Tax	Before-Tax

	Before-Tax amount	Tax (Expense) or Benefit	Net of tax Amount	Before-Tax amount	Tax (Expense) or Benefit	Net of tax Amount	amount	Tax (Expense) or Benefit	Net of tax Amount	amount	Tax (Expense) or Benefit	Net of tax Amount
Opening balance	$67,674	$(25,334)	$42,340	$26,357	$(6,931)	$19,426	$37,461	$(13,979)	$23,482	$ [illegible]	[illegible]	[illegible]
Adoption of ASU 2018-02 (refer to note 24)	—	—	—	—	—	—	—	—	—	—	[illegible]	[illegible]
Net gains (losses) reclassified into statement of income on completion of hedged transactions	15,505	(5,667)	9,838	4,282	(760)	3,522	24,800	(9,099)	15,701	[illegible]	[illegible]	[illegible]
Changes in fair value of effective portion of outstanding derivatives, net	(2)	229	227	(32,352)	7,995	(24,357)	39,506	(14,558)	24,948	[illegible]	[illegible]	[illegible]
Gain (loss) on cash flow hedging derivatives, net	(15,507)	5,896	(9,611)	(36,634)	8,755	(27,879)	14,706	(5,459)	9,247	[illegible]	[illegible]	[illegible]
Closing balance	$52,167	$(19,438)	$32,729	$(10,277)	$1,824	$(8,453)	$52,167	$(19,438)	$32,729	$ [illegible]	[illegible]	[illegible]

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7. Derivative financial instruments (Continued)

The Company’s gains or losses recognized in other comprehensive income (loss) and their effects 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)			
	Three months ended June 30,		Six months ended June 30,			Three months ended June 30,		Six months ended June 30,	
	2017	2018	2017	2018		2017	2018	2017	2018
Forward foreign exchange contracts	$1,615	$(33,541)	$40,911	$(52,220)	Revenue	$2,266	$(1,295)	$6,026	$(2,769)
Interest rate swaps	(1,617)	1,189	(1,405)	3,975	Cost of revenue	10,419	3,678	14,989	10,948
					Selling, general and administrative expenses	2,907	$991	4,155	2,925
					Interest expense	(87)	908	(370)	1,457
	$(2)	$(32,352)	$39,506	$(48,245					