WNS (HOLDINGS) LTD
Form 20-F
June 26, 2007

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SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 20-F

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2007

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _________ to _________

OR

o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report ____________

Commission file number 001-32945

WNS (Holdings) Limited

(Exact Name of Registrant as Specified in Its Charter)

Not Applicable	Jersey, Channel Islands
(Translation of Registrant s Name Into English)	(Jurisdiction of Incorporation or Organization)

Gate 4, Godrej & Boyce Complex
Pirojshanagar, Vikhroli(W)
Mumbai 400 079, India
(91-22) 4095-2100
(Address and Telephone Number of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
American Depositary Shares, each represented by one Ordinary Share, par value 10 pence per share	The New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

As of March 31, 2007, 41,842,879 ordinary shares, par value 10 pence per share, were issued and outstanding, of which 18,607,728 ordinary shares were held in the form of 18,607,728 American Depositary Shares, or ADSs. Each ADS represents one ordinary share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o No þ

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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 þ No o

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

Large accelerated filer o Accelerated filer o Non-accelerated filer þ

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 o Item 18 þ

If this report is an annual report, indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

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Ex-15.1 Consent of Ernst & Young, independent registered public accounting firm

CONVENTIONS USED IN THIS ANNUAL REPORT

In this annual report, references to US are to the United States of America, its territories and its possessions. References to UK are to the United Kingdom. References to India are to the Republic of India. References to $ or dollars or US dollars are to the legal currency of the US and references to Rs. or rupees or Indian rupees are to tl legal currency of India. References to pound sterling or £ are to the legal currency of the UK. References to pence are to the legal currency of Jersey, Channel Islands. Our financial statements are presented in US dollars and are prepared in accordance with US generally accepted accounting principles, or US GAAP. References to a particular fiscal year are to our fiscal year ended March 31 of that year. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding. Names of our clients are listed in alphabetical order in this annual report, unless otherwise stated.

We also refer in various places within this annual report to revenue less repair payments, which is a non-GAAP measure that is calculated as revenue less payments to automobile repair centers and more fully explained in Item 5. Operating and Financial Review and Prospects. The presentation of this non-GAAP information is not meant to be considered in isolation or as a substitute for our financial results prepared in accordance with US GAAP.

We also refer to information regarding the business process outsourcing industry, our company and our competitors from market research reports, analyst reports and other publicly available sources. Although we believe that this information is reliable, we have not independently verified the accuracy and completeness of the information. We caution you not to place undue reliance on this data.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements that are based on our current expectations, assumptions, estimates and projections about our company and our industry. The forward-looking statements are subject to various risks and uncertainties. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as anticipate, believe, estimate, expect, intend, will, project, seek, should and simi Those statements include, among other things, the discussions of our business strategy and expectations concerning our market position, future operations, margins, profitability, liquidity and capital resources. We caution you that reliance on any forward-looking statement involves risks and uncertainties, and that although we believe that the assumptions on which our forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and, as a result, the forward-looking statements based on those assumptions could be materially incorrect. These factors include but are not limited to:

- technological innovation;
- telecommunications or technology disruptions;
- future regulatory actions and conditions in our operating areas;
- our dependence on a limited number of clients in a limited number of industries;
- our ability to attract and retain clients;
- our ability to expand our business or effectively manage growth;
- our ability to hire and retain enough sufficiently trained employees to support our operations;
- negative public reaction in the US or the UK to offshore outsourcing;
- regulatory, legislative and judicial developments;
- increasing competition in the business process outsourcing industry;
- political or economic instability in India, Sri Lanka and Jersey;
- worldwide economic and business conditions; and
- our ability to successfully consummate strategic acquisitions.

These and other factors are more fully discussed in Item 3. Key Information D. Risk Factors, Item 5. Operating and Financial Review and Prospects and elsewhere in this annual report. In light of these and other uncertainties, you should not

conclude that we will necessarily achieve any plans, objectives or projected financial results referred to in any of the forward-looking statements. Except as required by law, we do not undertake to release revisions of any of these forward-looking statements to reflect future events or circumstances.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The selected consolidated statement of operations data presented below for fiscal 2007, 2006 and 2005, and the selected consolidated balance sheet data as of March 31, 2007 and 2006, have been derived from our consolidated financial statements included elsewhere in this annual report. The selected consolidated statement of operations data presented below for fiscal 2004 and 2003 and the selected consolidated balance sheet data as of March 31, 2005 and 2004 have been derived from our consolidated financial statements which are not included in this annual report. Our consolidated financial statements are prepared and presented in accordance with US GAAP. Our historical results do not necessarily indicate our results expected for any future period.

You should read the following information in conjunction with Item 5. Operating and Financial Review and Prospects, and our consolidated financial statements included elsewhere in this annual report.

	For the Year Ended March 31,				
	2007	2006	2005	2004	2003
	(US dollars in millions, except share and per share data)				
Consolidated Statement of Operations Data:					
Revenue	$ 352.3	$ 202.8	$ 162.2	$ 104.1	$ 54.6
Cost of revenue[1]	271.2	145.7	140.3	89.7	42.8
Gross profit	81.1	57.1	21.9	14.4	11.8
Operating expenses:					
Selling, general and administrative expenses[1]	52.5	36.3	24.9	18.8	10.9
Amortization of intangible assets	1.9	0.9	1.4	2.6	1.8
Operating income (loss)	26.8	19.9	(4.4)	(7.0)	(0.9)
Other income, net	2.5	0.5	0.2	0.3	0.3
Interest expense	(0.1)	(0.4)	(0.5)	(0.1)	(0.1)
Income (loss) before income taxes	29.2	19.9	(4.7)	(6.8)	(0.7)
Provision for income taxes	(2.6)	(1.6)	(1.1)	0.0	(1.0)
Net income (loss)	$ 26.6	$ 18.3	$ (5.8)	$ (6.7)	$ (1.7)
Income (loss) per share/ADS:					
Basic	$ 0.69	$ 0.56	$ (0.19)	$ (0.22)	$ (0.07)
Diluted	$ 0.65	$ 0.52	$ (0.19)	$ (0.22)	$ (0.07)
	38,608,188	32,874,299	30,969,658	30,795,888	26,243,833

Weighted-average shares/ADSs outstanding (basic)					
Weighted-average shares/ADSs outstanding (diluted)	41,120,497	35,029,766 2	30,969,658	30,795,888	26,243,833

	As of March 31,			
	2007	2006	2005	2004
	(US dollars in millions)			
Consolidated Balance Sheet Data:				
Assets				
Cash and cash equivalents	$ 112.3	$ 18.5	$ 9.1	$ 14.8
Bank deposits	12.0			
Accounts receivable, net	40.6	28.1	25.2	18.1
Other current assets[2]	18.5	10.8	9.7	9.5
Total current assets	183.4	57.4	44.0	42.5
Deposits and deferred tax asset	6.2	4.3	2.6	1.3
Goodwill and intangible assets, net	44.5	42.5	26.7	27.6
Property and equipment, net	41.8	30.6	24.7	15.3
Total assets	275.9	134.8	98.0	86.6
Liabilities and Shareholders Equity				
Note payable			10.0	
Total current liabilities	63.4	53.3	54.8	39.4
Deferred tax liabilities non-current	0.0	2.3		
Other non-current liabilities[3]	7.0	1.0	0.2	0.5
Total shareholders equity	205.5	78.2	43.0	46.7
Total liabilities and shareholders equity	275.9	134.8	98.0	86.6

The following tables set forth for the periods indicated selected consolidated financial data:

	For the Year Ended March 31,				
	2007	2006	2005	2004	2003
	(US dollars in millions, except percentages and employee data)				
Other Consolidated Financial Data:					
Revenue	$ 352.3	$ 202.8	$162.2	$104.1	$ 54.6
Gross profit as a percentage of revenue	23.0%	28.1%	13.5%	13.8%	21.6%
Operating income (loss) as a percentage of revenue	7.6%	9.8%	(2.7)%	(6.7)%	(1.6)%
Other Unaudited Consolidated Financial and Operating Data:					
Revenue less repair payments[4]	$ 219.7	$ 147.9	$ 99.0	$ 49.9	$ 25.6
Gross profit as a percentage of revenue less repair payments	36.9%	38.6%	22.1%	28.9%	46.1%
Operating income (loss) as a percentage of revenue less repair payments	12.2%	13.4%	(4.4)%	(14.1)%	(3.6)%
Number of employees (at period end)	15,084	10,433	7,176	4,472	2,348

Notes:

(1) Includes the following share-based compensation amounts:

	For the Year Ended March 31,				
	2007	2006	2005	2004	2003
	(US dollars in millions)				
Cost of revenue	$1.0	$0.1	$0.0	$0.0	$0.0
Selling, general and administrative expenses	2.7	1.8	0.2	0.2	0.1

(2) Consists of funds held for clients, employee receivables, prepaid expenses, prepaid income taxes, deferred tax assets and other current assets.

(3) Consists of obligation under capital leases non-current, deferred revenue non-current, deferred rent and accrued pension liability.

(4) Revenue less repair payments is a non-GAAP measure. See the explanation below, as well as Item 5. Operating and Financial Review and Prospects Overview and notes to our

consolidated financial statements included elsewhere in this annual report. The following table reconciles our revenue (a GAAP measure) to revenue less repair payments (a non-GAAP measure):

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	For the Year Ended March 31,				
	2007	2006	2005	2004	2003
	(US dollars in millions)				
Revenue	$ 352.3	$ 202.8	$ 162.2	$ 104.1	$ 54.6
Less: Payments to repair centers.	132.6	54.9	63.2	54.2	29.0
Revenue less repair payments	$ 219.7	$ 147.9	$ 99.0	$ 49.9	$ 25.6

We have two reportable segments for financial statement reporting purposes WNS Global BPO and WNS Auto Claims BPO. In our WNS Auto Claims BPO segment, we provide claims handling and accident management services, where we arrange for automobile repairs through a network of repair centers. In our accident management services, we act as the principal in our dealings with the repair centers and our clients. The amounts invoiced to our clients for payments made by us to repair centers is reported as revenue. Since we wholly subcontract the repairs to the repair centers, we use revenue less repair payments as a primary measure to allocate resources and measure operating performance.

Revenue less repair payments is a non-GAAP measure. We believe that the presentation of this non-GAAP measure in this annual report provides useful information for investors regarding the financial performance of our business and our two reportable segments. See Item 5. Operating and Financial Review and Prospects Results by Reportable Segment. The presentation of this non-GAAP information is not meant to be considered in isolation or as a substitute for our financial results prepared in accordance with US GAAP. Our revenue less repair payments may not be comparable to similarly titled measures reported by other companies due to potential differences in the method of calculation.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

This annual report contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those described in the following risk factors and elsewhere in this annual report. If any of the following risks actually occur, our business, financial condition and results of operations could suffer and the trading price of our ADSs could decline.

Risks Related to Our Business

We may be unable to effectively manage our rapid growth and maintain effective internal controls, which could have a material adverse effect on our operations, results of operations and financial condition.

Since we were founded in April 1996, and especially since Warburg Pincus & Co., or Warburg Pincus, acquired a controlling stake in our company in May 2002, we have experienced rapid growth and significantly expanded our operations. Our revenue has grown at a compound annual growth rate of 47.4% to $352.3 million in fiscal 2007 from $162.2 million in fiscal 2005. Our revenue less repair payments has grown at a compound annual growth rate of 49.0% to $219.7 million in fiscal 2007 from $99.0 million in fiscal 2005. We have established delivery centers in four locations in India, in Sri Lanka and in the UK. Our employees have increased to 15,084 as of March 31, 2007 from 7,176 as of March 31, 2005. In fiscal 2008, we intend to set up new delivery centers in Pune, Mumbai, Gurgaon and Bucharest. We intend to continue expansion in the foreseeable future to pursue existing and potential market opportunities.

This rapid growth places significant demands on our management and operational resources. In order to manage growth effectively, we must implement and improve operational systems, procedures and internal controls on a timely basis. If we fail to implement these systems, procedures and controls on a timely basis, we may not be able to service our clients needs, hire and retain new employees, pursue new business, complete future acquisitions or operate our

business effectively. Failure to effectively transfer new client business to our delivery centers, properly budget transfer costs or accurately estimate operational

costs associated with new contracts could result in delays in executing client contracts, trigger service level penalties or cause our profit margins not to meet our expectations or our historical profit margins. As a result of any of these problems associated with expansion, our business, results of operations, financial condition and cash flows could be materially and adversely affected.

A few major clients account for a significant portion of our revenue and any loss of business from these clients could reduce our revenue and significantly harm our business.

We have derived and believe that we will continue to derive in the near term a significant portion of our revenue from a limited number of large clients. For fiscal 2007 and 2006, our five largest clients accounted for 55.2% and 41.0% of our revenue and 45.7% and 52.8% of our revenue less repair payments. Our contracts with one of our major clients, AVIVA, provide the client options, exercisable at the client s election with six months notice, to require us to transfer the relevant projects and operations of our facilities at Sri Lanka and Pune to this client. On January 1, 2007, AVIVA exercised its call option requiring us to transfer the Sri Lanka facility to AVIVA effective July 1, 2007. For fiscal 2007, 2006 and 2005, the Sri Lanka facility accounted for 1.9%, 3.3% and 1.1% of our revenue, respectively, and 3.0%, 4.5% and 1.7% of our revenue less repair payments, respectively. AVIVA s call option regarding the Pune facility, if exercised, would require us to transfer the facility at Pune to AVIVA on or after December 31, 2007. AVIVA may give us notice to exercise its call option regarding the Pune facility at any time on or after July 1, 2007. For fiscal 2007, 2006 and 2005, the Pune facility accounted for 5.2%, 6.5% and 5.1% of our revenue, respectively, and 8.3%, 8.8% and 8.4% of our revenue less repair payments, respectively. See We may lose some or all of the revenue generated by one of our major clients.

In addition, the volume of work performed for specific clients is likely to vary from year to year, particularly since we may not be the exclusive outside service provider for our clients. Thus, a major client in one year may not provide the same level of revenue in any subsequent year. The loss of some or all of the business of any large client could have a material adverse effect on our business, results of operations, financial condition and cash flows. A number of factors other than our performance could cause the loss of or reduction in business or revenue from a client, and these factors are not predictable. For example, a client may demand price reductions, change its outsourcing strategy or move work in-house. A client may also be acquired by a company with a different outsourcing strategy that intends to switch to another business process outsourcing service provider or return work in-house.

We may lose some or all of the revenue generated by one of our major clients.

Our contracts with one of our five largest clients, AVIVA, to provide business process outsourcing services grant AVIVA the option, exercisable at AVIVA s election with six months notice, to require us to transfer the relevant projects and operations of our facilities at Sri Lanka and Pune to this client. On January 1, 2007, AVIVA exercised its call option requiring us to transfer the Sri Lanka facility to AVIVA effective July 1, 2007. Effective July 1, 2007, we will lose all revenues generated by the Sri Lanka facility and this will negatively impact our revenues and result of operations. For fiscal 2007, 2006 and 2005, the Sri Lanka facility accounted for 1.9%, 3.3% and 1.1% of our revenue, respectively, and 3.0%, 4.5% and 1.7% of our revenue less repair payments, respectively. If the option to transfer the Pune facility is exercised, we will be required to transfer the AVIVA Pune facility to AVIVA on or after December 31, 2007 and we lose all revenue from AVIVA. AVIVA may give us notice to exercise its call option regarding the Pune facility at any time on or after July 1, 2007. For fiscal 2007, 2006 and 2005, the Pune facility accounted for 5.2%, 6.5% and 5.1% of our revenue, respectively, and 8.3%, 8.8% and 8.4% of our revenue less repair payments, respectively. This loss of revenue would have a material impact on our business, results of operations, financial condition and cash flows, particularly during the quarter in which the options takes effect.

We may in the future enter into similar contracts with other clients, in which case we would be subject to risks similar to those described above.

Our revenue is highly dependent on a few industries and any decrease in demand for outsourced services in these industries could reduce our revenue and seriously harm our business.

A substantial portion of our clients are concentrated in the travel industry and the banking, financial services and insurance, or BFSI, industry. In fiscal 2007 and 2006, 22.8% and 33.1% of our revenue and 36.6% and 45.4% of our revenue less repair payments were derived from clients in the travel industry. During the same periods, clients in the BFSI industry contributed 61.8% and 55.6% of our revenue and 38.7% and 39.1% of our revenue less repair

payments. Our business and growth largely depend on continued demand for our services from clients in these industries and other industries that we may target in the future, as well as on trends in these industries to outsource business processes. A downturn in any of our targeted industries, particularly

the travel or BFSI industries, a slowdown or reversal of the trend to outsource business processes in any of these industries or the introduction of regulation which restricts or discourages companies from outsourcing could result in a decrease in the demand for our services and adversely affect our results of operations.

Other developments may also lead to a decline in the demand for our services in these industries. For example, consolidation in any of these industries or acquisitions, particularly involving our clients, may decrease the potential number of buyers of our services. Any significant reduction in or the elimination of the use of the services we provide within any of these industries would result in reduced revenue and harm our business. Our clients may experience rapid changes in their prospects, substantial price competition and pressure on their profitability. Although such pressures can encourage outsourcing as a cost reduction measure, they may also result in increasing pressure on us from clients in these key industries to lower our prices, which could negatively affect our business, results of operations, financial condition and cash flows.

Our senior management team and other key team members in our business units are critical to our continued success and the loss of such personnel could harm our business.

Our future success substantially depends on the continued service and performance of the members of our senior management team and other key team members in each of our business units. These personnel possess technical and business capabilities including domain expertise that are difficult to replace. There is intense competition for experienced senior management and personnel with technical and industry expertise in the business process outsourcing industry, and we may not be able to retain our key personnel. Although we have entered into employment contracts with our executive officers, certain terms of those agreements may not be enforceable and in any event these agreements do not ensure the continued service of these executive officers. The loss of key members of our senior management or other key team members, particularly to competitors, could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We may fail to attract and retain enough sufficiently trained employees to support our operations, as competition for highly skilled personnel is intense and we experience significant employee attrition. These factors could have a material adverse effect on our business, results of operations, financial condition and cash flows.

The business process outsourcing industry relies on large numbers of skilled employees, and our success depends to a significant extent on our ability to attract, hire, train and retain qualified employees. The business process outsourcing industry, including our company, experiences high employee attrition. In fiscal 2007, our attrition rate for associates (employees who execute business processes for our clients following their completion of a six-month probationary period) was approximately 43% which we believe is broadly in line with our peers in the offshore business process outsourcing industry. There is significant competition in India for professionals with the skills necessary to perform the services we offer to our clients. Increased competition for these professionals, in the business process outsourcing industry or otherwise, could have an adverse effect on us. A significant increase in the attrition rate among employees with specialized skills could decrease our operating efficiency and productivity and could lead to a decline in demand for our services.

In addition, our ability to maintain and renew existing engagements and obtain new businesses will depend, in large part, on our ability to attract, train and retain personnel with skills that enable us to keep pace with growing demands for outsourcing, evolving industry standards and changing client preferences. Our failure either to attract, train and retain personnel with the qualifications necessary to fulfill the needs of our existing and future clients or to assimilate new employees successfully could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Wage increases in India may prevent us from sustaining our competitive advantage and may reduce our profit margin.

Salaries and related benefits of our operations staff and other employees in India are among our most significant costs. Wage costs in India have historically been significantly lower than wage costs in the US and Europe for comparably skilled professionals, which has been one of our competitive advantages. However, because of rapid economic growth in India, increased demand for business process outsourcing to India and increased competition for skilled employees in India, wages for comparably skilled employees in India are increasing at a faster rate than in the US and Europe, which may reduce this competitive advantage. In addition, if the US dollar or the pound sterling declines in value

against the Indian rupee, wages in the US or the UK will decrease relative to wages in India, which may further reduce our competitive advantage. We may need to increase our levels of employee compensation more rapidly than in the past to remain competitive in attracting the quantity and quality of employees that our business requires. Wage increases may reduce our profit margins and have a material adverse effect on our financial condition and cash flows.

Our operating results may differ from period to period, which may make it difficult for us to prepare accurate internal financial forecasts and respond in a timely manner to offset such period to period fluctuations.

Our operating results may differ significantly from period to period due to factors such as client losses, variations in the volume of business from clients resulting from changes in our clients operations, the business decisions of our clients regarding the use of our services, delays or difficulties in expanding our operational facilities and infrastructure, changes to our pricing structure or that of our competitors, inaccurate estimates of resources and time required to complete ongoing projects, currency fluctuation and seasonal changes in the operations of our clients. For example, our clients in the travel industry experience seasonal changes in their operations in connection with the year-end holiday season and the school year, as well as episodic factors such as adverse weather conditions or strikes by pilots or air traffic controllers. Transaction volumes can be impacted by market conditions affecting the travel and insurance industries, including natural disasters, health scares (such as severe acute respiratory syndrome, or SARS, and avian influenza, or bird flu) and terrorist attacks. In addition, some of our contracts do not commit our clients to providing us with a specific volume of business.

In addition, the long sales cycle for our services, which typically ranges from three to 12 months, and the internal budget and approval processes of our prospective clients makes it difficult to predict the timing of new client engagements. Revenue is recognized upon actual provision of services and when the criteria for recognition are achieved. Accordingly, the financial benefit of gaining a new client may be delayed due to delays in the implementation of our services. These factors may make it difficult for us to prepare accurate internal financial forecasts or replace anticipated revenue that we do not receive as a result of those delays. Due to the above factors, it is possible that in some future quarters our operating results may be significantly below the expectations of the public market, analysts and investors.

Our clients may terminate contracts before completion or choose not to renew contracts which could adversely affect our business and reduce our revenue.

The terms of our client contracts typically range from three to five years. Many of our client contracts can be terminated by our clients with or without cause, with three to six months notice and, in most cases, without penalty. The termination of a substantial percentage of these contracts could adversely affect our business and reduce our revenue. Contracts representing 10.2% of our revenue and 16.4% of our revenue less repair payments from our clients in fiscal 2007 will expire on or before March 31, 2008. Failure to meet contractual requirements could result in cancellation or non-renewal of a contract. Some of our contracts may be terminated by the client if certain of our key personnel working on the client project leave our employment and we are unable to find suitable replacements. In addition, a contract termination or significant reduction in work assigned to us by a major client could cause us to experience a higher than expected number of unassigned employees, which would increase our cost of revenue as a percentage of revenue until we are able to reduce or reallocate our headcount. We may not be able to replace any client that elects to terminate or not renew its contract with us, which would adversely affect our business and revenue.

Some of our client contracts contain provisions which, if triggered, could result in lower future revenue and have an adverse effect on our business.

If our clients agree to provide us with a specified volume and scale of business or to provide us with business for a specified minimum duration, we may, in return, agree to include certain provisions in our contracts with such clients which provide for downward revision of our prices under certain circumstances. For example, certain client contracts provide that if during the term of the contract, we were to offer similar services to any other client on terms and conditions more favorable than those provided in the contract, we would be obliged to offer equally favorable terms and conditions to the client. This may result in lower revenue and profits under these contracts. Certain other contracts allow a client in certain limited circumstances to request a benchmark study comparing our pricing and performance with that of an agreed list of other service providers for comparable services. Based on the results of the study and depending on the reasons for any unfavorable variance, we may be required to make improvements in the service we provide or to reduce the pricing for services to be performed under the remaining term of the contract.

Some of our client contracts provide that during the term of the contract and under specified circumstances, we may not provide similar services to their competitors. Some of our contracts also provide that, during the term of the

contract and for a certain period thereafter ranging from six to 12 months, we may not provide similar services to certain or any of their competitors using the same personnel. These restrictions may hamper our ability to compete for and provide services to other clients in the same industry, which may result in lower future revenue and profitability.

Some of our contracts specify that if a change in control of our company occurs during the term of the contract, the client has the right to terminate the contract. These provisions may result in our contracts being terminated if there is such a change in control, resulting in a potential loss of revenue.
Some of our client contracts also contain provisions that would require us to pay penalties to our clients if we do not meet pre-agreed service level requirements. Failure to meet these requirements could result in the payment of significant penalties by us to our clients which in turn could have an adverse effect on our business, results of operations, financial condition and cash flows.

We enter into long-term contracts with our clients, and our failure to estimate the resources and time required for our contracts may negatively affect our profitability.

The terms of our client contracts typically range from three to five years. In many of our contracts we commit to long-term pricing with our clients and therefore bear the risk of cost overruns, completion delays and wage inflation in connection with these contracts. If we fail to estimate accurately the resources and time required for a contract, future wage inflation rates or currency exchange rates, or if we fail to complete our contractual obligations within the contracted timeframe, our revenue and profitability may be negatively affected.

Our profitability will suffer if we are not able to maintain our pricing and asset utilization levels and control our costs.

Our profit margin, and therefore our profitability, is largely a function of our asset utilization and the rates we are able to recover for our services. One of the most significant components of our asset utilization is our seat utilization rate which is the average number of work shifts per day, out of a maximum of three, for which we are able to utilize our work stations, or seats. If we are not able to maintain the pricing for our services or an appropriate seat utilization rate, without corresponding cost reductions, our profitability will suffer. The rates we are able to recover for our services are affected by a number of factors, including our clients perceptions of our ability to add value through our services, competition, introduction of new services or products by us or our competitors, our ability to accurately estimate, attain and sustain engagement revenue, margins and cash flows over increasingly longer contract periods and general economic and political conditions.
Our profitability is also a function of our ability to control our costs and improve our efficiency. As we increase the number of our employees and execute our strategies for growth, we may not be able to manage the significantly larger and more geographically diverse workforce that may result, which could adversely affect our ability to control our costs or improve our efficiency.

We have incurred losses in the past and have a limited operating history. We may not be profitable in the future and may not be able to secure additional business.

We have incurred losses in each of the three fiscal years from fiscal 2003 through fiscal 2005. In future periods, we expect our selling, general and administrative, or SG&A, expenses to continue to increase. If our revenue does not grow at a faster rate than these expected increases in our expenses, or if our operating expenses are higher than we anticipate, we may not be profitable and we may incur additional losses.
In addition, the offshore business process outsourcing industry is a relatively new industry, and we have a limited operating history. We started our business by offering business process outsourcing services as part of British Airways in 1996. In fiscal 2003, we enhanced our focus on providing business process outsourcing services to third parties. As such, we have only focused on servicing third-party clients for a limited time. We may not be able to secure additional business or retain current business with third-parties or add third-party clients in the future.

If we cause disruptions to our clients businesses or provide inadequate service, our clients may have claims for substantial damages against us. Our insurance coverage may be inadequate to cover these claims, and as a result, our profits may be substantially reduced.

Most of our contracts with clients contain service level and performance requirements, including requirements relating to the quality of our services and the timing and quality of responses to the client s customer inquiries. In some cases, the quality of services that we provide is measured by quality assurance ratings and surveys which are based in part on the results of direct monitoring by our clients of interactions between our employees and our client s customers. Failure to consistently meet service

requirements of a client or errors made by our associates in the course of delivering services to our clients could disrupt the client s business and result in a reduction in revenue or a claim for substantial damages against us. For example, some of our agreements stipulate standards of service that, if not met by us, will result in lower payment to us. In addition, a failure or inability to meet a contractual requirement could seriously damage our reputation and affect our ability to attract new business.

Our dependence on our offshore delivery centers requires us to maintain active data and voice communications between our main delivery centers in India, Sri Lanka and the UK, our international technology hubs in the US and the UK and our clients offices. Although we maintain redundant facilities and communications links, disruptions could result from, among other things, technical and electricity breakdowns, computer glitches and viruses and adverse weather conditions. Any significant failure of our equipment or systems, or any major disruption to basic infrastructure like power and telecommunications in the locations in which we operate, could impede our ability to provide services to our clients, have a negative impact on our reputation, cause us to lose clients, reduce our revenue and harm our business.

Under our contracts with our clients, our liability for breach of our obligations is generally limited to actual damages suffered by the client and capped at a portion of the fees paid or payable to us under the relevant contract. To the extent that our contracts contain limitations on liability, such limitations may be unenforceable or otherwise may not protect us from liability for damages. In addition, certain liabilities, such as claims of third parties for which we may be required to indemnify our clients, are generally not limited under those agreements. Although we have commercial general liability insurance coverage, the coverage may not continue to be available on reasonable terms or in sufficient amounts to cover one or more large claims, and our insurers may disclaim coverage as to any future claims. The successful assertion of one or more large claims against us that exceed available insurance coverage, or changes in our insurance policies (including premium increases or the imposition of large deductible or co-insurance requirements), could have a material adverse effect on our business, reputation, results of operations, financial condition and cash flows.

We are liable to our clients for damages caused by unauthorized disclosure of sensitive and confidential information, whether through a breach of our computer systems, through our employees or otherwise.

We are typically required to manage, utilize and store sensitive or confidential client data in connection with the services we provide. Under the terms of our client contracts, we are required to keep such information strictly confidential. Our client contracts do not include any limitation on our liability to them with respect to breaches of our obligation to maintain confidentiality on the information we receive from them. We seek to implement measures to protect sensitive and confidential client data and have not experienced any material breach of confidentiality to date. However, if any person, including any of our employees, penetrates our network security or otherwise mismanages or misappropriates sensitive or confidential client data, we could be subject to significant liability and lawsuits from our clients or their customers for breaching contractual confidentiality provisions or privacy laws. Although we have insurance coverage for mismanagement or misappropriation of such information by our employees, that coverage may not continue to be available on reasonable terms or in sufficient amounts to cover one or more large claims against us and our insurers may disclaim coverage as to any future claims. Penetration of the network security of our data centers could have a negative impact on our reputation which would harm our business.

Failure to adhere to the regulations that govern our business could result in our being unable to effectively perform our services. Failure to adhere to regulations that govern our clients businesses could result in breaches of contract with our clients.

Our clients business operations are subject to certain rules and regulations such as the Gramm-Leach-Bliley Act and the Health Insurance Portability and Accountability Act in the US and the Financial Services Act in the UK. Our clients may contractually require that we perform our services in a manner that would enable them to comply with such rules and regulations. Failure to perform our services in such a manner could result in breaches of contract with our clients and, in some limited circumstances, civil fines and criminal penalties for us. In addition, we are required under various Indian laws to obtain and maintain permits and licenses for the conduct of our business. If we do not maintain our licenses or other qualifications to provide our services, we may not be able to provide services to existing clients or be able to attract new clients and could lose revenue, which could have a material adverse effect on our

business.

The international nature of our business exposes us to several risks, such as significant currency fluctuations and unexpected changes in the regulatory requirements of multiple jurisdictions.

We have operations in India, Sri Lanka and the UK and we service clients across Europe, North America and Asia. Our corporate structure also spans multiple jurisdictions, with our parent holding company incorporated in Jersey, Channel Islands, and intermediate and operating subsidiaries incorporated in India, Sri Lanka, Mauritius, the US and the UK, with operations expected to commence in Romania soon. As a result, we are exposed to risks typically associated with conducting business internationally, many of which are beyond our control. These risks include:

- significant currency fluctuations between the US dollar and the pound sterling (in which our revenue is principally denominated) and the Indian rupee (in which a significant portion of our costs are denominated);
- legal uncertainty owing to the overlap of different legal regimes, and problems in asserting contractual or other rights across international borders;
- potentially adverse tax consequences, such as scrutiny of transfer pricing arrangements by authorities in the countries in which we operate;
- potential tariffs and other trade barriers;
- unexpected changes in regulatory requirements;
- the burden and expense of complying with the laws and regulations of various jurisdictions; and
- terrorist attacks and other acts of violence or war.

The occurrence of any of these events could have a material adverse effect on our results of operations and financial condition.

We may not succeed in identifying suitable acquisition targets or integrating any acquired business into our operations, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Our growth strategy involves gaining new clients and expanding our service offerings, both organically and through strategic acquisitions. Historically, we have expanded some of our service offerings and gained new clients through strategic acquisitions. For example, we completed our acquisition of Trinity Partners Inc., or Trinity Partners, in November 2005, and we acquired Marketics Technologies (India) Private Limited, or Marketics, in May 2007, and Flovate Technologies Limited, or Flovate, in June 2007. It is possible that in the future we may not succeed in identifying suitable acquisition targets available for sale on reasonable terms, have access to the capital required to finance potential acquisitions or be able to consummate any acquisition. The inability to identify suitable acquisition targets or investments or the inability to complete such transactions may affect our competitiveness and our growth prospects. In addition, our management may not be able to successfully integrate any acquired business into our operations and any acquisition we do complete may not result in long-term benefits to us. For example, if we acquire a company, we could experience difficulties in assimilating that company s personnel, operations, technology and software. In addition, the key personnel of the acquired company may decide not to work for us. The lack of profitability of any of our acquisitions could have a material adverse effect on our operating results. Future acquisitions may also result in the incurrence of indebtedness or the issuance of additional equity securities and may present difficulties in financing the acquisition on attractive terms. Acquisitions also typically involve a number of other risks, including diversion of management s attention, legal liabilities and the need to amortize acquired intangible assets, any of which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Our facilities are at risk of damage by natural disasters.

Our operational facilities and communication hubs may be damaged in natural disasters such as earthquakes, floods, heavy rains, tsunamis and cyclones. For example, during the floods in Mumbai in July 2005, our operations were adversely affected as a result of the disruption of the city s public utility and transport services making it difficult for our associates to commute to our office. Such natural disasters may lead to disruption to information systems and

telephone service for sustained periods. Damage or destruction that interrupts our provision of outsourcing services could damage our relationships with our clients and may cause us to incur substantial additional expenses to repair or replace damaged equipment or facilities. We may also be liable to our clients for disruption in service resulting from such damage or destruction. While we currently have commercial liability insurance, our insurance coverage may not be sufficient. Furthermore, we may be unable to secure such insurance coverage at premiums

acceptable to us in the future or secure such insurance coverage at all. Prolonged disruption of our services as a result of natural disasters would also entitle our clients to terminate their contracts with us.

Our business may not develop in ways that we currently anticipate due to negative public reaction to offshore outsourcing, proposed legislation or otherwise.

We have based our strategy of future growth on certain assumptions regarding our industry, services and future demand in the market for such services. However, the trend to outsource business processes may not continue and could reverse. Offshore outsourcing is a politically sensitive topic in the UK, the US and elsewhere. For example, many organizations and public figures in the UK and the US have publicly expressed concern about a perceived association between offshore outsourcing providers and the loss of jobs in their home countries.

In addition, there has been publicity about the negative experiences, such as theft and misappropriation of sensitive client data, of various companies that use offshore outsourcing, particularly in India. Current or prospective clients may elect to perform such services themselves or may be discouraged from transferring these services from onshore to offshore providers to avoid negative perceptions that may be associated with using an offshore provider. Any slowdown or reversal of existing industry trends towards offshore outsourcing would seriously harm our ability to compete effectively with competitors that operate out of facilities located in the UK or the US.

A variety of US federal and state legislation has been proposed that, if enacted, could restrict or discourage US companies from outsourcing their services to companies outside the US. For example, legislation has been proposed that would require offshore providers of services requiring direct interaction with clients customers to identify to clients customers where the offshore provider is located. Because some of our clients are located in the US, any expansion of existing laws or the enactment of new legislation restricting offshore outsourcing could adversely impact our ability to do business with US clients and have a material and adverse effect on our business, results of operations, financial condition and cash flows. In addition, it is possible that legislation could be adopted that would restrict US private sector companies that have federal or state government contracts from outsourcing their services to offshore service providers. This would affect our ability to attract or retain clients that have such contracts.

Recent legislation introduced in the UK provides that if a company transfers or outsources its business or a part of its business to a transferee or a service provider, the employees who were employed in such business are entitled to become employed by the transferee or service provider on the same terms and conditions as they had been employed before. The dismissal of such employees as a result of such transfer of business is deemed unfair dismissal and entitles the employee to compensation. As a result, we may become liable for redundancy payments to the employees of our clients in the UK who outsource business to us. We believe this legislation will not affect our existing contracts with clients in the UK. However, we may be liable under any service level agreements we may enter into in the future pursuant to existing master services agreements with our UK clients. In addition, this legislation may have an adverse effect on potential business from clients in the UK.

We face competition from onshore and offshore business process outsourcing companies and from information technology companies that also offer business process outsourcing services. Our clients may also choose to run their business processes themselves, either in their home countries or through captive units located offshore.

The market for outsourcing services is very competitive and we expect competition to intensify and increase from a number of sources. We believe that the principal competitive factors in our markets are price, service quality, sales and marketing skills, and industry expertise. We face significant competition from our clients own in-house groups including, in some cases, in-house departments operating offshore or captive units. Clients who currently outsource a significant proportion of their business processes or information technology services to vendors in India may, for various reasons, including to diversify geographic risk, seek to reduce their dependence on any one country. We also face competition from onshore and offshore business process outsourcing and information technology services companies. In addition, the trend toward offshore outsourcing, international expansion by foreign and domestic competitors and continuing technological changes will result in new and different competitors entering our markets. These competitors may include entrants from the communications, software and data networking industries or entrants in geographic locations with lower costs than those in which we operate.

Some of these existing and future competitors have greater financial, human and other resources, longer operating histories, greater technological expertise, more recognizable brand names and more established relationships in the

industries that we currently serve or may serve in the future. In addition, some of our competitors may enter into strategic or commercial

relationships among themselves or with larger, more established companies in order to increase their ability to address client needs, or enter into similar arrangements with potential clients. Increased competition, our inability to compete successfully against competitors, pricing pressures or loss of market share could result in reduced operating margins which could harm our business, results of operations, financial condition and cash flows.

Our failure to timely comply with Section 404 of the Sarbanes-Oxley Act of 2002 could have a material adverse effect on our share price.

Section 404 of the Sarbanes-Oxley Act of 2002 requires management s annual review and evaluation of our internal controls over financial reporting, and an attestation of the effectiveness of these controls by our independent registered public accountants beginning with our fiscal year ending on March 31, 2008. We are in the process of evaluating and testing our internal financial reporting controls in anticipation of our compliance with Section 404 of the Sarbanes-Oxley Act of 2002 and have not yet completed this process. We have formed internal evaluation committees and engaged consultants to assist us in such compliance. If we do not implement the requirements of Section 404 in a timely manner or with adequate compliance, we might be subject to sanctions or investigation by regulatory authorities, such as the Securities and Exchange Commission, or the Commission. Any such action could harm our business or investors confidence in our company and could cause our share price to fall.

Our controlling shareholder, Warburg Pincus, is able to control or significantly influence our corporate actions.

Warburg Pincus beneficially owns more than 50% of our shares. As a result of its ownership position, Warburg Pincus has the ability to control or significantly influence matters requiring shareholder and board approval including, without limitation, the election of directors, significant corporate transactions such as amalgamations and consolidations, changes in control of our company and sales of all or substantially all of our assets. These actions may be taken even if they are opposed by the other shareholders.

We have certain anti-takeover provisions in our articles of association that may discourage a change in control.

Our articles of association contain anti-takeover provisions that could make it more difficult for a third party to acquire us without the consent of our board of directors. These provisions include:

- a classified board of directors with staggered three-year terms; and

- the ability of our board of directors to determine the rights, preferences and privileges of our preferred shares and to issue the preferred shares without shareholder approval, which could be exercised by our board of directors to increase the number of outstanding shares and prevent or delay a takeover attempt.

These provisions could make it more difficult for a third party to acquire us, even if the third party s offer may be considered beneficial by many shareholders. As a result, shareholders may be limited in their ability to obtain a premium for their shares.

It may be difficult for you to effect service of process and enforce legal judgments against us or our affiliates.

We are incorporated in Jersey, Channel Islands, and our primary operating subsidiary, WNS Global Services (Private) Limited, or WNS Global, is incorporated in India. A majority of our directors and senior executives are not residents of the US and virtually all of our assets and the assets of those persons are located outside the US. As a result, it may not be possible for you to effect service of process within the US upon those persons or us. In addition, you may be unable to enforce judgments obtained in courts of the US against those persons outside the jurisdiction of their residence, including judgments predicated solely upon the securities laws of the US.

Risks Related to India

A substantial portion of our assets and operations are located in India and we are subject to regulatory, economic, social and political uncertainties in India.

Our primary operating subsidiary, WNS Global, is incorporated in India, and a substantial portion of our assets and employees are located in India. We intend to continue to develop and expand our facilities in India. The government of India, however, has

exercised and continues to exercise significant influence over many aspects of the Indian economy. The government of India has provided significant tax incentives and relaxed certain regulatory restrictions in order to encourage foreign investment in specified sectors of the economy, including the business process outsourcing industry. Those programs that have benefited us include tax holidays, liberalized import and export duties and preferential rules on foreign investment and repatriation. We cannot assure you that such liberalization policies will continue. Various factors, including a collapse of the present coalition government due to the withdrawal of support of coalition members, could trigger significant changes in India s economic liberalization and deregulation policies and disrupt business and economic conditions in India generally and our business in particular. The government of India may decide to introduce the reservation policy. According to this policy, all companies operating in the private sector in India, including our subsidiaries in India, would be required to reserve a certain percentage of jobs for the economically underprivileged population in the relevant state where such companies are incorporated. If this policy is introduced, our ability to hire employees of our choice may be restricted. Our financial performance and the market price of our ADSs may be adversely affected by changes in inflation, exchange rates and controls, interest rates, government of India policies (including taxation policies), social stability or other political, economic or diplomatic developments affecting India in the future.

India has witnessed communal clashes in the past. Although such clashes in India have, in the recent past, been sporadic and have been contained within reasonably short periods of time, any such civil disturbance in the future could result in disruptions in transportation or communication networks, as well as have adverse implications for general economic conditions in India. Such events could have a material adverse effect on our business, on the value of our ADSs and on your investment in our ADSs.

If the government of India reduces or withdraws tax benefits and other incentives it currently provides to companies within our industry or if the same are not available for any other reason, our financial condition could be negatively affected.

Under the Indian Finance Act, 2000, except for one delivery center located in Mumbai, all our delivery centers in India benefit from a ten-year holiday from Indian corporate income taxes. As a result, our service operations, including any businesses we acquire, have been subject to relatively low Indian tax liabilities. We incurred minimal income tax expense on our Indian operations in fiscal 2007 as a result of the tax holiday, compared to approximately $8.7 million that we would have incurred if the tax holiday had not been available for that period.

The Indian Finance Act, 2000, phases out the tax holiday over a ten-year period from fiscal 2000 through fiscal 2009. The tax holiday enjoyed by our delivery centers in India expires in stages, on April 1, 2008 for one of our delivery centers located in Nashik, and on April 1, 2009 for our delivery centers located in Mumbai, Pune, Nashik and Gurgaon. When our Indian tax holiday expires or terminates, or if the government of India withdraws or reduces the benefits of the Indian tax holiday, our Indian tax expense will materially increase and this increase will have a material impact on our results of operations. In the absence of a tax holiday, income derived from India would be taxed up to a maximum of the then existing annual tax rate which, as of March 31, 2007, was 33.66%.

In May 2007, the Indian Finance Act, 2007 was adopted, with the effect of subjecting Indian companies that benefit from a holiday from Indian corporate income taxes to the minimum alternate tax, or MAT, at the rate of 11.33% in the case of profits exceeding Rs. 10 million and 10.3% in the case of profits not exceeding Rs. 10 million with effect from April 1, 2007. As a result of this amendment to the tax regulations, we will be subject to MAT and be required to pay additional taxes commencing fiscal 2008. To the extent MAT paid exceeds the actual tax payable on our taxable income, we would be able to set off such MAT credits against tax payable in the succeeding seven years, subject to the satisfaction of certain conditions.

In addition, in May 2007, the government of India implemented a fringe benefit tax on the allotment of shares pursuant to the exercise or vesting, on or after April 1, 2007, of options and restricted share units, or RSUs, granted to employees. The fringe benefit tax is payable by the employer at the rate of 33.99% on the difference between the fair market value of the options and RSUs on the date of vesting of the options and RSUs and the exercise price of the options and the purchase price (if any) for the RSUs, as applicable. The government of India has not published its guidelines on how the fair market value of the options and RSUs should be determined. The new legislation permits the employer to recover the fringe benefit tax from the employees. However, we may decide in the future not to

recover, or we may be unsuccessful in recovering, the fringe benefit tax from our employees, which may cause our overall expense to increase, possibly materially, and impact our cash flows.

In 2005, the government of India implemented the Special Economic Zones Act, 2005, or the SEZ legislation, with the effect that taxable income of new operations established in designated special economic zones, or SEZs, may be eligible for a 15-year tax holiday scheme consisting of a complete tax holiday for the initial five years and a partial tax holiday for the subsequent 10 years, subject to the satisfaction of certain conditions. However, the Ministry of Finance in India has expressed concern about the potential loss of tax revenues as a result of the exemptions under the SEZ legislation. The SEZ legislation has been criticized on economic grounds by the International Monetary Fund and the SEZ legislation may be challenged by certain non-governmental organizations. It is possible that, as a

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result of such political pressures, the procedure for obtaining the benefits of the SEZ legislation may become more onerous, the types of land eligible for SEZ status may be further restricted or the SEZ legislation may be amended or repealed. Moreover, there is continuing uncertainty as to the governmental and regulatory approvals required to establish operations in the SEZs or to qualify for the tax benefit. This uncertainty may delay our establishment of operations in the SEZs.

US and Indian transfer pricing regulations require that any international transaction involving associated enterprises be at an arm s-length price. We consider the transactions among our subsidiaries and us to be on arm s-length pricing terms. If, however, the applicable income tax authorities review any of our tax returns and determine that the transfer prices we have applied are not appropriate, we may incur increased tax liability, including accrued interest and penalties, which would cause our tax expense to increase, possibly materially, thereby reducing our profitability and cash flows.

Terrorist attacks and other acts of violence involving India or its neighboring countries could adversely affect our operations, resulting in a loss of client confidence and adversely affecting our business, results of operations, financial condition and cash flows.

Terrorist attacks and other acts of violence or war involving India or its neighboring countries, may adversely affect worldwide financial markets and could potentially lead to economic recession, which could adversely affect our business, results of operations, financial condition and cash flows. South Asia has, from time to time, experienced instances of civil unrest and hostilities among neighboring countries, including India and Pakistan. In recent years, military confrontations between India and Pakistan have occurred in the region of Kashmir and along the India/Pakistan border. There have also been incidents in and near India such as a terrorist attack on the Indian Parliament, troop mobilizations along the India/Pakistan border and an aggravated geopolitical situation in the region. Such military activity or terrorist attacks in the future could influence the Indian economy by disrupting communications and making travel more difficult. Resulting political tensions could create a greater perception that investments in Indian companies involve a high degree of risk. Such political tensions could similarly create a perception that there is a risk of disruption of services provided by India-based companies, which could have a material adverse effect on the market for our services.

Furthermore, if India were to become engaged in armed hostilities, particularly hostilities that were protracted or involved the threat or use of nuclear weapons, we might not be able to continue our operations.

Restrictions on entry visas may affect our ability to compete for and provide services to clients in the US, which could have a material adverse effect on future revenue.

The vast majority of our employees are Indian nationals. The ability of some of our executives to work with and meet our European and North American clients and our clients from other countries depends on the ability of our senior managers and employees to obtain the necessary visas and entry permits. In response to recent terrorist attacks and global unrest, US and European immigration authorities have increased the level of scrutiny in granting visas. Immigration laws in those countries may also require us to meet certain other legal requirements as a condition to obtaining or maintaining entry visas. These restrictions have significantly lengthened the time requirements to obtain visas for our personnel, which has in the past resulted, and may continue to result, in delays in the ability of our personnel to meet with our clients. In addition, immigration laws are subject to legislative change and varying standards of application and enforcement due to political forces, economic conditions or other events, including terrorist attacks. We cannot predict the political or economic events that could affect immigration laws, or any restrictive impact those events could have on obtaining or monitoring entry visas for our personnel. If we are unable to obtain the necessary visas for personnel who need to visit our clients sites, or if such visas are delayed, we may not be able to provide services to our clients or to continue to provide services on a timely basis, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Currency fluctuations among the Indian rupee, the pound sterling and the US dollar could have a material adverse effect on our results of operations.

Although substantially all of our revenue is denominated in pound sterling or US dollars, a significant portion of our expenses (other than payments to repair centers, which are primarily denominated in pound sterling) are incurred and paid in Indian rupees. We report our financial results in US dollars and our results of operations would be adversely

affected if the Indian rupee appreciates against the US dollar or the pound sterling depreciates against the US dollar. The exchange rates between the Indian rupee and the US dollar and between the pound sterling and the US dollar have changed substantially in recent years and may fluctuate substantially in the future.

The average Indian rupee/US dollar exchange rate was approximately Rs. 45.12 per $1.00 (based on the noon buying rate) in fiscal 2007, which represented a depreciation of the Indian rupee of 2.17% as compared with the average exchange rate of approximately Rs. 44.17 per $1.00 (based on the noon buying rate) in fiscal 2006, which in turn represented an appreciation of the Indian rupee of 1.55% as compared with the average exchange rate of approximately Rs. 44.86 per $1.00 (based on the noon buying rate) in fiscal 2005. The average pound sterling/US dollar exchange rate was approximately £0.53 per $1.00 (based on the noon buying rate) in fiscal 2007, which represented an appreciation of the pound sterling of 5.63% as compared with the average exchange rate of approximately £0.56 per $1.00 (based on the noon buying rate) in fiscal 2006, which in turn represented a depreciation of the pound sterling of 3.35% as compared with the average exchange rate of approximately £0.54 per $1.00 (based on the noon buying rate) in fiscal 2005. Our results of operations may be adversely affected if the Indian rupee appreciates significantly against the pound sterling or the US dollar or if the pound sterling depreciates against the US dollar. We hedge a portion of our foreign currency exposures using options and forward contracts. We cannot assure you that our hedging strategy will be successful or will mitigate our exposure to currency risk.

If more stringent labor laws become applicable to us, our profitability may be adversely affected.

India has stringent labor legislation that protects the interests of workers, including legislation that sets forth detailed procedures for dispute resolution and employee removal and legislation that imposes financial obligations on employers upon retrenchment. Though we are exempt from a number of these labor laws at present, there can be no assurance that such laws will not become applicable to the business process outsourcing industry in India in the future. In addition, our employees may in the future form unions. If these labor laws become applicable to our workers or if our employees unionize, it may become difficult for us to maintain flexible human resource policies, discharge employees or downsize, and our profitability may be adversely affected.

An outbreak of an infectious disease or any other serious public health concerns in Asia or elsewhere could cause our business to suffer.

The outbreak of an infectious disease in Asia or elsewhere could have a negative impact on the economies, financial markets and business activities in the countries in which our end markets are located and could thereby have a material adverse effect on our business. The outbreak of SARS in 2003 in Asia and the outbreak of the avian influenza, or bird flu, across Asia and Europe, including the recent outbreak in India, have adversely affected a number of countries and companies. Although we have not been adversely impacted by these recent outbreaks, we can give no assurance that a future outbreak of an infectious disease among humans or animals will not have a material adverse effect on our business.

Risks Related to our ADSs

Substantial future sales of our shares or ADSs in the public market could cause our ADS price to fall.

Sales by us or our shareholders of a substantial number of our ADSs in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. These sales, or the perception that these sales could occur, also might make it more difficult for us to sell securities in the future at a time or at a price that we deem appropriate or pay for acquisitions using our equity securities. As of May 31, 2007, we had 41,895,246 ordinary shares outstanding, including 18,703,765 shares represented by 18,703,765 ADSs. In addition, as of May 31, 2007, there were options and RSUs outstanding under our 2002 Stock Incentive Plan and our 2006 Incentive Award Plan to purchase a total of 3,200,130 ordinary shares or ADSs. All ADSs are freely transferable, except that ADSs owned by our affiliates, including Warburg Pincus, may only be sold in the US if they are registered or qualify for an exemption from registration, including pursuant to Rule 144 under the Securities Act of 1933, as amended, or the Securities Act. The remaining ordinary shares outstanding may be sold in the United States if they are registered or qualify for an exemption from registration, including pursuant to Rule 144 under the Securities Act.

The market price for our ADSs may be volatile.

The market price for our ADSs is likely to be highly volatile and subject to wide fluctuations in response to factors including the following:

- announcements of technological developments;

- regulatory developments in our target markets affecting us, our clients or our competitors;

- actual or anticipated fluctuations in our quarterly operating results;
- changes in financial estimates by securities research analysts;
- changes in the economic performance or market valuations of other companies engaged in business process outsourcing;
- addition or loss of executive officers or key employees;
- sales or expected sales of additional shares or ADSs; and
- loss of one or more significant clients.

In addition, securities markets generally and from time to time experience significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also have a material adverse effect on the market price of our ADSs.

Holders of ADSs may be restricted in their ability to exercise voting rights.

At our request, the depositary of the ADSs will mail to you any notice of shareholders meeting received from us together with information explaining how to instruct the depositary to exercise the voting rights of the ordinary shares represented by ADSs. If the depositary timely receives voting instructions from you, it will endeavor to vote the ordinary shares represented by your ADSs in accordance with such voting instructions. However, the ability of the depositary to carry out voting instructions may be limited by practical and legal limitations and the terms of the ordinary shares on deposit. We cannot assure you that you will receive voting materials in time to enable you to return voting instructions to the depositary in a timely manner. Ordinary shares for which no voting instructions have been received will not be voted.

As a foreign private issuer, we are not subject to the Commission s proxy rules which regulate the form and content of solicitations by US-based issuers of proxies from their shareholders. The form of notice and proxy statement that we have been using does not include all of the information that would be provided under the Commission s proxy rules.

We may be classified as a passive foreign investment company for our taxable year ended March 31, 2007, which could result in adverse United States federal income tax consequences to US Holders.

The application of the passive foreign investment company, or PFIC, rules to us in respect of our taxable year ended March 31, 2007 is uncertain. A non-US corporation will be considered a PFIC for any taxable year if either (1) under the PFIC income test, at least 75% of its gross income is passive income or (2) under the PFIC asset test, at least 50% of its assets (determined on the basis of a quarterly average) is attributable to assets that produce or are held for the production of passive income for such taxable year. However, the application of the PFIC asset test to a corporation that is a controlled foreign corporation, or a CFC (as defined under the United States federal income tax law), for its taxable year in which it becomes a publicly traded corporation after its first quarter is not clear. Because we were a CFC for our taxable year ended on March 31, 2007, the application of the PFIC asset test to us for our taxable year ended March 31, 2007 is uncertain.

Under the least favorable interpretation of the PFIC asset test, there is risk that we may be treated as a PFIC in respect of our taxable year ended March 31, 2007. Under more favorable interpretations of the PFIC assets test, we believe that we would not be treated as a PFIC for our taxable year ended March 31, 2007. It may be reasonable for US Holders (as defined under Item 10. Additional Information E. Taxation US Federal Income Taxation) to apply a more favorable interpretation of this test for purposes of determining and reporting the US federal income tax consequences of their investment in the ADSs or ordinary shares, although these holders should consult their own tax advisers regarding the reasonableness of this position. US Holders also should note that the United States Internal Revenue Service, or IRS, could seek to apply the least favorable interpretation.

If we are treated as a PFIC for any taxable year during which a US Holder owns an ADS or an ordinary share, adverse US federal income tax consequences could apply to that holder. See Item 10. Additional Information E. Taxation US Federal Income Taxation Passive Foreign Investment Company. US Holders are urged to consult their own tax

advisors regarding the potential application of the PFIC rules to their ownership of ADSs or ordinary shares and the availability and advisability of any elections.

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ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of our Company

WNS (Holdings) Limited was incorporated as a private liability company on February 18, 2002 under the laws of Jersey, Channel Islands, and maintains a registered office in Jersey at Channel House, 7 Esplanade, St Helier, Jersey, Channel Islands . We converted from a private limited company to a public limited company on January 4, 2006 when we acquired more than 30 shareholders as calculated in accordance with Article 17A of the Companies (Jersey) Law, 1991, or the 1991 Law. We gave notice of this to the Jersey Financial Services Commission in accordance with Article 17(3) of the 1991 Law on January 12, 2006. Our principal executive office is located at Gate 4, Godrej & Boyce Complex, Pirojshanagar, Vikhroli (W), Mumbai 400 079, India, and the telephone number for this office is (91-22) 4095-2100. Our website address is *www.wnsgs.com*. **Information contained on our website does not constitute part of this annual report.** Our agent for service in the US is our subsidiary, WNS North America Inc., 420 Lexington Avenue, Suite 2515, New York, New York 10170.

We began operations as an in-house unit of British Airways in 1996, and started focusing on providing business process outsourcing services to third parties in fiscal 2003. Warburg Pincus acquired a controlling stake in our company from British Airways in May 2002 and inducted a new senior management team. In fiscal 2003, we acquired Town & Country Assistance Limited (which we subsequently rebranded as WNS Assistance and which constitutes our reportable segment for financial statement purposes, called WNS Auto Claims BPO), a UK-based automobile claims handling company, thereby extending our service portfolio beyond the travel industry to include insurance-based automobile claims processing. In fiscal 2004, we acquired the health claims management business of Greensnow Inc. In fiscal 2006, we acquired Trinity Partners (which we merged into our subsidiary, WNS North America Inc.), a provider of business process outsourcing services to financial institutions, focusing on mortgage banking. In August 2006, we acquired from PRG Airline Services Limited its fare audit services business. In May 2007, we acquired Marketics, a provider of offshore analytics services. In June 2007, we acquired Flovate, a company engaged in the development and maintenance of software products and solutions.

We are headquartered in Mumbai, India and we have client service offices in New York (US) and London (UK) and delivery centers in Ipswich (UK), Tucson (US), India and Sri Lanka. We completed our initial public offering in July 2006 and our ADSs are listed on the New York Stock Exchange, or the NYSE, under the symbol WNS.

Our capital expenditures in fiscal 2007, 2006 and 2005 amounted to $27.5 million, $14.9 million and $18.3 million, respectively. Our principal capital expenditures were incurred for the purposes of setting up new delivery centers or expanding existing delivery centers and setting up related technology to enable offshore execution and management of clients business processes. We expect our capital expenditure needs in fiscal 2008 to be approximately $36 million, a significant amount of which we expect to expend on building new facilities in India. We expect to meet these estimated capital expenditures from cash generated from operating activities and existing cash and cash equivalents (including the remaining proceeds to us from our initial public offering).

B. Business Overview

We are a leading provider of offshore business process outsourcing, or BPO, services. We provide comprehensive data, voice and analytical services that are underpinned by our expertise in our target industry sectors. We transfer the business processes of our clients, which are typically companies located in Europe and North America, to our delivery centers located primarily in India. We provide high quality execution of client processes, monitor these processes against multiple performance metrics, and seek to improve them on an ongoing basis.

We began operations as an in-house unit of British Airways in 1996, and started focusing on providing business process outsourcing services to third parties in fiscal 2003. According to the National Association of Software and Service Companies, or NASSCOM, an industry association in India, we were among the top two India-based offshore business process outsourcing companies in terms of revenue in 2004, 2005 and 2006. As of March 31, 2007, we had 15,084 employees executing over 400 distinct business processes on behalf of over 150 significant clients. Our largest clients in terms of revenue contribution include leading global corporations such as Air Canada, AVIVA, British Airways, Centrica, First Magnus Financial Corporation, GfK, Marsh, SITA, Travelocity and Virgin Atlantic Airways. See Clients.

We design, implement and operate comprehensive business processes for our clients, involving data, voice and analytical components. Our services include industry-specific processes that are tailored to address our clients business and industry

practices, particularly in the travel and banking, financial services and insurance, or BFSI, industries. We also offer services applicable across multiple industries, in areas such as finance and accounting, human resources and supply chain management, which we collectively refer to as enterprise services, and in the areas of market, business and financial research and analytics, which we refer to as knowledge services. Our comprehensive service portfolio allows us to penetrate our clients and the industries we serve.

We generate revenue primarily from providing business process outsourcing services. A portion of our revenue includes payments which we make to automobile repair centers. We evaluate our business performance based on revenue net of these payments, since we believe that revenue less repair payments reflects more accurately the value of the business process outsourcing services we directly provide to our clients. For fiscal 2007, our revenue was $352.3 million, our revenue less repair payments was $219.7 million and our net income was $26.6 million. Between fiscal 2005 and fiscal 2007, our revenue grew at a compound annual growth rate of 47.4% and our revenue less repair payments grew at a compound annual growth rate of 49.0%, faster than the projected 38.9% compound annual growth rate of the overall Indian offshore business process outsourcing industry for the comparable period as estimated by the NASSCOM Strategic Review, 2007. During this period, we grew both organically and through acquisitions. We believe we have achieved rapid growth and industry leadership through our understanding of the industries in which our clients operate, our focus on operational excellence, and a senior management team with significant experience in the global outsourcing industry. Our revenue is characterized by client, industry, geographic and service diversity, which we believe offers us a sustainable business model.

Industry Overview

Businesses globally are outsourcing a growing proportion of their business processes to streamline their organizations, focus on core operations, create flexibility, benefit from best-in-class process execution and thereby increase shareholder returns. More significantly, many of these businesses are outsourcing to offshore locations such as India to access a high quality and cost-effective workforce. We are a pioneer in the offshore business process outsourcing industry and are well positioned to benefit from the combination of the outsourcing and offshoring trends.

The global business process outsourcing industry is large and growing rapidly. According to International Data Corporation, or IDC, the global business process outsourcing market was $422.0 billion in 2005 and is projected to grow at a 10.9% compound annual growth rate from 2004 through 2009 to $641.0 billion. In comparison, IDC forecasts the information technology services market (excluding business process outsourcing) to grow at a compound annual growth rate of 6.0% over this same period, from $417.0 billion to $553.0 billion.

The offshore business process outsourcing industry is growing at a significantly faster rate than the overall global business process outsourcing industry. A joint report, or the NASSCOM-McKinsey report, published by NASSCOM and McKinsey & Company, in December 2005, estimates that the offshore business process outsourcing market will grow at a 37.0% compound annual growth rate, from $11.4 billion in revenue in fiscal 2005 to $55.0 billion in revenue in fiscal 2010. The same report estimates that the total value of business processes that could have been provided by offshore business process outsourcing providers in fiscal 2006 represents an addressable market of approximately $120.0 billion to $150.0 billion. Accordingly, we believe that offshore business process outsourcing has significant growth potential because we believe it constitutes less than 10.0% of the current addressable market described above. NASSCOM has identified retail banking, insurance, travel and hospitality and automobile manufacturing as the industries with the greatest potential for offshore outsourcing. We provide industry-focused business process outsourcing services to the majority of these industries.

The following charts set forth the relative growth rate and size of the global business process outsourcing industry and the global information technology industry, in addition to the expected growth rate of the Indian offshore business process outsourcing industry:

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We believe that India is widely considered to be the most attractive destination for offshore business process outsourcing. According to the NASSCOM-McKinsey report, India-based players account for 45.0% of offshore business process outsourcing revenue in fiscal 2006, and India will retain its position as the most favored offshore business process outsourcing destination for the foreseeable future. The key factors for India s predominance include its large, growing and highly educated English-speaking workforce coupled with a business and regulatory environment that is conducive to the growth of the business process outsourcing industry.

While a limited number of global corporations such as General Electric, British Airways (through our subsidiary, WNS Global) and American Express set up in-house business process outsourcing facilities in India in the mid-1990s, offshore business process outsourcing growth only accelerated significantly from 2000 onwards with the emergence of third party providers. This has been followed by a shift in focus from largely call center related outsourcing in areas such as tele-marketing and client service to a wider range of business processes such as finance and accounting, insurance claims administration and market research analysis. This shift in focus has given rise to an India-based offshore industry capable of providing a wide range of complex services.

Offshore business process outsourcing is typically a long-term strategic commitment for companies. The processes that companies outsource are frequently complex and integrated with their core operations. These processes require a high degree of customization and, often, a multi-stage offshore transfer program. Clients would therefore incur high switching costs to transfer these processes back to their home locations or to other business process outsourcing providers. As a result, once an offshore business process outsourcing provider gains the confidence of a client, the resulting business relationship is usually characterized by multi-year contracts with predictable annual revenue.

Given the long-term, strategic nature of these engagements, companies undertake a highly rigorous process in evaluating their offshore business process outsourcing provider. We believe a client typically seeks the following key attributes in a potential offshore business process outsourcing provider:

- established reputation and industry leadership;
- demonstrated ability to execute a diverse range of mission-critical and often complex business processes;
- capability to scale employees and infrastructure without a diminution in quality of service; and
- ability to innovate, add new operational expertise and drive down costs.

As the offshore business process outsourcing industry evolves further, we believe that scale, reputation and leadership will become more important factors in this selection process.

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Competitive Strengths

We believe that we have the following seven competitive strengths necessary to maintain and enhance our position as a leading provider of offshore business process outsourcing services:

Offshore business process outsourcing market leadership

We have received recognition as an industry leader from various industry bodies or publications. For example:

- NASSCOM named us one of the top two Indian offshore business process outsourcers in 2006, 2005 and 2004;

- neoIT ranked us as the best performing business process outsourcing company in 2005;

- Global Outsourcing named us the leading insurance outsourcer in India in 2005; and

- the Black Book of Outsourcing ranked us number two among the global BPO services providers in the travel industry, number three among the global BPO services providers in the mortgage banking industry and number six among the global BPO services providers in the market research industry in 2006.

We have provided leadership to the offshore business process outsourcing industry as demonstrated by our anticipation of key industry trends. For example, since our emergence as a focused third party business process outsourcing provider, we have proactively targeted two of the most attractive industry sectors, BFSI and travel. In addition, we have focused our service portfolio on complex processes, avoiding services that are less integral to our clients operations, such as telemarketing and collections, which characterized the offshore business process outsourcing industry at that time.

We believe our early differentiation from other players and the substantial length of our working relationship with many industry-leading clients has significantly contributed to our reputation as a trusted provider of offshore business process outsourcing services. We believe that this reputation is a key differentiator in our attracting and winning clients.

Deep industry expertise

We have established expertise in the industries we target. We have developed our business by creating focused business units that provide industry-specific services. Our industry-focused strategy allows us to retain and enhance expertise thereby enabling us to:

- offer a suite of services that can deliver a comprehensive industry-focused business process outsourcing program;

- leverage our existing capabilities to win additional clients and identify new industry-specific service offerings;

- cultivate client relationships that may involve few processes upon initial engagement to develop deeper engagements ultimately involving a number of integrated processes;

- recruit and retain talented employees by offering them industry-focused career paths; and

- achieve market leadership in several of the industries we target. For example, we were ranked as the leading insurance outsourcer in India by Global Outsourcing in 2005, as number two among the global BPO services providers in the travel industry by the Black Book of Outsourcing in 2006, and we believe we have the largest and most diverse operations in the offshore travel business process outsourcing market.

Experience in transferring processes offshore and running them efficiently

Many of the business processes that are outsourced by clients to us are mission critical and core to their operations, requiring substantial project management expertise. We have developed a sophisticated program management methodology intended to ensure smooth transfer of business processes from our clients facilities to our delivery centers. For example, our highly

experienced program management team has transferred over 400 distinct business processes for over 150 significant clients in the last five years.

We focus on managing our client processes effectively on an ongoing basis. Our process delivery is managed by independent empowered teams and measured regularly against pre-defined operational metrics. We have also invested in a 380-person quality assurance team that satisfies the International Standard Organization 9001:2000 standards for quality management systems, and applies Six Sigma, a statistical methodology for improving consistent quality across processes, and other process re-engineering methodologies to further improve our process delivery.

The composition of our revenue enables us to continuously optimize the efficiency of our operations to achieve higher asset utilization. This is driven by our combination of data and voice services across the different time zones of North America and Europe.

Diversified client base across multiple industries and geographic locations

We have a large, diversified client base of over 150 significant clients across Europe and North America, including clients who are market leaders within their respective industries. We have clients across the multiple sectors of the travel and BFSI industries as well as other industries such as manufacturing, logistics, retail, utilities and professional services. To date, many of our clients have transferred a limited number of their business processes offshore. We believe, therefore, that we have a significant opportunity to increase the revenue we generate from these clients in the future as they decide to expand their commitment to offshore business process outsourcing.

Industry-recognized leadership in human capital development

We are recognized as a leader in human resources management among offshore business process outsourcing companies. We have won a number of awards, including being ranked number one in human capital development in 2005 by neoIT, an industry consultant, and being ranked number one in the Asia Pacific region for excellence in human resources by India s National Institute of Personnel Managers. Our market leadership and organizational culture enables us to attract and retain high quality employees.

Our extensive recruiting process utilizes sophisticated tools such as the Predictive Index, a psychometric tool we use to help us screen candidates on multiple parameters and to appropriately match employees to the most suitable positions. We have established the WNS Learning Academy, which provides ongoing training to our employees for the purpose of continuously improving their leadership and professional skills. We seek to promote our team leaders and operations managers from within, thereby offering internal advancement opportunities and clear long-term career paths.

Ability to manage the rapid growth of our organization

We have invested significant management effort toward ensuring that our organization is positioned to continuously scale to meet the robust demand for offshore business process outsourcing services. We are capable of evaluating over 9,000 potential employees and recruiting, hiring and training over 900 employees each month, enabling us to rapidly expand and support our clients. We have also established a highly scalable operational infrastructure in multiple locations supported by a world-class information technology and communications network infrastructure.

Experienced management team

We benefit from the effective leadership of a global management team with diverse backgrounds including extensive experience in outsourcing. Most of our core senior management team members have been with us since fiscal 2003, and have successfully executed the growth strategy that has increased our client base from 14 clients as of May 2002 to over 150 significant clients as of March 31, 2007 and increased our revenue from $162.2 million in fiscal 2005 to $352.3 million in fiscal 2007 and our revenue less repair payments from $99.0 million in fiscal 2005 to $219.7 million in fiscal 2007. Moreover, we believe that our management has successfully guided our rapid expansion while increasing client satisfaction, as demonstrated by our in-house customer feedback surveys. In addition to our senior management team, our middle management team provides us with the critical leadership depth needed to manage our rapid growth.

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Business Strategy

Our objective is to strengthen our position as a leading offshore business process outsourcing provider. To achieve this, we will seek to expand our client base and further develop our industry expertise, enhance our brand to attract new clients, develop organically new business services and industry-focused operating units and make selective acquisitions. The key elements of our strategy are described below.

Drive rapid growth through penetration of our existing client base

We have a large and diverse existing client base that includes many leading global corporations, most of whom have transferred only a limited number of their business processes offshore. We intend to leverage our expertise in providing comprehensive process solutions by seeking to identify additional processes that can be transferred offshore, cross-selling new services, adding technology-based offerings, and expanding and deepening our existing relationships. We have dedicated account managers tasked with maintaining a thorough understanding of our clients outsourcing roadmaps as well as identifying and advocating new offshoring opportunities. As a result of this strategy, we have a strong track record of extending the scope of our client relationships over time.

Enhance awareness of the WNS brand name

Our reputation for operational excellence among our clients has been instrumental in attracting and retaining new clients as well as talented and qualified employees. We believe we have benefited from strong word-of-mouth brand equity in the past. However, as the scale of the offshore business process outsourcing market grows, we will seek to increase client awareness of the WNS brand in our target markets and among potential employees. We also intend to focus on building market awareness of our industry expertise through exposure in industry publications and participation in industry conferences. In order to achieve this enhanced awareness, we are investing in hiring new senior marketing professionals.

Reinforce leadership in existing industries and penetrate new industry sectors

We have a highly successful industry-focused operating model through which we have established a leading offshore business process outsourcing practice in the travel and BFSI sectors. We intend to leverage our in-depth knowledge of these industries to penetrate additional sectors within these industries. For example, in the travel sector, we believe that there are potential opportunities we can exploit in the hotel, cruise-liner and car rental sectors. In addition, we intend to develop our existing expertise in emerging businesses such as the manufacturing, logistics, retail, utilities and professional services industries. We intend to leverage our enterprise services and knowledge services, which are applicable across multiple industries, to first penetrate these targeted industries and thereafter build specific industry expertise to achieve scale with an objective of establishing new industry-focused business units.

Broaden industry expertise and enhance growth through selective acquisitions

Our acquisition strategy is focused on adding new capabilities and industry expertise. Our acquisition track record demonstrates our ability to integrate, manage and develop the specific capabilities we acquire. Our intention is to continue to pursue targeted acquisitions in the future and to rely on our integration capabilities to expand the growth of our business.

Business Process Outsourcing Service Offerings

We offer our services to three main categories of clients through industry-focused business units. First, we serve clients in the travel industry, including airlines, travel intermediaries and other related service providers, for whom we perform services such as customer service and revenue accounting. Second, we serve clients in the BFSI industry, for whom we perform services such as loan processing and insurance claims management. Third, we serve clients in several other industries including manufacturing, retail, logistics, utilities and professional services, which we refer to as emerging businesses. In addition to industry-specific services, we offer a range of services across multiple industries, in areas such as finance and accounting, human resources and supply chain management, which we collectively refer to as enterprise services, and in the areas of market, business and financial research and analytical services, which we refer to as knowledge services. This structure is depicted in the graphic below:

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To achieve in-depth understanding of our clients industries and provide industry-specific services, each business unit is staffed by a dedicated team of managers and employees engaged in providing business process outsourcing client solutions, and has its own operations, sales, finance, human resources and training teams. In addition, each business unit draws upon common support services from our information technology, corporate communications, corporate finance, risk management and legal departments, which we refer to as our corporate-enabling units.

Travel

According to the NASSCOM-McKinsey report, the travel and hospitality industry presented an addressable offshore business process outsourcing opportunity estimated to be between $10.0 billion and $12.0 billion in fiscal 2007. The current penetration by offshore business process outsourcing providers is approximately 3.0%, leaving considerable growth potential. We believe that we currently have the largest and most diverse service offering among offshore business process outsourcing service providers in the travel domain.

Our service portfolio includes processes that support air, car, hotel, marine and packaged travel services offered by our clients. The key travel industry sectors we serve include:

- airlines;
- travel intermediaries; and
- others such as global distribution systems and network providers.

We serve a diverse client base in this business unit that includes Air Canada, British Airways, Virgin Atlantic Airways, SITA and Travelocity. We also serve 18 other airlines and 16 travel intermediaries. As of March 31, 2007, we had approximately 5,300 employees in this business unit, several hundred of whom have International Air Transport Association, or IATA, certifications. In fiscal 2007 and 2006, this business unit represented 22.8% and 33.1% of our revenue and 36.6% and 45.4% of our revenue less repair payments.

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The following graphic illustrates the key areas in which we provide services to clients in this business unit:

Case Study. We were retained by a major airline client that was faced with increasing competitive pressure from low-cost carriers and needed to reduce its costs. We worked with this client to develop an offshore business process outsourcing strategy to fundamentally alter its service delivery model with the goal of increasing its cost efficiency. We initially started providing business process outsourcing services to this client with 12 employees handling a single process. As of March 31, 2007, approximately 1,100 employees were executing over 85 different processes for this client, which included a variety of complex processes. We categorize these processes into six broad areas:

- customer interaction: customer complaint resolution, loyalty program management;
- passenger revenue accounting: refunds, fare audit, ticket coupon matching, sales accounting;
- cargo operations and accounting: scheduling, booking, flight planning, mail revenue accounting;
- revenue management: seat allocation, processing meal requests, yield maximization through inventory management, fare filing, fare construction and quotation;
- reporting and analytics: aircraft load factor, costs, market share, revenue and competition reports; and
- other miscellaneous services: updating employee records, calculation of medical leave and overtime for staff.

We believe that by transferring these processes to us, the client has achieved significant cost savings, and increased its levels of end-customer satisfaction. These benefits are in addition to process-specific productivity improvements such as higher quality and accuracy levels.

BFSI

According to the NASSCOM-McKinsey report, two sectors of the BFSI industry presented an addressable offshore business process outsourcing opportunity estimated to be between $60.0 billion and $75.0 billion in fiscal 2005, with current penetration estimated to be below 9.0%. Of this addressable market, approximately $35.0 billion to $40.0 billion is attributable to the retail banking sector and approximately $25.0 billion to $35.0 billion is attributable to the insurance sector. In 2005, we were ranked as the leading insurance outsourcer in India by Global Outsourcing. We also have growing expertise in the retail and mortgage banking, and asset management sectors.

The key BFSI industry sectors we serve are:

- integrated financial institutions;
- mortgage banks and investors in mortgage-backed securities;

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- financial advisory service providers;
- life, property and casualty, and health insurers;
- insurance brokers and loss assessors; and
- self-insured auto fleet owners.

We serve a diverse client base in this business unit that includes AVIVA, First Magnus Financial Corporation and Marsh. We also serve a large US-based financial advisory provider, a top ten UK auto insurer, a large insurance loss adjuster, several self-insured fleet owners and several mortgage-related companies. As of March 31, 2007, we had approximately 4,400 employees working in this business unit. In fiscal 2007 and 2006, revenue from this business unit represented 61.8% and 55.6% of our revenue and revenue less repair payments from this business unit represented 38.7% and 39.1% of our revenue less repair payments.

The following graphic illustrates the key areas in which we provide services to clients in this business unit:

In the areas of retail and mortgage banking, we offer an integrated service delivery solution called Digital Loan Management, or DLM, which combines automated mortgage processing with offshore delivery. Our BFSI business unit also includes our auto claims business, branded WNS Assistance, which is comprised of our WNS Auto Claims BPO segment. WNS Assistance offers a blended onshore-offshore delivery model that enables us to handle the entire automobile insurance claims cycle. We offer comprehensive accident management services to our clients where we arrange for repair of automobiles through a network of repair centers. We also offer claims management services where we process accident insurance claims for our clients. Our employees receive telephone calls reporting automobile accidents, generate electronic insurance claim forms and arrange for automobile repairs in cases of automobile damage. We also provide third party claims handling services including the administration and settlement of property and bodily injury claims while providing repair management and rehabilitation services to our insured and self-insured fleet clients and the end-customers of our insurance company clients. Our service for uninsured losses focuses on recovering repair costs and legal expenses directly from negligent third parties. See Item 5. Operating and Financial Review and Prospects Results by Reportable Segment.

Case Study. We were engaged by a leading US residential mortgage lender, measured by volume, to develop and execute its long-term offshore business process outsourcing strategy, based on our domain expertise and specific focus on mortgage banking. We executed the engagement in a phased manner where low-risk processes such as document indexing were moved offshore first, followed by more complex processes which required a significant degree of specialized training and customization. Since the inception of this relationship in 2003, we have deployed over 500 employees on more than 30 business processes, including loan origination, underwriting, closing, post-closing and loan administration services. In moving these processes offshore, the client has benefited by reducing its operational costs, obtaining quicker turnaround times on transactions, improving accuracy,

quality and capacity management, and gaining an ability to focus on its core competencies such as customer acquisition and new product development.

Emerging Businesses

Our emerging businesses unit addresses the needs of the manufacturing, logistics, retail, utilities and professional services industries. We believe these industries are at a nascent stage of offshore business process outsourcing adoption, and therefore present significant opportunities for growth.

We serve a diverse client base including Centrica, GfK, Fedex and Indymac. In fiscal 2007, we had approximately 4,800 employees in this business unit. In fiscal 2007 and 2006, this business unit represented 15.4% and 11.3% of our revenue and 24.7% and 15.5% of our revenue less repair payments.

Our strategy for the emerging businesses unit is to nurture and develop emerging industry-specific capabilities up to a point of critical mass from which new industry-focused operating units may emerge. We utilize two core service capabilities to penetrate emerging businesses. These capabilities are broadly classified as:

- Enterprise Services, focused on finance and accounting, human resource and supply chain management services; and

- Knowledge Services, focused on market, business and financial research and analytical services.

Enterprise Services

Our enterprise services business unit focuses on various functions that are critical to our clients businesses. These functions include corporate and transactional accounting, payroll and benefits administration, order entry and tracking, and inbound supply chain and vendor management. The following graphic illustrates the key enterprise services we provide:

Case Study. A leading global gas utility, which is also a Fortune 100 company, retained us in January 2006 for the outsourcing of its transaction processing and finance and accounting services. The client selected us based on our reputation for operational excellence, process improvement, process migration expertise and our global footprint. Our dedicated transition team conducted a detailed evaluation of their existing processes and successfully transferred their back office and financial and accounting processes, as well as their correspondence, house and voice processes which enables them to communicate with their customers and respond to their queries and complaints via written communications, emails and on the telephone, on a new enterprise resource planning platform to our facilities in India within three months. In April 2006, the first process went live in Mumbai and we ramped up the process across multiple locations in a span of six months. Today, there are over 1,200 agents across two cities. During the transition period, a dedicated Six Sigma process improvement team worked hand in hand with the operations team in stabilizing the processes, thereby reducing the learning curve and enabling faster delivery of key metrics.

Knowledge Services

In the knowledge services area, we offer market, business and financial research and analytical services. Our services include complex and high-end analytics which require specialized skill sets. Many of our employees in this area have graduate degrees in statistics, management or accounting, which we believe enables us to secure higher rates for their services as compared to the rates for our other processes.

In May 2007, we acquired Marketics, a provider of offshore analytics services. Over the last three years, Marketics has developed a wide range of technology-enabled analytic services, primarily targeting the sales and marketing organizations of consumer-centric companies. Marketics value proposition is focused on enhancing business decision making through the use of complex analytics such as predictive modeling to understand consumer behavior patterns and sales data analytics to support inventory allocation.

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The following graphic illustrates the key knowledge services we provide:
Case Study. A leading UK-based market research firm retained us in 2000 to outsource its data processing requirements. This relationship commenced with a two-member team collating and tabulating market research data using sophisticated statistical analysis. In 2003, we expanded our relationship with this client to provide similar services for its North American operations. In 2004, we further expanded our service offerings to include data collection and telephone interviews to collect questionnaire responses. We also started providing research support services which are designed to assist the client s research staff by undertaking tasks such as desk research, checking the quality of the outputs from various internal functions, graphically representing the data, data interpretation and advanced statistical analysis. As of March 31, 2007, we had over 150 employees working on over 700 market research projects for this client. We believe that our services have enabled the client to compete more effectively in its market.

Sales and Marketing

The offshore business process outsourcing services sales cycle is time consuming and complex in nature. The extended sales cycle generally includes initiating client contact, submitting requests for information and proposals for client business, facilitating client visits to our operational facilities, performing diagnostics studies and conducting pilot implementations to test our delivery capabilities. Due to the complex nature of our sales cycle, we have organized our sales teams by business units and staffed them with professionals who have specialized industry knowledge. This industry focus enables our sales teams to better understand the prospective client s business needs and offer appropriate industry-focused solutions.

As of March 31, 2007, we had 80 sales and sales support professionals, with 23 based in the UK, 24 based in the US and 33 based in India. Our sales teams work closely with our sales support team in India, which provides critical analytical support throughout the sales cycle. Our front-line sales teams are responsible for identifying and initiating discussions with prospective clients, and selling services in new areas to existing clients. We have strategically recruited our sales teams primarily from the US and the UK.

We also assign dedicated account managers to each of our key clients. These managers work day-to-day with the client and our service delivery teams to address the client s needs. More importantly, by using the detailed understanding of the client s business and outsourcing objectives gained through this close interaction, our account managers actively identify and target additional processes that can be outsourced to us. Through this methodology, we have developed a strong track record of increasing our sales to existing clients over time.

Clients

As of March 31, 2007, we had a diverse client base of over 150 significant clients across a variety of industries and process types, including companies that we believe are among the leading players in their respective industries. We define significant clients as those who represent an ongoing business commitment to us, which includes substantially all of our clients within our WNS Global BPO segment and some of our clients within our WNS

Auto Claims BPO segment. These clients offer only occasional business to us because of the small size of their automobile fleets and the consequent infrequent requirement of our auto claims services.
We believe the diversity in our client profile differentiates us from our competitors. See Item 5. Operating and Financial Review and Prospects Overview Revenue for additional information on our client base.
In fiscal 2007, the following were among our top 25 clients (including their affiliates) by revenue:

Air Canada
AVIVA
British Airways
Centrica
Fedex
First Magnus Financial Corporation
GfK
Indymac
Marsh
SITA
Travelocity
Virgin Atlantic Airways

The table below sets forth the number of our clients by revenue less repair payments for the periods indicated. We believe that the growth in the number of clients who generate more than $1 million of annual revenue less repair payments indicates our ability to extend the depth of our relationships with existing clients over time.

	Year Ended March 31,	
	2007	**2006**
Below $1.0 million	115	109
$1.0 million to $5.0 million	30	18
$5.0 million to $10.0 million	3	0
More than $10.0 million	6	4

Competition

Competition in the business process outsourcing services industry is intense and growing steadily. See Item 3. Key Information D. Risk Factors Risks Related to Our Business We face competition from onshore and offshore business process outsourcing companies and from information technology companies that also offer business process outsourcing services. Our clients may also choose to run their business processes themselves, either in their home countries or through captive units located offshore. We compete primarily with:

- focused business process outsourcing service companies based in offshore locations like India, such as Genpact, Firstsource and ExlService Holdings Inc.;
- business process outsourcing divisions of numerous information technology service companies located in India such as Infosys BPO Ltd (formerly Progeon Ltd) owned by Infosys Technologies Limited, or Infosys, Tata Consultancy Services Limited, or Tata Consultancy, and Wipro BPO, owned by Wipro Technologies Limited; and
- global companies such as Accenture Ltd, Affiliated Computer Services Inc., Electronic Data Systems, or EDS, and International Business Machines Corporation, or IBM, which provide an array of products and services including broad-based information technology, software, consulting and business process outsourcing services.

In addition, departments of certain companies may choose to perform their business processes in-house, in some cases via an owned and operated facility in an offshore location such as India. Their employees provide these services as part of their regular business operations.
While companies such as Infosys (through its business process outsourcing subsidiary, Infosys BPO Ltd) and Tata Consultancy can offer clients integrated information technology and business outsourcing services, we believe these companies focus on information technology as their core business. Global companies such as Accenture and IBM have significant client relationships

and information technology capabilities, but we believe these companies are at a disadvantage in the offshore business process outsourcing business on account of their relatively limited offshore focus.

We compete against other offshore business process outsourcing-focused entities like Genpact and ExlServices Holdings Inc. by seeking to provide industry-focused services with an offshore focus and building on our track record of operational excellence.

Intellectual Property

We use a combination of our clients software systems, third-party software platforms and systems and, in some cases, our own proprietary software and platforms to provide our services. Our principal proprietary software includes our platform for passenger revenue accounting called JADE, which we use in our travel business unit. In addition, we have an exclusive license to use an auto claims software platform called Claimsflo in the insurance market until 2012. Our proprietary and licensed software allows us to market our services with an integrated solution that combines a technology platform with our core business process outsourcing service offering.

We customarily enter into licensing and non-disclosure agreements with our clients with respect to the use of their software systems and platforms. Our contracts usually provide that all intellectual property created for the use of our clients will be assigned to them. Our employees are also required to sign confidentiality agreements as a condition to their employment.

We have registered the trademark WNS and WNS-Extending Your Enterprise in the US and India (in certain relevant categories) and have applied to register these trademarks in the European Union.

Technology

We have a dedicated team of technology experts who support clients at each stage of their engagement with us. The team conducts diagnostic studies for prospective clients and designs and executes technology solutions to enable offshore execution and management of the clients business processes. We also have wireless-area-network, or WAN, local-area-network, or LAN, and desktop teams that focus on creating and maintaining our large pool of approximately 8,800 workstations and seek to ensure that our associates face minimal loss in time and efficiency in their work processes.

We have a well-developed international telecommunications infrastructure. We use a global wide area network, which we refer to as the WNSNet to connect our clients data centers in the UK, Europe, North America and Asia with our delivery centers. WNSNet has extensive security and virus protection capabilities built in to protect the privacy of our clients and their customers and to protect against computer virus attacks. We believe our telecommunications network is adaptable to our clients legacy systems as well as to new and emerging technologies. Our telecommunications network is supported by a 24/7 network management system. Our network is designed to eliminate any single-point-of-failure in the delivery of services to clients.

Process and Quality Assurance and Risk Management

Our process and quality assurance compliance programs are critical to the success of our operations. We have an independent quality assurance team to monitor, analyze, provide feedback on and report process performance and compliance. Our company-wide quality management system, which employs over 380 quality assurance analysts, focuses on managing our client processes effectively on an ongoing basis. Our process delivery is managed by independent empowered teams and measured regularly against pre-defined operational metrics. We also have a 380-person quality assurance team that satisfies the International Standard Organization (ISO) 9001:2000 standards for quality management systems. We apply the Six Sigma & Lean philosophy, which are statistical methodologies for improving consistent quality across processes as well as quality management principles for improving the operation of our clients processes and providing a consistent level of service quality to our clients. As of March 31, 2007, more than 70 of our projects were run according to the Six Sigma principles. We also apply other process re-engineering methodologies to further improve our process delivery and undertake periodic audits of both our information systems policy and implemented controls.

Our risk management framework focuses on two important elements: business continuity planning and information security.

Our approach to business continuity planning involves implementation of an organization-wide business continuity management framework which includes continual self-assessment, strategy formulation, execution and review. Our

business continuity strategy leverages our expanding network of delivery centers for operational and technological risk mitigation in the event of a

disaster. To manage our business continuity planning program, we employ a dedicated team of experienced professionals. A customized business continuity strategy is developed for key clients, depending on their specific requirements. For mission-critical processes, operations are typically split across multiple delivery centers in accordance with client-approved customized business continuity plans.

Our approach to information security involves implementation of an organization-wide information security management system, or ISMS, which complies with the British Standards (BS) 7799:2002 or the ISO 27001:2005 for optimal implementation of systems to manage organizational information security risks. These standards seek to ensure that sensitive company information remains secure. Currently, information security systems at five delivery centers are BS 7799:2002 certified and two are ISO 27001:2005 certified, and we expect to seek similar certifications in our other delivery centers.

In addition, our clients, particularly those in the BFSI industry, may be governed by several regulations specific to their industries in their home jurisdictions which may require them to comply with certain process-specific requirements. We identify the process-specific compliance requirements of our clients typically related to regulations such as the Health Insurance Portability and Accountability Act and the Financial Services Act in the UK and help them maintain compliance in their business processes by implementing control and monitoring procedures. The control and monitoring procedures defined by this function are separate from and in addition to our periodic internal audits.

Human Capital

As of March 31, 2007, we had 15,084 employees, of whom approximately 11,429 were employees who execute client operations, whom we refer to as associates. Approximately 11,011 associates are based in India, with approximately 204 associates in Sri Lanka and approximately 214 associates in the UK. Most of our associates hold university degrees. As of March 31, 2006 and 2005, we had 10,433 and 7,176 employees, respectively. Our employees are not unionized and we have never experienced any work stoppages. We believe that our employee relations are good. We focus heavily on recruiting, training and retaining our employees.

Recruiting and Retention

We believe that we have developed effective human resource strategies and a strong track record in recruiting. As part of our recruiting strategy, we encourage candidates to view joining our organization as choosing a long-term career in the field of travel, BFSI or another specific industry or service area. We use a combination of recruitment from college campuses and professional institutes, via recruitment agencies, job portals, advertisements and walk-in applications. In addition, a significant number of our applicants are referrals by existing employees. We currently recruit an average of 1,300 employees per month.

In fiscal 2007, our overall attrition rate for all associates, following a six-month probationary period, was approximately 43.0%. We believe this rate is broadly in line with our peers in the offshore business process outsourcing industry.

Training and Development

We devote significant resources to the training and development of our associates. Our training typically covers modules in leadership and client processes, including the functional aspects of client processes such as quality and transfer. Training for new associates may also include behavioral and process training as well as culture, voice and accent training, as required by our clients. We have established the WNS Learning Academy where we offer specialized skills development, such as interviewing, coaching and presentation skills, and leadership development programs for associates as they move up the corporate hierarchy. The WNS Learning Academy is staffed with over 40 full-time trainers and content designers. We customize our training programs according to the nature of the client s business, the country in which the client operates and the services the client requires. By offering such training programs, we seek to ensure that associates who assume leadership positions within our organization are equipped with the necessary skills. Further, the WNS Learning Academy has an in-house e-learning unit which creates computer or web-based learning modules to support ongoing learning and development. The WNS Learning Academy also caters to our knowledge management.

Regulations

Due to the industry and geographic diversity of our operations and services, our operations are subject to a variety of rules and regulations, and several Indian, Sri Lankan, UK, Europe and US federal and state agencies regulate various aspects of our business. See Item 3. Key Information D. Risk Factors Risks Related to our Business Failure to adhere to the

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regulations that govern our business could result in us being unable to effectively perform our services. Failure to adhere to regulations that govern our clients businesses could result in breaches of contract with our clients.
Regulation of our industry by the Indian government affects our business in several ways. We benefit from certain tax incentives promulgated by the Indian government, including a tax holiday from Indian corporate income taxes for the operation of most of our Indian facilities, which will begin to expire in stages from April 1, 2008 through April 1, 2009. As a result of these incentives, our operations have been subject to lower Indian tax liabilities. In May 2007, the Indian Finance Act, 2007 was adopted, with the effect of subjecting Indian companies that benefit from a holiday from Indian corporate income taxes to the minimum alternate tax, or MAT, at the rate of 11.33% in the case of profits exceeding Rs. 10 million and 10.3% in the case of profits not exceeding Rs. 10 million with effect from April 1, 2007. As a result of this amendment to the tax regulations, we will be subject to MAT commencing fiscal 2008. To the extent MAT paid exceeds the actual tax payable on the taxable income, we would be able to set off such MAT credits against tax payable in the succeeding seven years, subject to the satisfaction of certain conditions. In addition to this tax holiday, our Indian subsidiaries are also entitled to certain benefits under relevant state legislation/regulations. These benefits include preferential allotment of land in industrial areas developed by the state agencies, incentives for captive power generation, rebates and waivers in relation to payments for transfer of property and registration (including for purchase or lease of premises) and commercial usage of electricity. Our subsidiaries in India are also subject to certain currency transfer restrictions. See Item 5. Operating and Financial Review and Prospects Critical Accounting Policies Income Taxes and Note 2 to our consolidated financial statements included elsewhere in this annual report for more details regarding foreign currency translations.

Enforcement of Civil Liabilities

We are incorporated in Jersey, Channel Islands. Most of our directors and executive officers reside outside of the US. Substantially all of the assets of these persons and substantially all of our assets are located outside the US. As a result, it may not be possible for investors to effect service of process on these persons or us within the US, or to enforce against these persons or us, either inside or outside the US, a judgment obtained in a US court predicated upon the civil liability provisions of the federal securities or other laws of the US or any state thereof. A judgment of a US court is not directly enforceable in Jersey, but constitutes a cause of action which will be enforced by Jersey courts provided that:

the court which pronounced the judgment has jurisdiction to entertain the case according to the principles recognized by Jersey law with reference to the jurisdiction of the US courts;

the judgment is final and conclusive it cannot be altered by the courts which pronounced it;

there is payable pursuant to the judgment a sum of money, not being a sum payable in respect of tax or other charges of a like nature or in respect of a fine or other penalty;

the courts of the US have jurisdiction in the circumstances of the case;

the judgmeif such an event had occurred at December 31, 2013, Mr. Hopkins would have received value equal to $143,011.44 and Ms. Gaines would have received value equal to $143,011.44 based on the number of unvested options that would have vested upon such event multiplied by the difference between the exercise price of such unvested options and $56.10, the closing market price of the Company's common stock on December 31, 2013.

Equity Compensation Plans

The 2012 Stock Option Plan. The maximum number of shares of Company common stock which may be awarded and delivered under the 2012 Stock Option Plan is 1,500,000 shares. Options granted under the 2012 Stock Option Plan may be either “incentive stock options,” as defined in Section 422 of the Internal Revenue Code (“Code”), or non-statutory stock options. The 2012 Stock Option Plan also continues the long-standing automatic grant of non-statutory options to the independent directors of the Board. Pursuant to the terms of the 2012 Stock Option Plan,

independent directors will receive a fully vested option to purchase 15,000 shares once a year at the closing price of the shares on the third business day after the Company releases earnings for the prior year. The stock options are non-transferable except with Board approval and the maximum term is ten years from the date of grant. The Board of Directors is authorized to specify other terms and conditions of the grants. The options are granted at the fair market value of the Company's common stock on the date of grant.

The Compensation Committee may grant Stock Appreciation Rights ("SAR") under the 2012 Stock Option Plan. The terms and conditions of each SAR granted under the 2012 Plan shall be as specified by the Compensation Committee, in its sole discretion, and must be set forth in a written agreement between the Company and the participant, and shall be clearly identified therein as a SAR.

Incentive stock options may be granted only to employees of the Company or its subsidiaries. Non-statutory stock options and SAR awards may be granted under the 2012 Stock Option Plan to employees and consultants of the Company, its affiliates and subsidiaries, as well as to persons to whom offers of employment as employees have been granted.

The Compensation Committee determines when options become exercisable. The means of payment for shares issued upon exercise of an award will be specified in each award agreement. Under the 2012 Stock Option Plan, the exercise price may be payable in cash or by tendering shares of stock acceptable to the Compensation Committee valued at fair market value as of the day of exercise, or in any combination thereof, as determined by the Compensation Committee. In addition, the Compensation Committee may permit a participant to elect to pay the exercise price upon the exercise of an incentive stock option or non-qualified stock option by irrevocably authorizing a third party to sell shares of stock (or a sufficient portion of the shares) acquired upon exercise of the incentive stock option or non-qualified stock option and remit to the Company a sufficient portion of the sale proceeds to pay the entire exercise price and any tax withholding resulting from such exercise. For non-qualified stock options

and stock received upon the exercise of SARs, the option holder or stock recipient must also pay the Company, at the time of purchase, the amount of federal, state, and local withholding taxes required to be withheld by the Company.

The federal income tax consequences to the Company, its affiliates and their employees of awards under the 2012 Stock Option Plan are complex and subject to change. There typically will be no federal income tax consequences to a participant or to us upon the grant of an incentive stock option. If the participant holds shares acquired through the exercise of an incentive stock option for the later of two years after the date the option was granted or one year after exercise of the option, the difference between the exercise price and the amount realized upon sale or disposition of the option shares will be long-term capital gain or loss, and we will not be entitled to a federal income tax deduction. If the participant disposes of the option shares in a sale, exchange, or other disqualifying disposition before the required holding period ends, he/she will realize taxable ordinary income in an amount equal to the excess of the fair market value of the option shares at the time of exercise over the exercise price, and the Company will be allowed a federal income tax deduction equal to such amount, subject to certain limitations under Section 162(m) of the Code. While the exercise of an incentive stock option does not result in current, taxable income, the excess of the fair market value of the option shares at the time of exercise over the exercise price will be an item of adjustment for purposes of determining the participant's alternative minimum tax income.

Non-qualified stock options granted under the 2012 Stock Option Plan do not qualify as “incentive stock options” and will not qualify for any special tax benefits to the optionee. An optionee generally will not recognize any taxable income at the time he or she is granted a non-qualified option. However, upon its exercise, the optionee will recognize ordinary income for federal tax purposes measured by the excess of the then fair market value of the shares over the exercise price. The income realized by the optionee will be subject to income and other employee withholding taxes.

In general, there will be no federal income tax deduction allowed to the Company upon the grant or termination of a non-qualified stock option or a sale or disposition of the shares acquired upon the exercise of a non-qualified stock option. However, upon the exercise of a non-qualified stock option, the Company will be entitled to a deduction for federal income tax purposes equal to the amount of ordinary income that an optionee is required to recognize as a result of the exercise, provided that the deduction is not otherwise disallowed under the Code.

At December 31, 2013, there were 1,140,000 shares available for grant under the 2012 Stock Option Plan. At December 31, 2013, there were 360,000 options to purchase shares of common stock granted under the 2012 Stock Option Plan.

The 2005 Stock Option Plan. The maximum number of shares of Company common stock which may be awarded and delivered under the 2005 Stock Option Plan is 1,500,000 shares. Options granted under the 2005 Stock Option Plan may be either “incentive stock options,” as defined in Section 422 of the Code, or non-statutory stock options. The 2005 Stock Option Plan also continues the long-standing automatic grant of non-statutory options to the independent directors of the Board. Pursuant to the terms of the 2005 Stock Option Plan, independent directors will receive a fully vested option to purchase 15,000 shares once a year at the closing price of the shares on the third business day after the Company releases earnings for the prior year. The stock options are non-transferable except with Board approval and the maximum term is ten years from the date of grant. The Board of Directors is authorized to specify other terms and conditions of the grants. The options are granted at the fair market value of the Company's common stock on the date of grant.

The Compensation Committee may grant SARs and Restricted Stock Awards under the 2005 Stock Option Plan. The terms and conditions of each SAR or Restricted Stock Award granted under the 2005 Plan shall be as specified by the Compensation Committee, in its sole discretion, and must be set forth in a written agreement between the Company and the participant, and shall be clearly identified therein as a SAR or Restricted Stock Award.

Incentive stock options may be granted only to employees of the Company or its subsidiaries. Non-statutory stock options, restricted stock awards and SAR awards may be granted under the 2005 Stock Option Plan to employees and consultants of the Company, its affiliates and subsidiaries, as well as to persons to whom offers of employment as employees have been granted.

The Compensation Committee determines when options become exercisable. The means of payment for shares issued upon exercise of an award will be specified in each award agreement. Under the 2005 Stock Option Plan, the exercise price may be payable in cash or by tendering shares of stock acceptable to the Compensation Committee valued at fair market value as of the day of exercise, or in any combination thereof, provided, however, unless otherwise determined by the Compensation Committee, no shares may be tendered unless such shares have been held by the participant for six (6) months or more. In addition, the Compensation Committee may permit a participant to elect to pay the exercise price upon the exercise of an incentive stock option or non-qualified stock option by irrevocably authorizing a third party to sell shares of stock (or a sufficient portion of the shares) acquired upon exercise of the incentive stock option or non-qualified stock option and remit to the Company a sufficient portion of the sale proceeds to pay the entire exercise price and any tax withholding resulting from such exercise. For non-qualified

stock options and stock received from restricted stock awards or upon the exercise of SARs, the option holder or stock recipient must also pay the Company, at the time of purchase, the minimum amount of federal, state, and local withholding taxes required to be withheld by the Company.

The federal income tax consequences to the Company, its affiliates and their employees of awards under the 2005 Stock Option Plan are complex and subject to change. There typically will be no federal income tax consequences to a participant or to us upon the grant of an incentive stock option. If the participant holds shares acquired through the exercise of an incentive stock option for the later of two years after the date the option was granted or one year after exercise of the option, the difference between the exercise price and the amount realized upon sale or disposition of the option shares will be long-term capital gain or loss, and we will not be entitled to a federal income tax deduction. If the participant disposes of the option shares in a sale, exchange, or other disqualifying disposition before the required holding period ends, he/she will realize taxable ordinary income in an amount equal to the excess of the fair market value of the option shares at the time of exercise over the exercise price, and the Company will be allowed a federal income tax deduction equal to such amount, subject to certain limitations under Section 162(m) of the Code. While the exercise of an incentive stock option does not result in current, taxable income, the excess of the fair market value of the option shares at the time of exercise over the exercise price will be an item of adjustment for purposes of determining the participant's alternative minimum tax income.

Non-qualified stock options granted under the 2005 Stock Option Plan do not qualify as “incentive stock options” and will not qualify for any special tax benefits to the optionee. An optionee generally will not recognize any taxable income at the time he or she is granted a non-qualified option. However, upon its exercise, the optionee will recognize ordinary income for federal tax purposes measured by the excess of the then fair market value of the shares over the exercise price. The income realized by the optionee will be subject to income and other employee withholding taxes.

In general, there will be no federal income tax deduction allowed to the Company upon the grant or termination of a non-qualified stock option or a sale or disposition of the shares acquired upon the exercise of a non-qualified stock option. However, upon the exercise of a non-qualified stock option, the Company will be entitled to a deduction for federal income tax purposes equal to the amount of ordinary income that an optionee is required to recognize as a result of the exercise, provided that the deduction is not otherwise disallowed under the Code.

At December 31, 2013, there were 20,635 shares available for grant under the 2005 Stock Option Plan. At December 31, 2013, there were options to purchase 156,674 shares of common stock outstanding under the 2005 Stock Option Plan.

Equity Compensation Plan Information. The following table provides aggregate information as of December 31, 2013, with respect to shares of common stock that may be issued under our existing equity compensation plans:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans [excluding securities reflected in column(a)]
	(a)	(b)	(c)
Equity compensation plans approved by security holders	2005 Plan: 156,674 2012 Plan: 360,000	$47.06 $64.49	2005 Plan: 20,635 2012 Plan: 1,140,000
Equity compensation plans not approved by security holders	None	N/A	N/A
Total	516,674	$59.20	1,160,635

Director Compensation

During 2013, the independent directors received compensation for their Board service in the amount of $4,000 per meeting attended, plus fully vested options to purchase 15,000 shares of Company stock based on the closing price of NHI's shares on February 25, 2013, the date of grant. Mr. McCabe received an additional $1,000 per meeting of the Audit Committee. Mr. Adams received a one-time director's fee of $250,000 for his services as the chairman of the Board. The automatic grant of options to our independent directors has previously been approved by our shareholders. Additionally, the Company reimburses all directors for travel expenses incurred in connection with their duties as directors of the Company. After the 2013 Annual Meeting, Mr. Welch continued to serve as a director emeritus. In that role, Mr. Welch received compensation in the amount of $2,000 per meeting attended.

Our review of the peer group indicated that our director compensation is on the lower end of the compensation paid directors by the other companies in our peer group. We do not pay any retainer fees and only compensate directors for meetings attended. In addition, as our option grants only have value if the Company's stock price increases, we believe our director compensation package is reasonable. Mr. Hutchens did not receive any additional compensation as a director of the Company.

2013 Director Compensation

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards [1]($)	Non-Equity Incentive Plan Comp.($)	Change in Pension Value and Nonqualified Deferred Comp. Earnings	All Other Comp. ($)	Total ($)
W. Andrew Adams	302,000[2]	—	88,190	—	—	—	390,190
Robert T. Webb	52,000	—	88,190	—	—	—	140,190
Robert A. McCabe, Jr.	56,000	—	88,190	—	—	—	144,190
James R. Jobe	32,000	—	88,190	—	—	—	120,190
Ted H. Welch[3]	12,000	—	—	—	—	—	12,000

(1) This represents the amount of stock compensation expense recorded by the Company in 2013 for the automatic grant (each year) of 15,000 option shares to each independent director on the third day following the Company's annual earnings release. The exercise price of the options is the closing price of our common stock on the NYSE on the day the options are granted. The options vest immediately.
(2) Includes a one time directors fee of $250,000 for Mr. Adams acting as independent Chairman of the Board
(3) Mr. Welch retired from the Board at the 2013 annual meeting; however, he remains a director emeritus and is entitled to $2,000 per meeting attended.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FEES AND SERVICES

The aggregate professional fees billed by BDO for each of the following categories of services for the past two years are set forth below:

	2013	2012
Audit Fees[1]	$596,923	$373,694
Audit-Related Fees[2]	$52,558	—
Tax Fees	—	—
All Other Fees	—	—

(1) Fees for services related to the audit of the Company’s consolidated financial statements and internal control over financial reporting, quarterly reviews of the Company's unaudited interim consolidated financial statements, review of SEC comment letters, and consultation on significant accounting matters of $435,231 and $373,694, respectively, for 2013 and 2012, and fees in connection with the Company’s comfort letters for offerings in 2013 and 2012 of $161,692 and $0, respectively.
(2) Fees for audit-related services to the Company include due diligence procedures and debt compliance procedures of $52,558 and $0 for 2013 and 2012, respectively.

The Audit Committee exercised its responsibility to pre-approve all services provided by BDO within the categories listed above. The Audit Committee delegates to the Chairman of the Committee the authority to pre-approve fees for services to be provided by BDO until a formal annual audit plan and fee estimate is presented to a regularly scheduled meeting of the Audit Committee for review and approval.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Company's Compensation Committee currently consists of Mr. Webb, Mr. McCabe and Mr. Jobe. No interlocking relationship exists between the members of the Company's Board of Directors or Compensation Committee and the Board of Directors or Compensation Committee of any other company.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities and Exchange Act of 1934, as amended, requires our executive officers, directors, and persons who own more than ten percent of a registered class of our equity securities to file statements with the SEC and the NYSE of initial reports of ownership and reports of changes in ownership of such equity securities. Executive officers, directors and

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greater than ten percent shareholders are required by SEC regulations to file these reports within two business days of the transaction, and to furnish us with copies of all such forms they file.

To our knowledge, and based solely on review of the copies of such forms furnished to us and written representations that no other reports were required, we believe that during the fiscal year ended December 31, 2013, all filing requirements applicable to our executive officers, directors, and persons who beneficially own more than ten percent of our common stock were fulfilled and timely filed.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

National HealthCare Corporation

At December 31, 2013, we leased 42 healthcare facilities to National HealthCare Corporation (“NHC”), a publicly-held company consisting of three independent living facilities and 39 skilled nursing facilities (four of which are subleased to other parties for whom the lease payments are guaranteed to us by NHC). The master lease agreement with NHC originally dated October 17, 1991 has since been amended to extend the lease expiration five years to December 31, 2026. There are two additional five-year renewal options, each at fair rental value of such leased property as negotiated between the parties and determined without including the value attributable to any improvements to the leased property voluntarily made by NHC at its expense. Under the terms of the lease, rent escalates by 4% of the increase, if any, in each facility's revenue over a 2007 base year. We refer to this additional rent component as “percentage rent.”

In December 2012 NHI entered into an agreement with NHC to sell six skilled nursing facilities for $21,000,000 in cash. The properties had a carrying value of $1,611,000. The sale was completed on August 31, 2013, and resulted in a gain for financial statement purposes of $19,370,000 after transaction costs of $19,000. We plan to defer recognition of the tax gain on the sale of these facilities by utilizing the like-kind exchange rules under Section 1031 of the Internal Revenue Code. The results of operation of the facilities sold were classified as discontinued operations for all periods presented in our Consolidated Statements of Income. Upon the sale of these facilities and prior to the acquisition described below, NHI's annual base rent of $33,700,000 was reduced to $30,750,000.

On August 30, 2013, NHI acquired seven skilled nursing facilities (and one vacant assisted living facility) in Massachusetts and New Hampshire from former not-for-profit borrower ElderTrust of Florida, Inc. (“ElderTrust”) for consideration of $37,417,000, consisting of $23,676,000 in cash, inclusive of closing costs, and the cancellation of notes receivable from ElderTrust with a principal balance of $13,741,000. Beginning September 1, 2013, the facilities were placed under a new triple net lease to the current manager, NHC, for a period of 15 years commencing with a lease amount of $350,000 for the remainder of 2013. In 2014, the lease provides for a base annual rental of $3,450,000. Under the terms of the lease, rent escalates 4% of the increase in each facility's revenue over the 2014 base year. Because ElderTrust was the owner and operator of the facilities, we accounted for the transaction as an asset purchase. During the last three years of the lease, NHC will have the option to purchase the facilities for $49,000,000.

Our revenue from continuing operations was $117,828,000 and $93,317,000 in 2013 and 2012, respectively. Of these amounts, $34,756,000 (29%) and $33,056,000 (35%) in 2013 and 2012, respectively, were derived from our master leases with NHC, including percentage rent of $3,021,000 and $2,527,000, respectively.

W. Andrew Adams is on the Board of Directors of NHC and his brother, Robert Adams, is Chairman of its Board of Directors and the Chief Executive Officer.

At December 31, 2013, NHC owned 1,630,642 shares of our common stock.

Pinnacle Financial Partners

We have a primary banking relationship with Pinnacle Financial Partners (“Pinnacle”), the fourth largest bank in the Nashville market area. Mr. McCabe is Chairman of the Board of Directors of Pinnacle and, based upon the advice of our legal counsel, our banking relationship with Pinnacle is not prohibited by law or regulation.

In addition, Pinnacle is a participating bank in our 2013 Credit Agreement. The credit facility is provided by Wells Fargo, Bank of Montreal, KeyBank, and Bank of America, with Pinnacle National Bank as a participating bank. Pursuant to the Credit Agreement, Pinnacle committed to fund a maximum of $40,000,000 of the $620,000,000 credit facility. Pinnacle is also the depository bank for a lease escrow deposit of $22,775,000 from one of our tenants. Our Board of Directors has reviewed these

relationships between the Company and Pinnacle and determined that Mr. McCabe remains an independent director in compliance with the NYSE rules.

Policy regarding Related Party Transactions

The Company has a policy that any transactions between NHI and its officers, directors and affiliates will be on terms as favorable to NHI as can be obtained from unaffiliated third parties. Such transactions with such persons will be subject to approval by the Audit Committee of the Board.

PROPOSAL I
ELECTION OF DIRECTORS

Pursuant to our Articles of Incorporation, the directors have been divided into three groups. Each group is elected for a three-year term and only one group is up for election each year. The Company's Articles of Incorporation provide that the number of directors to be elected by the shareholders shall be at least three and not more than 15, as established by the Board of Directors from time to time. The number of directors has been set at five. Thus, two directors have been nominated for election at the May 3, 2014 meeting for a term of three years or until their successors are duly elected and qualified. On February 14, 2014, the Board's Nominating and Corporate Governance Committee recommended and the full Board nominated Mr. Adams and Mr. McCabe for re-election to the Board of Directors. NHI's Bylaws require that Directors be elected by a majority of the votes cast. If a proxy does not specifically vote against the election of Mr. Adams or Mr. McCabe, your proxy holder intends to vote for the election of Mr. Adams and Mr. McCabe to hold office as a director for a term of three years or until his successor has been duly elected and qualified.

If Mr. Adams or Mr. McCabe becomes unavailable for any reason (which event is not anticipated), the shares represented by the enclosed proxy may (unless such proxy contains instructions to the contrary) be voted for such other person as may be determined by the proxy holder, to the extent permitted under the federal securities laws.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE ELECTION OF
MR. ADAMS AND MR. MCCABE AS PROVIDED IN PROPOSAL I.

PROPOSAL II
AUTHORIZE AND APPROVE AN AMENDMENT TO THE ARTICLES OF INCORPORATION

The Board of Directors has approved, subject to shareholder approval, an amendment to the Articles of Incorporation (the “Charter”) of the Company to increase the number of shares of common stock, par value $0.01 per share, that the Company has the authority to issue from 40,000,000 shares to 60,000,000 shares. As of the Record Date, there were 33,051,176 shares of common stock issued and outstanding, leaving 6,948,824 authorized shares of common stock available for future issuance, of which 1,677,309 shares are reserved for issuance under the 2005 and 2012 Stock Option Plans.

The Board of Directors believes that the availability of additional shares is essential for the Company to successfully pursue its investment strategy. It will also enhance the Company’s flexibility in connection with general corporate purposes, such as equity offerings, stock splits, stock dividends and acquisitions or mergers. At the same time, the Board of Directors recognizes the potential dilutive impact issuing additional shares will have on the outstanding shares. The Board of Directors believes that the proposed increase in the authorized shares of common stock strikes an appropriate balance between these important interests. The Board of Directors will determine whether, when, and on what terms the issuance of shares may be warranted in connection with any of the foregoing purposes.

The Company has no current plan, commitment, arrangement, understanding or agreement regarding the issuance of the additional shares of common stock resulting from the proposed increase in authorized shares. The additional shares of common stock will be available for issuance by the Board of Directors for various corporate purposes, including but not limited to, stock splits, stock dividends, grants under employee stock plans, financings, potential strategic transactions, including mergers, acquisitions, strategic partnerships, joint ventures, divestitures, and business combinations, as well as other general corporate transactions, although the Company has no present plans to use them in any such regard. Capital-raising is an essential part of the Company's investment strategy. If the Company is unable to issue additional shares of common stock, or securities convertible into common stock, (1) it may have difficulty raising funds to complete future investments or meet obligations and commitments as they mature (depending on its access to other sources of capital), and/or (2) it may be forced to limit future investments or alter its capitalization structure and increase leverage in order to finance future investments and obligations. These adjustments to the Company's investment strategy may limit the Company's ability to generate earnings growth and increase stockholder value.

The availability for issuance of additional shares of common stock could enable the Board of Directors to render more difficult or discourage an attempt to obtain control of the Company. For example, by increasing the number of outstanding shares, the interest of the party attempting to gain control of the Company could be diluted. Also, the additional shares could be used to render more difficult a merger or similar transaction. However, in order to protect the Company’s status as a real estate investment trust, the Company’s bylaws provide that no person may acquire securities that would result in the direct or indirect beneficial ownership of more than 9.9% of the Company’s common stock or more than 9.9% in value of the Company’s outstanding capital stock by such person (unless an exemption is granted to such person by the Board of Directors). Consequently, the approval of the proposed amendment should have little incremental effect in discouraging unsolicited takeover attempts.

If the proposed amendment is approved, all or any of the authorized shares of common stock may be issued without further action by the shareholders and without first offering such shares to the shareholders for subscription. The issuance of shares otherwise than on a pro-rata basis to all current shareholders would reduce current shareholders’ proportionate interests. However, in any such event, shareholders wishing to maintain their interests may be able to do so through normal market purchases.

The Board of Directors has unanimously adopted resolutions approving and recommending to the shareholders for their approval the Charter amendment. Two-thirds of the shares of common stock issued and outstanding is required for the approval of the Charter amendment. The Board of Directors recommends a vote for the above proposal to approve the amendment to the Articles of Incorporation.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” PROPOSAL II.

PROPOSAL III
ADVISORY VOTE ON COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS

The recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) enables the Company's shareholders to vote to approve, on an advisory (nonbinding) basis, the compensation of the Company's named executive officers as disclosed in this proxy statement in accordance with the SEC's rules. The Company is asking its shareholders to indicate their support for its named executive officer compensation as described in this proxy statement. This proposal, commonly known as a “say-on-pay” proposal, gives the Company's shareholders the opportunity to express their views on the compensation paid to the Company's named executive officers. This vote is not intended to address any specific item of compensation, but rather the overall compensation of the Company's named executive officers and the philosophy, policies and practices described in this proxy statement. Accordingly, the Company is asking its shareholders to vote “FOR” the following resolution at the Meeting:

“RESOLVED, that the compensation paid to the Company's named executive officers, as disclosed pursuant to Item 402 of Regulation S-K in the Company's proxy statement for the 2014 Annual Meeting of Shareholders, including the Compensation Discussion and Analysis, compensation tables and narrative discussion, is hereby APPROVED.”

We believe that our executive compensation is designed to reward our officers for the Company's performance as a whole and for each officer's individual effort in achieving the Company's goals. Our compensation program includes the elements of (a) a base salary that is reflective of job responsibilities, expertise, and comparability to the same positions with companies in our peer group, (b) an annual bonus to reward individual effort in achieving the Company's goals, and (c) share-based compensation to align the financial interests of our senior officers with those of our shareholders. Annual incentive (bonus) awards are designed to focus management attention on key operational goals for the current fiscal year and are significantly tied to the Company's achievement of normalized funds from operation and recurring dividend payment goals. We believe that these goals are aligned with the interests of our shareholders.

The “say-on-pay” vote is advisory, and therefore is not binding on the Company, the Compensation Committee or the Board of Directors. However, the Board of Directors and the Compensation Committee value the opinions of our shareholders and, to the extent there is any significant vote against the named executive officer compensation as disclosed in this proxy statement, will consider the shareholders' concerns and the Board of Directors and Compensation Committee will evaluate whether any actions are necessary to address those concerns. The Company has elected to hold the "say-on-pay" vote every year.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE COMPANY'S COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS AS DISCLOSED IN THE COMPENSATION DISCUSSION AND ANALYSIS SECTION AND THE ACCOMPANYING COMPENSATION TABLES CONTAINED IN THIS PROXY STATEMENT.

PROPOSAL IV
RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

The Audit Committee has retained BDO USA, LLP (“BDO”) as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2014. Although a shareholder vote is not required, the Board of Directors submits this accounting firm for approval by the shareholders. BDO has audited the Company's consolidated financial statements for each of the past nine fiscal years, and has also provided the required Sarbanes-Oxley §404 attestation.

The affirmative vote of the holders of a majority of the votes cast at the Meeting is required for the ratification of the Audit Committee's selection of BDO as our independent registered public accounting firm. If the shareholders do not ratify the selection of BDO, the selection of the independent registered public accounting firm will be reconsidered by the Audit Committee, although the Audit Committee would not be required to select a different independent registered public accounting firm for the Company. The Audit Committee retains the power to select another firm as the independent registered public accounting firm for the Company to replace the firm whose selection was ratified by the Company's shareholders in the event the Audit Committee determines that the best interest of the Company warrants a change of its independent registered public accounting firm.

Representatives of BDO are expected to be present at the Meeting and will be given the opportunity to address the shareholders and respond to questions.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE RATIFICATION OF THE SELECTION OF BDO USA, LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM AS PROVIDED IN PROPOSAL IV.

How We Count the Votes

* Shares of common stock represented in person or by proxy at the Meeting (including shares which abstain or do not vote with respect to one or more of the matters presented at the Meeting) will be tabulated by the Company's Secretary who will determine whether or not a quorum is present.

* Abstentions will be counted as shares that are present and entitled to vote for purposes of determining the number of shares that are present and entitled to vote with respect to any particular matter, but will not be counted as votes cast on such matter. As a result, abstentions will not have any effect on the voting results with respect to Proposal I, Proposal III or Proposal IV. Abstentions will have the effect of a negative vote with respect to Proposal II.

* If a broker holding stock in “street name” indicates on the proxy that it does not have discretionary authority as to certain shares to vote on a particular matter, those shares will not be considered as present and entitled to vote with respect to that matter. Accordingly, a “broker non-vote” may affect establishment of a quorum, but once a quorum is established, will have no effect on the voting on Proposal I, Proposal III or Proposal IV. However, since Proposal II requires two-thirds of the outstanding shares of common stock, a "broker non-vote" will have the effect of a negative vote with respect to Proposal II.

* A majority of the issued and outstanding shares of common stock entitled to vote constitutes a quorum at the Meeting. The Charter amendment requires the affirmative vote of two-thirds of the outstanding shares of common stock. The affirmative vote of the holders of a majority of the votes cast at the Meeting is required for the election of each of the directors and the approval of Proposal III and Proposal IV.

SHAREHOLDER COMMUNICATIONS

How can shareholders communicate with the Company's executive officers and Board of Directors?

The Board of Directors has created the “NHI Valuesline” program in order to enable interested parties to communicate with (on a non-identifiable basis if so desired) NHI executive officers, independent directors, and the NHI Board. The NHI Valuesline toll free number is 877-880-2974 and is answered by an independent contractor who transmits the communication to the Company's internal auditor and establishes a date by which the caller can obtain a response to the communication, if so requested. The internal auditor will forward any inquiries to or about executive officers or directors to the Corporate Secretary of the Company who will coordinate any necessary communication and response. All communications are relayed by the Corporate Secretary to the Chairman of the Nominating and Corporate Governance Committee.

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Does the Company provide additional information on its website?

The NHI website (www.nhireit.com) provides information on the Company, including all public filings (Form 10-Qs, 10-Ks, Statements of Beneficial Ownership, 8-Ks). We also maintain the following documents on the website, all of which we hereby incorporate herein by reference:

- Corporate Governance Guidelines
- The Restated Audit Committee Charter
- The Compensation Committee Charter
- The Nominating and Corporate Governance Committee Charter
- Valuesline Information
- The NHI Code of Ethics

The Code of Ethics has been adopted for all employees, officers and directors of the Company. The website will also disclose whether there have been any amendments or waivers to the Code of Ethics. To date there have been none.

Copies of any of these documents will be furnished, free of charge, to any interested investor upon receipt of a written request. All of our press releases for the last two years can be accessed through the site's press release page. The website is updated regularly for any SEC filings and press releases.

Are there any other matters to be addressed at the Meeting?

We know of no other matters to be brought before the Meeting, but if other matters are properly brought up before or at the Meeting, the officers named in your proxy will vote as recommended by the Board of Directors on such matters, or if the Board of Directors does not give a recommendation, they will have discretion to vote in accordance with their best judgment on such matters, in each case to the extent permitted under the federal securities laws.

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