Patni Computer Systems LTD
Form 6-K
June 08, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER

**Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934**

For June 7, 2007

PATNI COMPUTER SYSTEMS LIMITED

**Akruti Softech Park , MIDC Cross Road No 21,
Andheri (E) , Mumbai - 400 093, India**
(Exact name of registrant and address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F x Form 40-F o

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No x

If Yes is marked, indicate below the file under assigned to the registrant in connection with Rule 12g3-2(b):

This Form 6-K contains our Annual Report for the fiscal year ended December 31, 2006, the Notice of the Annual General Meeting of the Shareholders dated 24th April 2007, and the Form of Voting Card, each of which has been mailed to holders of our Equity Shares. Also included in this Form 6-K is the Depositary s Notice of the Annual General Meeting of Shareholders and the Form of Proxy Card, each of which have been mailed to holders of American Depositary Shares. The information contained in this Form 6-K shall not be deemed filed for the purposes of section 18 of the Securities Exchange Act, 1934, as amended (the Exchange Act), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing .

expanding horizons

Annual Report 2006

contents

Horizons are there to be transcended. And expanded. Tantalizing limits of perception, beyond which unfold whole new worlds. To look beyond is to aim for excellence.

Glory continues to beckon the Indian IT industry. Now a mature and respected sector in the global IT services landscape, the industry s growing stature is reflected both in terms of scope and scale of business wins. And global reach too, as Indian IT companies relentlessly expand their global delivery footprint.

Opportunities flourish; yet, paradoxically, are becoming increasingly ephemeral ruthlessly appropriated by the most nimble of thought and visionary of outlook. In this evolving new world order, the key to success lies in expanding horizons.

highlights of achievements: 2006

During the year, we made significant progress towards our objective of improving our operating margins, while driving growth through the addition of new service lines and increasing our resource delivery footprint to our global customers. We also forged several new alliances and were proud to be honoured with a host of prestigious global awards and recognitions.

- Revenues increased by 28.5%, from US$450.3 million in CY 2005 to US$578.9 million in 2006; corresponding net income increased by 30%, from US$60.9 million in 2005 to US$79.2 million in 2006.

- 92 new clients added, taking the number of active client relationships to 239; the number of million dollar relationships increased to 74. Percentage of repeat business continued to be stable at 91.5%.

- Approximately 1,000 net additions made to the employee strength, taking the total to 12,804 worldwide; twelve people joined at VP level and above, during the year.

- 450, 000 sq. ft. of space added in Mumbai, Hyderabad, Noida and Pune; acquired land at four new locations in Noida, Pune, Hyderabad and Kolkata.

- Opened a new regional development center at Bloomington, Illinois, to expand our onshore operations in the US.

- Launched the Legacy$_x$ Solution Framework - a comprehensive and robust suite of methodologies, tools, templates and best practices that provide insurance customers a low-risk and proven approach to modernizing their legacy environments.

- Acquired US-based ZAiQ Technologies - a design and verification company in Massachusetts; this acquisition will enable Patni to meet the growing demand for ASIC-based services in vertical markets such as consumer electronics, telecom, computing and wireless.

key performance indicators: 2001-06

Revenues US$ (mn) **Operating Income US$ (mn)** **Earnings after Tax US$ (mn)**

* *Excluding additional provision for prior years tax review by IRS and review by Department of Labor of Patni s US operations, leading to an increase in gross profit and operating income by approximately US$ 7.0 million and decrease in net income by US$ 19.9 million.*

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Awards and Recognitions

- Received the Frost & Sullivan Customer Service Leadership Award in the IT Services Market for 2006.

- Ranked highest among Indian Offshore Supply Chain Solution Providers in a customer satisfaction survey conducted by Forrester Research Inc.

- Ranked at #6 in the list of Best Managed Global Outsourcing Vendors for 2006, by the Brown & Wilson s Black Book of Outsourcing.

- Rated 1st among the Top 5 Engineering Services Providers , 2nd among the Top leaders in Human Capital Development , and 6th among the Top 10 best performing IT Service Providers , in the Global Services 100 published by Global Services and neoIT.

- Identified as having the highest consulting capabilities , in ARC Advisory Grop s review offshore companies, for implementing Master Data Management (MDM) solutions and for providing high-end consulting with respect to data quality and governance issues.

- Recognized as one of The Giant 100 companies at the first CIO 100 awards in India, for demonstrating excellence in deploying technology solutions to deliver optimum business value.

- Received an accreditation from MSPAlliance s Managed Services Accreditation Program; significantly, Patni is the first offshore service provider to get this recognition.

- Received the Jamnalal Bajaj Fair Practices Award for 2006, bestowed by the Council for Fair Business Practices, Mumbai.

Basic and Diluted Earnings per Share (US$)	Book Value per Share (US$)	Number of Employees

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letter to shareholders

chairman s review

Our performance in CY 2006 once again underscored the Company s ability to deliver sustained growth by leveraging the advantages of our highly scalable business model to deliver revenue growth and margin expansion.

Patni delivered strong growth during 2006 through revenue expansion across diverse segments of our clients. We successfully grew several of our focused vertical and technology segments, across most regions globally. A strong focus on improving our operating efficiencies and resource utilization, efficient management of our cost structure, accompanied by new client acquisitions, also showed significant results.

Recognizing that our growth and emergence as a leader in the global IT arena requires a world class global organization with a sharp operational focus, we restructured our Executive Team. Mrinal Sattawala was appointed as the Chief Operating Officer. With 20 years in the company and being a long-term member of the Management Team, Mrinal brings to this position a significant breadth of strategic and operating experience. He now has overall operational responsibility for all business units at Patni and for the execution of strategies laid out for the growth of the company.

We appointed Surjeet Singh as our new Chief Financial Officer. Surjeet has around two decades of global multi-industry senior management experience in finance, business planning and global supply chain functions. He has a successful track record of building finance as a key business enabler.

Among some of our significant developments during the year:

- We acquired US-based ZAiQ Technologies - a design and verification company; this acquisition is expected to enable us meet the growing demand for ASIC-based services in vertical markets such as consumer electronics, telecom, computing and wireless.

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- To strengthen our vertical practices, we forged several new alliances with global players like SAP India, JBoss, Clear Technologies, Eagle Investment Systems, Savvion, Kurt Salmon Associates, and Sage Software India.

- We opened a new regional development center at Bloomington, as part of our corporate strategy to build strong, onsite operations to achieve leadership in important markets and satisfy customer demand. We also opened a new sales office at Dubai in the Middle East.

- Our Propel initiative enabled us to significantly improve our operational efficiency in several key areas including our utilizations , project efficiencies and pyramid management.

Overall, our business visibility remains strong and we remain confident in our ability to expand existing relationships, move into new service lines, verticals and geographies and add new clients; we are confident that we can continue to drive growth and achieve our strategic corporate objectives in 2007 and beyond.

Industry Environment

2006 was a year of achievements for the Indian IT industry growth story, driven by a maturing appreciation of and growing importance in the global IT services business. Industry performance was marked by sustained double digit revenue growth, steady expansion into newer service lines, increased geographic penetration and an unprecedented rise in investments by multinational corporations expanding their India operations. This stellar performance was also reflected in the growing share of Indian firms in large global contracts, in terms of both scope and scale.

As per the National Association of Software and Service Companies (NASSCOM s) Strategic Review 2007 , service and software exports remain the mainstay of the IT sector. While the US and UK remain dominant markets, firms are also keenly exploring new geographies for business development to strengthen their global delivery footprint. Banking, Financial Services and Insurance, Telecom and Manufacturing are key verticals, accounting for nearly 60% of the total; Retail, Media, Utilities, Healthcare and Transportation are also rapidly growing sectors.

IT services exports, accounting for 55-57% of total exports, are growing at an estimated 36% and are expected to reach US$18.1 billion in FY 2007. Newer areas of application and infrastructure management and testing are gaining traction, with their share in the business-mix growing steadily. BPO continues to grow in scale and scope with firms increasingly adopting a vertical focused approach. Lastly, increasing traction in offshore product development and engineering services is supplementing India s efforts in own IP creation.

Service-line expansion is enabling service providers in taking on larger and more complex deals and is driving up the average size of contracts awarded to Indian firms. High offshore components of delivery and superior execution in multi-location delivery continue to be key differentiators. The broad-based industry structure reflects the depth of the supply-base. While the larger players continue to lead growth, gradually increasing their share in the industry aggregate; several high-performing SMEs also stand out.

During 2006, worldwide technology and related services spending crossed US$1.5 trillion in 2006, growing at 7.7% over 2005. However the size and scope of this opportunity and the strategic advantages in realizing its potential are significantly larger. The Indian IT industry continues to be uniquely advantaged to best address these opportunities. Timely, coherent and continued action is needed to ensure that India makes the most of these opportunities and maintains its lead.

Corporate Performance

The Company reported a revenue growth of 28.5% from US$ 450.3 million in CY 2005 to US$578.9 million in 2006; corresponding net income increased by 30%. Gross Margins showed an overall growth of 24.6% in 2006 at US$201.6 million, as compared to US$161.9 million in 2005.

2006 also stood out for the numerous awards and recognitions that Patni received from reputed global institutions and research bodies. Amongst these were:

- CIO 100 award, given to Indian companies that demonstrate excellence in deploying technology solutions.
- Frost & Sullivan Customer Service Leadership Award in the IT Services Market for 2006.

2006 also stood out for the numerous awards and recognitions that Patni received from reputed global institutions and research bodies.

- Brown & Wilson s Black Book of Outsourcing ranked Patni at #6 in the list of Best Managed Global Outsourcing Vendors for 2006.
- 2007 Global Services 100 published by Global Services -Online and neoIT rated us 1st among the Top 5 Engineering Services Providers and 2nd among the Top leaders in Human Capital Development .

Focus Brings Rewards

In the second year of our verticalization initiative, we continued to bring in rewarding results.

Insurance continued to remain our largest vertical. We launched Legacy$_x$ - a new solution framework aimed at helping insurers develop and implement their legacy renewal strategy. We entered into a strategic alliance with Clear Technology, Inc. which will help us serve our clients in the UK and US better.

Our **Financial Services** vertical saw significant growth coming from long-term client relationships, even as we added new customers. We entered into a strategic alliance with Eagle Investment Systems LLC focused on the global investment management community. 2006 also marked our significant success in the Financial Services BPO market.

During the year, growth in the **Manufacturing** vertical was enabled by new customer acquisition and further expansion of key existing accounts. Besides increasing focus around solutions-oriented sales , the practice was successful in generating business in newly launched service offerings mainly Business Process Consulting and an integrated end-to-end offering in Business Process Outsourcing and Application Development & Maintenance services.

Our **Telecom** vertical expanded its global footprint and scale in 2006 with its successful strategy of integrated services that include consulting, systems integration and application development and management. We successfully opened up new growth markets in the European Union and the Middle East. Significantly, we have become a global leader for IT services in telecom that require deep domain expertise in core areas such as mobile virtual network operator - MVNO.

The **Product Engineering Services (PES)** vertical continued to deliver outstanding growth in 2006, servicing some of the world s leading R&D and Technology enterprises, and OEMs. The business unit made inroads into the semiconductor space, with the acquisition of ZAiQ Technologies in 2006. This has helped to bring substantial synergies in the areas of ASIC design & verification for the Company. PES continues to be our growth engine as we enter the next wave of R&D outsourcing. The medical electronics practice of PES achieved the ISO 13485:2003 certification, an international quality management standard for medical devices and related services.

The **Growth Industries** business unit targeted its focus on to two practices: namely Retail and Logistics & Transportation. A significant number of new accounts were added in the US. A strategic alliance with Kurt Salmon Associates was established, which will gain us entry into large retail customers in the US over 2007 and beyond.

In 2006, we continued to build and strengthen our horizontal services lines.

The **Enterprise Application Solutions** business unit recorded significant growth in 2006, backed by several new account wins and expansion in existing accounts. We achieved the first-ever ERP implementation in the reclaimed rubber industry, with the successful implementation of mySAP ERP solution at Gujarat Reclaim and Rubber Products Ltd., the largest producer of reclaimed rubber in Asia. Our NetWeaver-compliant solution - Inventory Optimizer, was also globally certified by SAP.

Patni was ranked as the highest among Indian offshore supply chain solution providers in a customer satisfaction survey conducted by Forrester Research in June 2006.

Infrastructure Management Services saw growth mainly from new clients. We were ranked as a strong performer in the infrastructure space by Gartner Group and Forrester Research. We became the first offshore provider to receive accreditation from Managed Service Providers Alliance.

The **BPO** practice added significant new Knowledge Process Outsourcing capabilities in actuarial, benefits administration and investment analytics services. The practice also signed a major global deal in the Benefits Administration and Actuarial domain. In addition to English language support in Europe and APAC region, the BPO practice added support in languages like Japanese, Mandarin, French, Spanish, Italian and German.

The **Verification & Validation** Center of Excellence (CoE) has continued to expand its footprint across all verticals. Revenue growth was enabled by expansion of existing service offerings such as Managed Test Center, End-to-End Testing and Test Process Consultancy. Also, new service lines in ERP, SOA, BI domains were introduced. Test automation and performance testing service lines are seeing growing demand from customers.

Business Intelligence CoE continued to provide stronger support to our verticals through competencies in Business

Intelligence/Data Warehousing (BI/DW) technologies, enhanced consulting services and R&D on emerging technologies. Serving as a comprehensive one-stop-shop for BI/DW solutions to customers, we made some major wins in the APAC and North America regions. Our consulting services - BI tools standardization and data quality consulting services has seen good demand from customers, earning for the Company recognition from a leading analyst - the ARC Advisory Group.

The **Business Process Management** (BPM) CoE s intellectual property (IP)-centric services model coupled with partnerships with BPM product leaders like Savvion enabled the CoE to deliver some significant solutions for our customers. The CoE has developed a composite applications reference framework and a suite of process templates for manufacturing and financial services businesses.

We have a robust sales strategy and go-to-market plan for 2007. We have aligned our sales teams towards growing key accounts and driving new business.

The **IT Governance** CoE grew by offering proprietary and comprehensive life-cycle services spanning advisory & consultative services, multi-platform implementation and application development & maintenance services, and specialized value-added services.

Regional Performance

Our **US** sales fully verticalized under the leadership of the National Industry Service Groups, achieved a growth of 23% in 2006.

Europe continued to show good growth rate, with revenues increasing by 65%; sixteen new accounts were added.

Our **Asia Pacific** sales experienced a growth of 24%. In Australia, we made inroads into the Government sector.

Infrastructure

During 2006, we added 450, 000 sq. ft. of space at Mumbai East, Hyderabad, Noida and Pune.

Phase 1 of our new state-of-the-art development center in Airoli became operational in November 2006, making available 1800 seats. The balance three software blocks, an employee care centre and a training block with residential facilities will become operational by mid 2007. The total capacity will be 4,500 seats and a training facility for 500 persons. The state-of-the-art campus is sure to become an IT landmark in Mumbai.

In keeping with the company s policy to build its own campuses, we have acquired land in four locations, namely Noida, Pune, Hyderabad and Kolkata, in addition to the land we already have in Mumbai and Chennai.

People Initiatives

We continue to build our management team and globalize our workforce. At the close of the year 2006, our employee strength stood at 12,804 with approximately 1,000 net additions over 2005. Twelve people joined us organization-wide in 2006 at Vice-President level and above. At the entry level, 1,300 offers have been made in campus recruitment drives.

In a bid to strengthen the leadership pipeline, we have identified 47 young leaders as part of a fast track program. They have been assigned to 31 mentors across the organization who will groom these young leaders for higher roles.

During 2006, Patni Academy for Competency Enhancement (PACE) delivered over 90,000 person days of technical training and 13,000 days of behavioral and leadership training, averaging to over 8 person days per employee. Patni now has over 150 certified Project Management Professionals within the Company. PACE also launched a new service, Customized Learning Solutions, for Patni customers across the globe.

2007 and Beyond

In 2006, we recorded 28% growth. While this is not a small achievement by any standards, the industry average touched 34% growth, while some of our peers raced ahead with an impressive 44% growth. The challenge for us going forward is to make sure we can drive growth to exceed industry averages and meet top tier benchmarks, while sustaining and expanding our recent gains in delivery efficiency and stronger financial management. We must integrate the elements that enable our key competitors to grow much faster.

Though we have a formidable task ahead of us, we are well-equipped to achieve our business objectives. We have a robust sales strategy and go-to-market plan for 2007. We have aligned our sales teams towards growing key accounts and driving new business. We have successfully put mechanisms in place to achieve the operational efficiency at par with the leaders in the industry.

I believe that we have a robust foundation in place and an organization that is committed to enable Patni reach new levels of excellence in the future.

Regards,

Narendra K. Patni

Value has little to do with cost. Better a trusted advisor than a low-cost provider.

full-spectrum services

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As global sourcing of IT services becomes mainstream, customers have started looking beyond the value-proposition of cost reduction, productivity enhancements, and quality improvements. The focus has shifted to strategic business impact or transformation in business performance. Fuelled by the passion to be on the vanguard of customer leadership, Patni has expanded its portfolio of services to align itself with the evolving customer expectations. Patni s expanded services portfolio spans the entire value-chain of IT services, including IT Outsourcing, Business Process Outsourcing and Infrastructure Management. Recently, we have added Business Consulting, and IT Strategy Consulting to our services mix.

We have also leveraged strategic alliances with industry leading software companies to develop new service capabilities. Mergers and Acquisitions has given a further fillip to this initiative focussing on the development of services capabilities in industry domains or niche technologies.

Patni has also introduced service line innovation through a new offering integrating delivery of its IT Outsourcing, Business Process Outsourcing and Infrastructure Management services. This composite services offering is targeted to benefit enterprises looking for a holistic business solution by bringing together business transactions, IT applications and infrastructure.

The expansion of our services portfolio and our enhanced capability to deliver greater business value has enabled us to increase our business opportunities. Moreover, it has led to a visible leap of faith of our customers, in our partnerships with them.

Newmarket International serves the needs of global hotel customers. Our users demand highly usable and comprehensive solutions that work right the first time, enabling truly memorable guest experiences. Patni has become a true partner to us in the delivery of these solutions. They have worked on multiple releases of our core product over the last few years, and continue to help us deliver improved versions of our products on the latest technologies. We are proud to have them as our partners.

Shawn McGowan

Vice-President - Product Development Newmarket International, Inc.

Patni s flexibility, expert knowledge of the insurance domain, and shared vision of an integrated IT and BPO paradigm enabled Universal American Financial Corp. to build a scalable platform to meet our current needs and take advantage of future opportunities.

Frederick W. Rook

Chief Information Officer Universal American Financial Corp.

Patni is a skilled and valued partner, and enabled us to deliver end-to-end, globally consistent IT services for our internal customers.

Anne Wilms

Executive Vice President, Chief Information Officer and Director, Human Resources Rohm and Haas Company

SAP are delighted with the level of commitment, competency development, pre-sales engagement and implementation readiness displayed by Patni for our teaming arrangements to support our go to market model for SAP Central Process Automation across APJ. We believe that creative partnering solutions are the foundation for success with the SAP Solution Extension program.

John C Robertson, Jr.

Sr. Vice President, CSO Corporate Development SAP AG

services portfolio

* Retail, Logistics & Transportation

Brilliance is about surpassing paradigms. Innovation, is *being* them!

spirit of innovation

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Patni s emergence as as global outsourcing leader has been propelled by its sustained efforts to drive innovation, aimed at creating distinct value disciplines - technology leadership, operational excellence and customer intimacy.

We have an institutionalized process for sustained diffusion of technology and product innovation within the organisation. Our Centers of Excellence play a key role in incubating new service lines while modeling product or service innovation around emerging paradigms in business and technology like RFID, Service-Oriented Architecture (SOA), Business Process Management (BPM), Business Intelligence (BI), Enterprise Mobility, Multimedia IP, and IT Governance.

Service line innovation has been at the core of Patni s customer leadership strategy. We have also proactively implemented innovative pricing models to deliver risk-adjusted value benefits.

Our innovation strategy extends beyond process innovation initiatives such as Six Sigma and agile development. We have achieved success in creating a culture of innovation in diverse areas from project management to the development of solution frameworks & methodologies for software development-cum-deployment. We have also invested in developing the right tools that help automation in software engineering life-cycle management and service delivery.

Going ahead, as Patni continues to enhance its competitive positioning, we are looking at initiatives that will stimulate collaboration with our customers and partners to drive creativity, excellence and integration in all spheres of business.

With Patni, Bottomline Technologies gets more than a strong team of talented technical resources. Patni is a partner that understands our business, and is willing to share the risks to ensure that the projects they are involved with, succeed. The strength of the relationship is a key reason for the achievements we ve shared, and gives me confidence to turn to them on a continued basis for our most critical project needs.

Andrew Mintzer

Vice-President Software Development Bottomline Technologies

Our recent industry recognition for the Most Innovative Mobile Application , received at 3GSM 2007 at Barcelona, brings great pride to the entire ShoZu team as also to our partners Patni. As a fast growing start-up in the mobile services sector, ShoZu must be highly focused on both speed-to-market and efficiency and Patni has contributed significantly to both these dimensions.

Steve Langkamp

Chief Operating Officer ShoZu Ltd. (London)

We started our partnership with Patni in 2003. They are mainly responsible for creation of production drawings out of 3D models as well as Finite Element Analysis. Patni today is like an offshore design office for us and we will continue this fruitful partnership.

Jakob Jäggli

Head, Information Management Wärtsilä Switzerland Ltd.

Over the past 7 years, Patni has been an integral part of our globalization strategy. Their intense focus on providing flexible services, and building a strong relationship is critical to our ability to deliver consistent, value-added services to our customers.

Michael Shadler

CIO Protection North America Genworth Financial

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The key operative in *workforce* is not *work*, but *force*. Empowering people produces awesome results.

People strategies

In the knowledge economy, human capital is a critical competitive advantage and one of the key differentiators of Patni s status as a leading IT services company. Accordingly, we have devised key strategies to enable the acquisition, development and retention of our people.

To ensure that we have the best team to service our global clientele, we scan the top technical universities and management institutions within India as part of our campus initiatives. We recruit lateral hires from different industries a vital component of our verticalized go-to-market model, where domain knowledge is a critical capability. We have also made significant strides in building a multi-cultural workforce that gives us the ability to support customer needs across the world. Under our Global Summer Internship programme, we bring in a pool of interns each year from leading US universities.

Empowering our people to deliver their best at all times is a continuous process at Patni. We have a comprehensive career development program that constantly harnesses knowledge and skills of people, while spurring innovation and organizational growth. The Patni Academy for Competency Enhancement (PACE) focuses on delivering technical, behavioral and leadership training for employees. This is backed by a rich repository of content, delivered through the best tools in the virtual classroom and learning management space. Learning Anytime, Anywhere is now a reality, and has proved to be one of the most effective methods to enhance the quality of our intellectual capital. In our pursuit of providing employees with continuous learning options, PACE has launched multiple initiatives such as express learning , mindshare , second innings , and toastmaster s club .

Simultaneously, PACE also collaborates with premier education institutes in India to provide employees with options in pursuing further studies while on the job. The two-and four-year BITS-Patni collaborative programme leading to a Master s degree in software engineering is growing in strength. Patni employees are also performing extremely well in the collaborative Executive Management Education Program with IIM-Kozhikode. In addition to the above, the Patni Managerial Excellence Program being conducted year-on-year by IIM-Ahmedabad is delivering great results. The number of Patniites with international certifications from Project Management Institute (PMI) is also increasing exponentially.

To add to this, our sustained relationships with major Fortune 500 corporations and engaging partnerships with leading application vendors is helping us build capabilities and specialized expertise in different domains across geographies of the world. Our employees are continually exposed to a huge range of globally challenging projects across diverse business and technology practices.

Focusing on career growth, the LEAP (Leadership Excellence at Patni) framework is part of our ongoing initiatives to groom future leaders, and align individual aspirations in line with the company s vision. LEAP gives employees the option of choosing a career path from different streams such as technology, sales, support or project management. This is one of the core tenets of our high-performance work culture that cultivates cross-disciplinary competencies.

As we expand our footprint, we have ensured that our spectrum of recruitment, competency development and growth initiatives are robust enough to meet the dynamic needs of a globalized world.

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When all the world s your stage, you instinctively think like a world-beater.

Infrastructure growth

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To support the global needs of our clients, we continue to invest in expanding our geographical footprint through a cohesive and complementary network of sales offices, global delivery centers and onsite staff. This network allows us to quickly ramp up operations in key locations to meet dynamic client requirements, in addition to the flexibility to venture into high-growth verticals.

To ensure that our infrastructure matches the pace of demand generated by our clients, we took several infrastructure expansion initiatives. In 2006, the first phase of the Patni Knowledge Park at Airoli, Navi Mumbai was made operational. The campus will include world-class facilities for software development, training, customer care, and employee recreation, among others. The campus includes world-class facilities for software development, training, customer care, and employee recreation, among others. We are also finalizing our campuses in new locations such as Noida, Pune, Hyderabad and Kolkata.

Simultaneously, we continue to strengthen our onsite operations with the ultimate objective of providing anytime, anywhere services of high quality to our global clients. Towards this goal, we enhanced our onshore operations in the US with the opening of our third Global Delivery Center (GDC). We are also investing in expanding our global delivery foot-print and very soon, we will have delivery centers in Latin America and China. We now have a multinational footprint represented through our 21 global sales offices and 19 Global Delivery Centers (GDCs) in strategic locations spread across the world.

global presence

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Directors Report

To,

The Members,

PATNI COMPUTER SYSTEMS LIMITED

Your Directors have pleasure in presenting their Twenty Ninth Annual Report together with Audited statements of Accounts for the year ended 31 December 2006:

Financial results:

	31 Dec 2006 (Rs. In million)	**31 Dec 2005 (Rs. In million)**
Sales	9,978.30	8,755.96
Resulting in Profit Before Tax	3,058.89	2,442.45
Profit After Tax	2,057.63	1,944.13
Profit available for appropriation after adding to it Previous Year s Brought Forward.	10,106.07	8,638.28
Appropriated as under:		
Transfer to General Reserve	205.76	194.41
Final Proposed Dividend on Equity Shares @ 150% (Previous Year 125%)	414.85	344.69
Corporate Tax on above Dividend	58.18	50.73
Balance Carried to Balance Sheet	9,427.28	8,048.45
	10,106.07	8,638.28

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Management Council

Narendra Patni
Chairman and CEO

Mrinal Sattawala
Chief Operating Officer

Russell Boekenkroeger
Executive Vice-President &
Region Head, North America

Neeraj Gupta
Executive Vice-President &
Head Telecom & Media

Satish Joshi
Executive Vice-President &
Chief Technology Officer

Vijay Khare
Executive Vice-President,
Chief Administrative Officer
& Chief Delivery Officer

Surjeet Singh
Chief Financial Officer &
Head Mergers
& Acquisitions

Brian Stones
Executive Vice-President &
Head Europe

Senior Management

Lokesh Bhagwat
Sr. Vice-President &
Head Growth Industries

Harish Bhat
Sr. Vice-President Global
Strategic Alliances

Ajay Chamania
Sr. Vice-President & Head
Product Engineering Services

Sunil Chitale
Sr. Vice-President &
Head Manufacturing

Vic D Alfonso
Sr. Vice-President &
Head Financial Services

Dilip Dhanuka
Sr. Vice-President &
Head Product &
Technology Initiatives

Sanjiv Kapur
Sr. Vice-President &
Head Business
Process Outsourcing

Deepak Khosla
Sr. Vice-President
Asia Pacific &
Head Global Marketing

Sunil Kuwalekar
Sr. Vice-President &
Head Global Sourcing &
Operations Management

Milind Padalkar
Sr. Vice-President &
Head Enterprise
Applications Solutions

Sanjay Savla
Sr. Vice-President &
Head Infrastructure
Management Services

Ajit Yadav
General Counsel

Board of Directors

William O. Grabe *Director* Gajendra K. Patni *Executive Director* Ramesh Venkateswaran *Independent Director* Ashok K. Patni *Executive Director* Arun Maira *Additional Director* Narendra K Patni *Chairman & CEO* Michael A. Cusumano *Independent Director* Arun Duggal *Independent Director* Pradip Shah *Independent Director* Abhay Havaldar *Alternate Director to William O. Grabe* Louis Theodoor van den Boog *Independent Director*

Business Performance

The performance of your Company during the year under report has shown improvement over the previous year. Total revenue for the year ended 31 December 2006 amounted to Rs.9,978.30 million as against Rs. 8,755.96 million for the corresponding period last year registering growth of about 14%. The Company has posted the Net profits after tax of Rs. 2,057.63 million for the year ended 31 December 2006 as against Rs. 1,944.13 million for the corresponding period last year registering increase of about 6%. Even on consolidated basis, revenues were increased in the current year 2006 by 28.5 % to US$578.9 million from US$ 450.3 million in 2005 and net income increased by 30%.

Dividend

Your Directors are pleased to recommend the payment of dividend for the year ended 31 December 2006 at Rs.3.00/-(Rupees Three only) per share (150 percent) on face value of Rs.2/- [Previous year Rs.2.50/- per share(125 percent)] , subject to approval of Members at the ensuing Annual General Meeting. If approved, the dividend will be paid to all the eligible shareholders whose names appear on Register of Members on 14 June 2007.

Business Overview

Your Company is one of the leading provider of information technology services. The Company delivers a comprehensive range of IT services through globally integrated onsite and offshore delivery locations primarily in India. Your Company addresses its clients needs with its global delivery model, through which it allocates resources in a cost-efficient manner using a combination of onsite client locations in USA, Europe, Japan, Asia Pacific and Rest of the world and offshore locations in India. Your Company believes that an integral to its delivery competence is its domain expertise. Overall, your Company derives significant strength from its focused industry expertise, successful client relationships, extensive suite of IT services, delivery and operational excellence, highly experienced management team and dedicated and highly skilled delivery professionals.

Business Segments

Your Company offers its services to customers through industry practices in insurance, manufacturing, financial services and telecommunications, as well as in other industries. Your Company also has technology practices that offer services in product engineering and for Independent Software Vendors (ISVs). Both industry practices and technology practices are complemented by service lines, which are developed in response to client requirements and technology life cycles. Your Company s development, application maintenance and support, packaged software implementation, infrastructure management services, product engineering, business process outsourcing and quality assurance services.

Customer Relationships

Your Company has always demonstrated the ability to build and manage relationships with some of the best known companies. Our strategy to diversify our revenue profile is on course. In keeping with our thrust to diversify our revenue profile, our top client contribution towards revenue reduced from 22.1% in 2005 to 14.6% during 2006. Similarly, revenues from top 10 clients reduced from 59.3% in 2005 to 53.1% in 2006. While nurturing long-term relationships with existing customers, your Company has continued to expand its customer base. The Company added 92 new clients during 2006 and its active client base has increased significantly to 239 clients as of 31 December 2006. The number of $1 million client relationships increased by 13 during the year taking the needs with its global delivery model, tally to 74. Your continued to be stable at 91.5%. Similarly, your strategy to improve the geographical diversification of Company s Japan and Asia-Pacific (excluding Japan) registering strong growth. On the regional performance front, in 2006, UK & Europe continued to show good growth at 65%; US sales achieved a growth of 23%; while Asia Pacific experienced a growth of 24.2%.

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Sales and Marketing Initiatives

Your Company has further consolidated global verticalization initiative. The Company has realigned its business unit structures to create sharper focus on select industry and technology practices. The North American sales organization has been re-aligned and integrated with the said industry and technology practices. A majority of your marketing teams focus on specific industries & have Accounts Managers to manage relationship with large customers. In addition to sales executives, there are industry experts and solution architects who complement the sales efforts by providing specific industry and service line expertise.

Personnel & Performance

Your Company has established a work ethic based on values that transcend across its global operations. The culture is oriented to high growth and performance that allows the Company to attract, motivate and retain high quality talent worldwide. Abilities are recognized with rewards for high performance.

Your Company uses its competitive recruitment program to select talent from India s premier engineering institutions. An adaptive business model and mature management structure allow aggressive scalability without compromising on flexibility, responsiveness and reliability of services.

On 31 December 2006, the employee strength of your Company stood at 12,804 with approximately 1,000 net additions over year 2005. Twelve people joined the Company organization-wide at VP level and above. At the entry level, 1,300 offers have been made in campus recruitment drives.

Facility Expansion

During the year, your Company added net 3,20,000 sq. ft. of space of Mumbai East, Hyderabad, Noida and Pune. With a view to build our own campuses, your Company has acquired land in four locations Noida, Pune, Hyderabad and Kolkata, in addition to the land your Company has in Mumbai and Chennai.

All of your SEI-CMMI Level 5 by KPMG, India.

Accolades

2007 Global Services 100 published by Global Services-Online rated your Company first among the Top 5 Engineering Services Providers , second among the Top leaders in Human Capital Development , and sixth among the Top 10 best performing IT Service Providers , for the year 2006.

Patni ESOP 2003

Your Company had introduced the Employees Stock Option Plan known as Patni ESOP 2003 . Under the Plan, the Company is authorised to issue 11,142,085 equity shares of Rs. 2/- each upon the exercise of options granted to employees and / or directors of the Company and its subsidiaries.

Subsequent to listing of Exchange (NYSE), Management of the Company had received several representations from the foreign based/foreign national employees to consider issuing ADR linked options. The Management, therefore, felt it necessary that such foreign based/foreign national employees should be able to exercise their stock options by converting their existing stock options into ADR Linked Options so that they can trade their shares with ease on NYSE. The Management initiated the process of amending the existing Plan and sought the approval of the Members for making the necessary amendments to Patni ESOP 2003. Accordingly, Members of the Company at their Annual General Meeting held on 21 June 2006, approved the Amendment to Patni ESOP 2003 (Patni ESOP 2003- Revised 2006) to enable the Company to issue the ADR linked Options upto limits provided in the said shareholders resolutions. As a result, the employees who are permanently based outside India will be able to convert their equity linked options into ADR linked options. The conversion into ADR linked Options will enable such employees to exercise the options against ADSs and when allotted, will be able to trade such ADSs on NYSE.

The Plan is being administered by the Compensation and Remuneration Committee of Directors constituted as per SEBI Regulations. The details of Options granted under the Plan are development centers were assessed at given in the Annexure to this Report.

Subsidiary Companies

The Company has wholly owned subsidiaries viz. Patni Computer Systems, Inc., Patni Computer Systems (UK) Limited and Patni Computer Systems GmbH.

Patni Telecom Solutions, Inc. is a subsidiary of Patni Computer Systems, Inc., Company s one of the Main Subsidiaries.

Patni Telecom Solutions (P) Limited and Patni Telecom Solutions (UK) Limited are subsidiaries of Patni Telecom Solutions, Inc.

In view of the above and by virtue of Section 4 of the Companies Act, 1956 the Company has following six subsidiaries (Collectively to be referred as Subsidiary Companies) i) Patni Computer Systems, Inc.; ii) Patni Computer Systems (UK) Limited; iii) Patni Computer Systems GmbH; iv) Patni Telecom Solutions, Inc.; v) Patni Telecom Solutions (UK) Limited vi) Patni Telecom Solutions (P) Limited.

During the year, the former subsidiaries of the Company viz. The Reference Inc and Cymbal Information Services (Thailand) Limited were dissolved and therefore, they cease to be subsidiaries of the Company.

The Company has been granted exemption for the year ended 31 December 2006 by the Ministry of Company Affairs vide its letter dated 29 March 2007 from attaching to its Balance Sheet, the individual Annual Reports of each of its subsidiary companies. As per the terms of the said letter, a statement containing brief financial details of the Company s subsidiaries for the year ended 31 December 2006 is included in the Annual Report. The annual accounts of these subsidiaries and the related detailed information will be made available to any member of the Company / its subsidiaries seeking such information at any point of time and are also available for inspection by any member of the Company / its subsidiaries at the Registered Office of the Company.

Directors

In accordance with the requirements of the Companies Act, 1956 and Articles of Association of the Company, Dr. Michael A. Cusumano and Mr. Louis Theodoor van den Boog are liable to retire and eligible for reappointment in the forthcoming Annual General Meeting.

Corporate Governance

Your Company follows the principles of the effective corporate governance practices. The Clause 49 of the Listing Agreement deals with the Corporate Governance which every publicly listed Company is required to comply with. The Company has taken steps to comply with the requirements of revised Clause 49 of the Listing Agreement with the Stock Exchanges.

A separate section on Corporate Governance forming part of the Directors Auditors confirming the compliance of conditions on Corporate Governance as stipulated in Clause 49 of the Listing Agreement is included in the Annual Report.

Particulars of Employees

Particulars of employees as required under the provisions of Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended, forms part of this Report. However, in pursuance of Section 219(1)(b)(iv) of the Companies Act, 1956, this Report is being sent to all the Members of the Company excluding the aforesaid information and the said particulars are made available at the registered office of the Company. The Members desirous of obtaining such particulars may write to the Company Secretary at the registered office of the Company.

Fixed Deposits

Your Company has not accepted any fixed deposits from the Public. As such, no amount of principal or interest is outstanding as of the balance sheet date.

Auditors

M/s BSR & Co., (formerly M/s Bharat S. Raut & Co.,) Chartered Accountants, the present statutory auditors of the Company holds office until the conclusion of the ensuing Annual General Meeting. It is proposed to reappoint them as the statutory auditors of the Company until the conclusion of the next Annual General Meeting. M/s BSR & Co., have, under section 224(1) of the Companies Act, 1956, furnished the certificate of their eligibility for reappointment.

Directors Responsibility Statement

Pursuant to Section 217(2AA) of the Companies (Amendment) Act, 2000 the Directors, based on the representation received from the Operating Management, confirm that:-

(a) in the preparation of the annual accounts, the accounting standards have been followed and that there are no material departure;

(b) they, in selection of accounting policies, have consulted the Statutory Auditors and have applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31 December 2006 and the Profit of the Company for the period 1 January 2006 to 31 December 2006;

(c) they have taken proper and sufficient care, to their best of knowledge and ability, for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

(d) they have prepared the annual accounts on a going concern basis.

Conservation Of Energy, Technology Absorption And Foreign Exchange Earnings / Outgo:

A)Conservation of Energy

Your Company consumes electricity only for the operation of its computers. Though the consumption of electricity is negligible as compared to the total turnover of the Company, your Company has taken effective steps at every stage to reduce consumption of electricity.

B)Technology Absorption

This is not applicable to your Company as it has not purchased or acquired any Technology for development of software from any outside party.

C)Foreign Exchange Earnings/Outgo

Earnings in Foreign Currency on account of:	**31 Dec 2006 (Rs. In million)**
Export Sale	9,901.11
Others	64.83
Total Earnings	9,965.94
Expenditure in Foreign Currency on account of:	
Traveling Expenses	360.48
Overseas Employment Expenses	311.61
Professional Fees & Consultancy Charges	86.79
Subscription & Registration Fees	5.90
Other Matters	69.08
Total Expenditure	833.86
Net Earnings in Foreign Currency	9,132.08

Acknowledgements

Your Directors wish to convey their appreciation to all employees of the Company for their performance and continued support. The Directors would also like to thank all the shareholders, consultants, customers, vendors, bankers, service providers and governmental & statutory authorities for their continued support.

For and on behalf of the Board of Directors

N K Patni

Chairman & CEO

24 April 2007

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Annexure to the Directors Report

Patni ESOP 2003 (Revised 2006)

			As of 31 December 2006
(a)	No. of options granted		8,423,492*
(b)	Pricing formula		As per market price as defined in SEBI guidelines on ESOP
(c)	Options vested		3,154,725**
(d)	Options exercised		1,133,304
(e)	The total number of shares arising as a result of exercise of option		1,133,304
(f)	Options lapsed		1,165,435***
(g)	Variation of terms of options		Members of the Company at their Annual General Meeting held on 21 June 2006, approved the amendment to Patni ESOP 2003 (Patni ESOP 2003 - Revised 2006) (the Plan) to enable the Company to issue the ADR linked Options upto limits provided in the said shareholders resolutions.
(h)	Money realized by exercise of options;		Rs. 18,21,17,440
(i)	Total number of options in force;		6,124,753
(j)	Employee wise details of options granted to;-		
	(I)	senior managerial personnel during the year;	Please refer to Table 1
	(II)	any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year;	Nil
	(III)	identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant.	Nil

Table 1

Employee Name	Granted
Mrinal Sattawala	350,000
Neeraj Gupta	161,000
Surjeet Singh	161,000
Russell Boekenkroeger	100,000

(k)	diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with the Accounting Standard (AS) 20 Earnings per Share	14.80
(l)	Impact of Employee Compensation cost calculated as difference between intrinsic value and fair market value in accordance with SEBI Guidelines on ESOP	
	Profit for the year after taxation as reported	**2,057,629**
	Add Stock based employee compensation determined under the intrinsic value method	
	Less Stock based employee compensation determined under the fair value method	88,327
	Pro-forma profit	**1,969,302**

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Reported earnings per equity share of Rs 2 each	
- Basic	14.91
- Diluted	14.80
Pro-forma earnings per equity share of Rs 2 each	
- Basic	14.27
- Diluted	14.16

(m) Weighted-average exercise prices and weighted-average fair values of options, for options whose exercise price equals the market price of the stock

Weighted average exercise price	Rs. 329.83
Weighted average fair value	Rs. 119.00

(n) The fair value of each stock option is estimated on the date of grant using the Black Scholes option pricing model with the following assumptions which are in accordance with SEBI Guidelines on ESOP

Dividend yield	0.59% to 0.63%
Expected life	3.5 to 6.5 years
Risk free interest rates	6.45% to 7.85%
Expected volatility	30.22% to 55%

The price of the underlying share in market at the time of option grant	**Grant Date**	**Price (Rs.)**
	January 02,2006	493
	April 01,2006	458
	May 04,2006	376
	July 01,2006	336
	October 03,2006	385

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* Including options granted to employees, who have then separated.

** Net of lapsed options.

*** As per the Plan, in the event of resignation from employment, the options lapse for the individual employee. However, the said options are available to the Company for reissue.

Disclosures required under Clause 12.2 of SEBI ESOP Guidelines

			As of December 31, 2006
(a)	No. of options granted		2,743,400
(b)	Pricing formula		The Company was not publicly listed as on the date of grant of stock options. The stock options were granted at the Fair Market Value as determined by an independent agency.
(c)	Options vested		1,763,800
(d)	Options exercised		1,036,784
(e)	The total number of shares arising as a result of exercise of option		1,036,784
(f)	Options lapsed		463,650
(g)	Variation of terms of options		N/A
(h)	Money realized by exercise of options;		150,333,680
(i)	Total number of options in force;		1,242,966
(j)	Employee wise details of options granted to;-		
	(I)	senior managerial personnel during the year;	Nil
	(II)	any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year.	Nil
	(III)	identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant;	Nil
(k)	diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with the Accounting Standard (AS) 20 Earnings per Share		14.80
(l)	Impact of Employee Compensation cost calculated as difference between intrinsic value and fair market value in accordance with SEBI Guidelines on ESOP		N/A
(m)	Weighted-average exercise prices and weighted-average fair values of options, separately for options whose exercise price either equals or exceeds or is less than the market price of the stock		
	Weighted average exercise price		Rs. 145
	Weighted average fair value		Rs. 20.11
(n)	The fair value of each stock option is estimated on the date of grant using the Black Scholes option pricing model with the following assumptions which are in accordance with SEBI Guidelines on ESOP		Options granted in Sept 2003, hence this clause is not applicable
12.3	If the compensation cost for the above option were computed using the fair value method, the profits for the year 2006 would have been lower by Rs. 45.6 lakhs and the basic and diluted EPS would have been lower by Rs. 0.03		

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Corporate Governance Report

Your Company has complied in all material respects with features of Corporate Governance Code as per Clause 49 of the Listing Agreement with the Stock Exchanges.

A report on the implementation of the Corporate Governance Code of the Listing Agreement by the Company is furnished below.

Philosophy on Corporate Governance

A good corporate governance process aims to achieve balance between shareholders interest and corporate goals by providing long-term vision of its business and establishing systems that help the Board in understanding and monitoring risk at every stage of the corporate evolution process to enhance the trust and confidence of the stakeholder without compromising with laws and regulations.

The Company s philosophy on corporate governance encompasses achieving balance between individual interests and corporate goals through the efficient conduct of its business and meeting its stakeholder obligations in a manner that is guided by transparency, accountability and integrity. Accountability improves decision-making and transparency helps to explain the rationale behind decisions and to build stakeholder confidence.

At Patni Computer Systems Limited, we strive towards excellence through adoption of best governance and disclosure practices.

A. Board of Directors

1. Composition of directors

The Board of Directors of the Company (the Board) has an optimum combination of executive and non-executive directors. In order to ensure the independence of the Board, majority of the directors are Independent Directors.

At present, the Board consists of ten members. The relevant details in respect of the existing composition of the Board are furnished below.

Name of the director	Position / Category	Number of directorships in other companies*
Mr. Narendra K Patni(1)	Chairman & CEO	4
Mr. Gajendra K Patni(2)	Executive Director	2
Mr. Ashok K Patni(2)	Executive Director	3
Mr. William O Grabe(3)	Non Executive Director	6
Mr. Arun Duggal	Independent Director	8
Mr. Pradip Shah	Independent Director	16
Mr. Ramesh Venkateswaran	Independent Director	
Dr. Michael A Cusumano	Independent Director	1
Mr. Louis Theodoor van den Boog	Independent Director	2
Mr. Arun Maira	Independent Director	

*This includes directorships held in public limited companies, foreign companies and subsidiaries of public limited companies but excludes directorships held in private limited companies.

(1) Mr. Narendra K Patni is Promoter & Executive Chairman

(2) Promoter

(3) Mr. Abhay Havalder acts as an alternate Director to Mr. William O Grabe

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Changes in composition of the Board during the year ended 31 December 2006.

- Mr. Anupam Puri resigned from the directorship with effect from 25 April 2006 and Mr. Arun Maira was appointed as an additional director with effect from 25 April 2006 and was subsequently reappointed as a director (liable to retire by rotation) at the Annual General Meeting held on 21 June 2006.

2. Number of Board Committees of the Company and of other companies on which directors are Member or Chairman

Name of the director	Number of board committees on which Chairman	Number of board committees on which Member	Number of board committees of other companies on which Chairman	Number of board committees of other companies on which Member
Mr. Narendra K Patni	NIL	1	NIL	NIL
Mr. Gajendra K Patni	NIL	NIL	NIL	NIL
Mr. Ashok K Patni	NIL	NIL	NIL	NIL
Mr. William O Grabe*	NIL	1	NIL	NIL
Mr. Arun Maira	1	NIL	NIL	NIL
Mr. Arun Duggal	1	NIL	1	4
Mr. Pradip Shah	NIL	1	2	5
Mr. Ramesh Venkateswaran	NIL	NIL	NIL	NIL
Dr. Michael A Cusumano	NIL	NIL	NIL	NIL
Mr. Louis Theodoor van den Boog	NIL	1	NIL	NIL

* Mr. Abhay Havaldar acts as an alternate director to Mr. William O Grabe

Note:

1. For the purpose of considering the limit of the committees on which a director can serve, all public limited companies, whether listed or not, have been included and all other companies including private limited companies, foreign companies and companies under Section 25 of the Companies Act have been excluded.

2. For the purpose of considering the limit on memberships of the committees, the Audit Committee and the Investors grievance committee alone are considered.

3. Number of board meetings held and the dates on which such meetings were held

Four board meetings were held during the year ended 31 December 2006 with a time gap of not more than four months between any two meetings and the required information as stipulated under clause 49 of the Listing Agreement was made available to the members of the Board. The dates of such board meetings were 31 January 2006, 25 April 2006, 30 July 2006, and 26 October 2006.

4. Attendance of each director at the board meetings and the last AGM

Name of the director	Total board meetings held	Attended in person	Attended through video / tele conference	Annual general meeting on 21 June 2006
Mr. Narendra K Patni	4	4		x
Mr. Gajendra K Patni	4	4		x
Mr. Ashok K Patni	4	3		o
Mr. William O Grabe	4	1	3	o
Mr. Anupam P Puri*	4		1	o
Mr. Arun Maira**	4	1		x
Mr. Arun Duggal	4	4		x
Mr. Pradip Shah	4	4		x
Dr. Michael A Cusumano	4	1	3	o
Mr. Ramesh Venkateswaran	4	4		o
Mr. Louis Theodoor van den Boog	4	3	1	o
Mr. Abhay Havaldar (Alternate Director to Mr. William O Grabe)	4	3		o

* Mr. Anupam Puri ceased to be the director w.e.f 25 April 2006

** Mr. Arun Maira was appointed as an additional director w.e.f. 25 April 2006 and reappointed at the Annual general meeting held on 21 June 2006.

5. Compensation to Directors

Details of compensation paid to Directors for the year ended 31 December 2006 as below:

Director	Relationship with other directors	Business relationship with the Company	Loans & advances from the Company	Sitting Fees (Rs.)	Remuneration (Rs.)	Commission (US$)
Mr. Narendra K Patni	Brother of Mr. Gajendra K Patni and Mr. Ashok K Patni	Promoter	NIL	NIL	Refer note 3	NIL
Mr. Gajendra K Patni	Brother of Mr. Narendra K Patni and Mr. Ashok K Patni	Promoter	NIL	NIL	19,957,535	NIL
Mr. Ashok K Patni	Brother of Mr. Gajendra K Patni and Mr. Narendra K Patni	Promoter	NIL	NIL	19,869,709	NIL
Mr. William O Grabe	No	Nominee of strategic investor	NIL	NIL	NIL	NIL

Director	Relationship with other directors	Business relationship with the Company	Loans & advances from the Company	Sitting Fees (Rs.)	Remuneration (Rs.)	Commission (US$)
Mr. Arun Maira	No	None	NIL	20,000	NIL	27,334
Mr. Arun Duggal	No	None	NIL	180,000	NIL	40,000
Mr. Pradip Shah	No	None	NIL	180,000	NIL	40,000
Dr. Michael A Cusumano	No	None	NIL	40,000	NIL	40,000
Mr. Ramesh Venkateswaran	No	None	NIL	100,000	NIL	40,000
Mr. Louis Theodoor van den Boog	No	None	NIL	100,000	NIL	40,000
Mr. Anupam P Puri*	No	None	NIL	20,000	NIL	12,666

* Mr. Anupam Puri resigned from the directorship with effect from 25 April 2006

Note:

1. Payment to Non-Executive Directors:

The Company pays US$ 40,000 as an annual commission to its Independent Directors as approved by the Board within the limits approved by the Members of the Company. The amount of such commission, taken together for all non executive directors, shall not exceed 1% of the net profits of the Company in financial year. The Independent Directors are also paid a sitting fee of Rs. 20,000 per meeting, being the maximum amount permissible under the present regulations, for attending the Board / Committee meetings. In addition to the above, the Independent directors are also eligible for stock option grants under Company s Stock Option Plan i.e. Patni ESOP 2003 (Revised 2006)

2. Payment to the Executive Directors:

During the year, the Company paid remuneration to its whole time directors within the limits envisaged under the applicable provisions of the Companies Act, 1956. The remuneration paid was approved by the Board within the limits approved by the Members of the Company.

The breakup of remuneration to the executive directors is as under:

(Amounts in Rs.)

	Fixed Components Salary, Allowances & Perquisites	PF contribution	Pension	Total
Mr. Gajendra K Patni	13,518,807	1,181,395	5,257,333	19,957,535
Mr. Ashok K Patni	13,430,981	1,181,395	5,257,333	19,869,709

3. Compensation to Mr. Narendra K Patni is paid by Patni Computer Systems Inc., a wholly owned subsidiary of the Company. The Compensation is as described in footnote 28b of the financials.

Stock Options Grant

The Company had introduced PATNI ESOP 2003 for employees of the Company / subsidiaries including non-executive directors of the Company in terms of SEBI Guidelines on ESOP. In pursuance of PATNI ESOP 2003, the Company issued an initial grant of 20,000 Options to each Independent Director on 1 July 2004 as approved by the Board at the exercise price of Rs. 254 per share. 25% of the options granted to Independent Directors in July 2004 as mentioned above had been vested in July 2005. Mr. Ramesh Venkateswaran and Mr. Anupam Puri exercised their 5,000 options. As on 31 December 2006, Mr. Ramesh Venkateswaran held 5,000 equity shares of the Company.

The Board of Directors, at its meeting held on 26 April 2005, approved initial grant of 20,000 options to Mr. Louis Theodoor van den Boog on joining the Board and 5,000 options to each Independent Directors, at the exercise price of Rs. 381 per share. 25% of

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the options granted to Independent Directors in April 2005 as mentioned above had been vested in April 2006. None of the Independent Directors has exercised the vested options.

The Board of Directors, at its meeting held on 25 April 2006, approved the grant of 5,000 options to each Independent Director, at the exercise price of Rs. 458 per share. 25% of the options granted to Independent Directors in April 2006 as mentioned above had been vested in April 2007. None of the Independent Directors has exercised the vested options.

Subsequent to listing of Company s ADRs on New York Stock Exchange (NYSE), Members of the Company at their Annual General Meeting held on 21 June 2006, approved the amendment to Patni ESOP 2003 (Patni ESOP 2003- Revised 2006) (the Plan) to enable the Company to issue the ADR linked Options upto limits provided in the said shareholders resolutions.

Pursuant to the Plan, Mr. Arun Maira, on joining the Board, was granted 20,000 options at an exercise price of Rs. 336/- per share. The effective date of above grant is 1 July 2006. 25% of the above options will vest in July 2007.

All options have been granted with an exercise price which has been arrived pursuant to the SEBI Guidelines on ESOP. All the options which have been granted, vest in four equal annual instalments beginning one year from the date of grant. The options can be exercised within five years from the date of vesting.

Code of Conduct

Pursuant to the requirements of the Clause 49 of the Listing Agreement, the Board has adopted Code of Business Conduct and Ethics for the executive directors, whole time directors, officers and employees of the Company as well as the separate Code of Business Conduct and Ethics for Non-Executive Directors of the Company. The said Code has been posted on website of the Company.

All the Board Members and senior management personnel have affirmed compliance with the Code for the year 2006 and a declaration to this effect signed by the Chairman & CEO of the Company is provided at the end of this report.

Tenure

As per the provisions of the Companies Act, 1956 and Articles of the Company, two third of the total directors of the Company retire by rotation. Out of this two third, one third will be retiring at every Annual General Meeting. Accordingly, the tenure of each director is 3 years but they are eligible for reappointment.

In accordance with the Articles of Association of the Company, Mr. Narendra K Patni, Mr. Gajendra K Patni and Mr. Ashok K Patni are permanent members of the Board.

B. Audit Committee

1. Brief description of terms of reference

The Audit Committee was initially set up on 19 December 2001 and reconstituted on 12 November 2003 in line with corporate governance norms. Subsequently, the Audit Committee was reconstituted on 30 March 2005. The Audit Committee has three non-executive members, all being independent. The Chairman of the Committee is an independent director. All members of the Audit Committee are financially literate and they have accounting or related financial management expertise.

The Audit Committee was duly constituted on the following terms of reference:

a. Oversight of the company s financial reporting process and the ancial disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.

b. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.

c. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.

d. Reviewing, with the management, the annual financial statements before submission to the board for approval, with particular reference to:

(i) Matters required to be included in the Director s Responsibility Statement to clause (2AA) of section 217 of the Companies Act, 1956

(ii) Changes, if any, in accounting policies and practices and reasons for the same

(iii) Major accounting entries involving estimates based on the exercise of judgment by management

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(iv) Significant adjustments made in the financial statements arising out of audit findings

(v) Compliance with listing and other legal requirements relating to financial statements

(vi) Disclosure of any related party transactions

(vii) Qualifications in the draft audit report.

e. Reviewing, with the management, the quarterly financial statements before submission to the board for approval

f. Reviewing, with the management, performance of statutory and internal auditors, and adequacy of the internal control systems.

g. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.

h. Discussion with internal auditors any significant findings and follow up there on.

i. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.

j. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.

k. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.

l. To review the functioning of the Whistle Blower mechanism, in case the same is existing.

Powers of the Audit Committee

The following powers are vested with the Audit Committee:

a. To investigate any activity within its terms of reference.

b. To seek information from any employee.

c. To obtain outside or other professional advice.

d. To secure attendance of outsiders with relevant expertise, if it considers necessary.

Review of information by the Audit Committee

The Audit Committee is responsible for reviewing the following information:

a. Management discussion and analysis of financial condition and results of operations;

b. Statement of significant related party transactions (as defined by the audit committee), submitted by management;

c. Management letters / letters of internal control weaknesses issued by the statutory auditors;

d. Internal audit reports relating to internal control weaknesses; and

e. The appointment, removal and terms of remuneration of the Chief internal auditor shall be subject to review by the Audit Committee.

2. Composition, names of Members and Chairman

Name of the Member	Designation	Category
Mr. Arun Duggal	Chairman	Independent Director
Mr. Pradip Shah	Member	Independent Director
Mr. Louis Theodoor van den Boog	Member	Independent Director

3. Meetings and attendance during the year

Four meetings were held during the year ended 31 December 2006

Name of the Member	Total Audit Committee meetings held	Attended in person	Attended through video/tele conference
Mr. Arun Duggal	4	4	
Mr. Pradip Shah	4	4	
Mr. Louis Theodoor van den Boog	4	3	1

C. Compensation and Remuneration Committee

1. Brief description of terms of reference

The Compensation and Remuneration Committee was set up on 30 July 2006 by merging the Remuneration Committee and the Compensation Committee. The main function of the Committee is to determine on behalf of the Board and the shareholders, the Company s policy on specific package for Executive Directors including pension rights and any compensation payment. It also administers Patni ESOP 2003 (Revised 2006) and performs all the functions contemplated to Patni ESOP 2003 (Revised 2006) and SEBI Guidelines. The Charter of the Committee is under review of the Board.

The Committee has three non-executive members with the majority being independent and the Chairman of the Committee is an Independent Director. Mr. Narendra K Patni acts as a Permanent Invitee of the Committee.

2. Composition, names of Members and Chairman

Name of the Member	Designation	Category
Mr. Ramesh Venkateswaran	Chairman	Independent Director
Mr. Arun Maira	Member	Independent Director
Dr. Michael A. Cusumano	Member	Independent Director

During the year, no physical meeting was held.

3. Remuneration policy

The Compensation and Remuneration Committee determines the policy on specific remuneration packages for Executive Directors.

D. Shareholders / Investors Grievance Committee

Shareholders / Investors Grievance Committee was set up on 12 November 2003 and was reconstituted on 30 July 2006. The Committee consists of three directors, the majority being non-executive directors. The Chairman of the Committee is an Independent Director.

1. Name of non-executive director heading the Committee:

Mr. Arun Maira

Composition, names of the Members and Chairman:

Name of the Member	Designation	Category
Mr. Arun Maira	Chairman*	Independent Director
Mr. Narendra K Patni	Member	Chairman & CEO
Mr. William O Grabe**	Member	Non-executive Director

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*Mr. Arun Duggal ceased to be the Chairman w.e.f 30 July 2006 and Mr. Arun Maira was appointed as the Chairman of the Committee from the same date.

**Mr. Abhay Havaldar acts as an alternate director to Mr. William O Grabe.

2. Name and designation of Compliance Officer

Mr. Arun Kanakal, Company Secretary

Akruti Softech Park, MIDC Cross Road No.21, MIDC, Andheri (East), Mumbai - 400 093

Tel No. 91 022 66930500, Fax No. 91 022 28321750, E-mail: arun.kanakal@patni.com

3. Details of investors queries / complaints received and resolved during the year ended 31 December 2006:

This information has been provided under Shareholders Information

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E. General Body meetings

1. Details of last three Annual General Meetings of the Company:

Annual General Meetings for the last three years

Date	21 June 2006	14 June 2005	29 June 2004
Location	Hotel Le Meridien, R.B.M.Road, Opposite Pune Railway Station, Pune 411 001	Hotel Le Meridien, R.B.M.Road, Opposite Pune Railway Station, Pune 411 001	Hotel Le Meridien, R.B.M.Road, Opposite Pune Railway Station, Pune 411 001
Time	11.30 am	11.30 am	11.30 am

2. Whether any special resolution passed in the previous three AGMs?

Yes

3. Whether any special resolution passed last year through postal ballot details of voting pattern?

Not applicable

4. Who conducted the postal ballot?

Not applicable

5. Whether any special resolution is proposed to be conducted through postal ballot?

Pursuant to the Section 192A of the Companies Act, 1956 read with the Companies (Passing of Resolution by Postal Ballot) Rules, 2001, a Notice dated 16 March 2007 was sent to the Members for seeking approval through Postal Ballot by way of the Special Resolution for raising the Foreign Institutional Investors (including sub-accounts) (FIIs) Investment limit in the Company from 24% to 74%.

Mr. Taizoon M Khumri, Practicing Company Secretary, was appointed in this regard by the Board of Directors by resolution dated 13 March 2007 as Scrutinizer for conducting this postal ballot voting process in fair and transparent manner. Subsequently, based on Scrutinizer s report the said Special Resolution was declared as passed with the requisite majority.

For the rest of the financial year 2007, if resolutions are to be conducted through the Postal Ballot procedure, those will be taken up at the appropriate time.

6. Procedure for postal ballot?

Procedure was followed as per the requirements of the Section 192A of the Companies Act, 1956 read with the Companies (Passing of the Resolution by Postal Ballot) Rules, 2001.

F. Disclosures

1. Disclosures on materially significant related party transactions that may have potential conflict with the interests of the company at large:

Disclosures regarding Related Party Transactions have been made under notes to financial statements of the Company, which form part of this Annual Report.

2. Details of non-compliance by the company, penalties, strictures imposed on the company by the stock

exchange or SEBI or any statutory authority, on any matter related to capital markets, during the last three years.

The shares of the Company were listed on 25 February 2004. No penalties and strictures have been imposed on the Company by the stock exchange, SEBI or any statutory authority on any matter related to capital markets as there was no non-compliance by the Company in general.

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G. Shareholders information

Date and time of AGM	:	21 June 2007, Thursday at 11.30 a.m.
Venue	:	Hotel Le Meridien, R.B.M.Road, Opposite Pune Railway Station, Pune - 411001
Financial year	:	1 January 2006 to 31 December 2006
Book closure dates	:	14 June 2007 to 21 June 2007 (both days inclusive)
Registered office	:	S-1A, F-1, Irani Market Compound, Yerawada, Pune 411 006
Dividend payment date	:	on or after 25 June 2007, but within the statutory time limit of 30 days
Compliance officer	:	Mr. Arun Kanakal, Company Secretary is the Compliance Officer of the Company.
Website address	:	www.patni.com

Means of communication

The Company s website www.patni.com contains an Investors section containing financials, press releases, shareholding pattern, news about the Company and certain other shareholder information.

The Company is registered with Electronic Data Information Filing and Retrieval System (EDIFAR) website maintained by National Informatics Centre (NIC) Delhi. The Company is sharing the relevant information on that website.

The Securities and Exchange Commission, US (SEC) maintains a website at www.sec.gov that contains all information and filings done by the registrants that make electronic filings with the SEC using its EDGAR system. The periodical filings of the Company with SEC are also available on the Company s website.

All press releases and events can be accessed under the heading News and Events in Investors section on the Company s website.

Financial results are generally published in Economic Times, Free Press Journal (the National newspapers) and Loksatta (Vernacular newspaper).

As required by sub-clause V of Clause 49 of the Listing Agreement, Management Discussion and Analysis is provided elsewhere in the Annual Report.

As on 31 December 2006, there were 31,018 shareholders holding our equity shares.

The Company s shares fall under category B1 of scrip in BSE and are listed on the following stock exchanges:

In India:

1. Bombay Stock Exchange Limited (BSE)

Phiroze Jeejeebhoy Towers
Dalal Street, Fort
Mumbai 400001
Tel: 91-22-22721233 / 1234
Fax: 91-22-22723719
e-mail: listing@bseindia.com
Website: www.bseindia.com

2. National Stock Exchange of India Limited (NSE)

Exchange Plaza,
Plot No. C/1, G Block, Bandra Kurla Complex, Bandra (E)

Mumbai 400 051
Tel: 91-22-26598235 / 36
Fax: 91-22-26598237 / 38
e-mail: cmlist@nse.co.in
Website: www.nseindia.com

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Outside India:

The Company s ADSs are listed on :

The New York Stock Exchange (NYSE)

11 Wall Street, New York

NY 10005

Tel: 212 6563000

Website: www.nyse.com

Listing fees for the year 2006-07 have been paid to the stock exchanges where the Company s shares are listed.

Stock code:

BSE	:	532517
NSE	:	PATNI
ISIN nos. in NSDL and CDSL	:	INE660F01012
NYSE (ADR)	:	PTI
Telerate Code / Moneyline code	:	BSE - IN;PQS
		NSE - IN;PQSN
		NYSE - US;NYA
Reuters	:	

Symbol	Company name	Prime Exchange
PTNI.NS	PATNI COMPUTER SYSTEMS NSE	NSE
PTNI.BO	PATNI COMPUTER SYSTEMS BSE	BSE
PTI.N	PATNI COMPUTER SYSTEMS LTD	New York Stock Exchange

Bloomberg Code: NYSE - PTI:US.

Dematerialisation of equity shares

The Company s shares are under compulsory dematerialisation list and can be transferred through depository system. The Company has entered into a tripartite agreement with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) to facilitate the dematerialisation of shares. As on 31 December 2006, 99.99% shares were held in electronic form.

Contact Details:

For any queries regarding shares:

Registrar and Transfer Agent:

Karvy Computershare Private Limited
Unit: Patni Computer Systems Limited

Company Secretary and Compliance Officer:

Arun Kanakal
Company Secretary cum Compliance Officer

Karvy House, 46 Avenue 4,
Street No. 1, Banjara Hills,
Hyderabad - 500 034
Tel: 91-40-2342 0814- 824
Fax: 91-40-2342 0814
e-mail: mailmanager@karvy.com

Patni Computer Systems Limited
Akruti Softech Park, MIDC Cross Road No.21,
Andheri (East), Mumbai 400093.
Tel: 91-22-66930500
e-mail: investors.redressal@patni.com

For queries relating to Financial Statements:

Sucheta Damle
Manager Investors Relations
Patni Computer Systems Limited
Akruti Softech Park, MIDC Cross Road No.21,
Andheri (East), Mumbai 400093.
Tel: 91-22-66930500
e-mail: investors@patni.com

Investor correspondence in the U.S.:

Gaurav Agarwal
Manager Investor Relations
Patni Computer Systems Limited
One Broadway, Cambridge MA 02142
Tel: 1-617-914-8360
e-mail: investors@patni.com

Name and address of the Bank
for the purpose of ADS:

In the U.S.
The Bank of New York
Investor Services
P.O. Box 11258
Church Street Station, New York, NY 10286-1258
Toll Free Tel # for domestic US callers: 1-888-BNY-ADRS
International Callers can call: +1-212-815-3700
Email: shareowners@bankofny.com
Websites:http://www.stockbny.com

Name and address of the Custodian
in India for the purpose of ADS:

The Hongkong and Shanghai Banking Corporation Limited
Corporate, Investment Banking and Markets
Custody and Clearing
S.K. Ahire Marg, Worli
Mumbai - 400 030
Tel: (91-22) 2498 0000
Fax: (91-22) 2498 0040/ 2491 0040
E mail: bomcnc1@hsbc.co.in

Dividend

The Board of Directors is pleased to recommend the payment of dividend for the year ended 31 December 2006 @ Rs.3 per share or 150 percent. This dividend, if approved at the Annual General Meeting, shall be paid to all eligible Members whose names appear on the Register of Members on 14 June 2007.

Dividend through Electronic Clearing Service (ECS):

The Company shall provide the facility of ECS to those shareholders in the locations where ECS is available.

For the balance locations, the Company shall issue dividend warrants. These warrants will be valid for a period of 90 days i.e. upto expiry of 23 September 2007. On the expiry of the validity period of the dividend warrants, these may be sent back to our Registrars and Transfer Agents for issue of demand drafts in lieu of the same at:

Karvy Computershare Private Limited
Unit : Patni Computer Systems Limited
Karvy House,
46 Avenue 4, Street No. 1, Banjara Hills
Hyderabad 500 034.
Tel: 91 -40-23420814-824
Fax: 91 -40-23420814

Patni Insider Trading Policy:

The Company has implemented an Insider Trading Policy to comply with all relevant Insider Trading Regulations. In accordance with the policy, the Company announces quiet period for designated employees from time to time.

The Company has a policy of observing a quiet period from the last day of the end of the quarter till two trading days after the financial results are published. The Company may also announce quiet period during and after the occurrence of certain events mentioned in the Insider Trading Policy.

The Company is strictly monitoring its Insider Trading Policy

Details of complaints received and resolved from 1 January 2006 to 31 December 2006:

Complaints	**Received**	**Attended to**	**Pending**
Non-Receipt of Dividend Warrants	27	27	0
Non-Receipt of Annual Report	14	14	0
Non-Receipt of Securities	3	3	0
Non-Receipt of Refund Order	6	6	0
Non- Receipt of Electronic Credit	5	5	0
Receipt of Refund Orders/DWS for corrections	0	0	0
Complaints Received from SEBI	0	0	0
Complaints Received from Stock Exchanges	0	0	0
Total	55	55	0

Shareholding Pattern as on 31 December 2006

Category	**Number of Shares**	**% to Total**
Promoters and Relatives of Promoters	60,972,802	44.09
Mutual Funds/ UTI	3,144,119	2.27
Financial Institutions /Banks	1,511,760	1.09
Insurance Companies	3,900	0.00
Foreign Institutional Investors	28,513,780	20.62
Bodies Corporate	408,555	0.30
Individuals	2,620,768	1.90
NRIs	85,898	0.06
Foreign Corporate Bodies	5,404,958	3.91
Trusts and Clearing Members	83,883	0.06
Shares underlying ADRs*	35,531,430	25.69
Total	**138,281,853**	**100.00**

* Includes 20,161,868 underlying shares held by Bank of New York for General Atlantic Mauritius Limited being the beneficiary.

Market Price Data:

Monthly highs, lows and volumes for Financial Year 2006

Month	BSE High Rs.	Low Rs.	Volume Nos.	NSE High Rs.	Low Rs.	Volume No.	Total Volume (BSE+NSE) No.
January 2006	495	445.4	986311	495.1	445.9	315165	1301476
February 2006	488.9	464.15	189641	489.95	463.95	4367587	4557228
March 2006	496.3	448.45	4546756	495.9	449.6	5403274	9950030
April 2006	458.9	375.15	3184062	456.2	375.1	7799139	10983201
May 2006	395.45	333.35	1135339	395.85	332.95	5932510	7067849
June 2006	351.15	292.9	763755	350.75	291.75	3581482	4345237
July 2006	334.8	261.1	1585274	335.5	260.2	4412391	5997665
August 2006	368.6	327.9	5447184	368.2	326.3	17662093	23109277
September 2006	407.45	368.2	2084255	406.75	368.3	6893592	8977847
October 2006	451.85	381.95	1887465	451.45	383.1	6262358	8149823
November 2006	416.05	394.05	2116137	417.2	394.6	7525637	9641774
December 2006	417.75	386.2	1214803	418.2	385.25	4523555	5738358

Market movement:

Stock market data relating to equity shares listed in India

Chart on Patni share price Vs. Sensex and Nifty - from 1 January 2006 to 31 December 2006

Patni Price Vs. Sensex

Patni Price Vs. Nifty

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Distribution of shareholding as on 31 December 2006

No.of equity shares held	No.of shareholders	%	No.of shares	%
1 - 5000	30,806	99.32	2,174,537	1.57
5001 - 10000	84	0.27	320,019	0.23
10001 - 20000	39	0.13	275,645	0.20
20001 - 30000	16	0.05	199,410	0.14
30001 - 40000	5	0.02	91,252	0.07
40001 - 50000	3	0.01	60,646	0.04
50001 - 100000	8	0.03	275,978	0.20
100001 and above	57	0.18	134,884,366	97.54
Total	**31,018**	**100.00**	**138,281,853**	**100.00**

Outstanding ADRs

Our ADSs are traded on the NYSE under the ticker symbol PTI . As of 31 December 2006, Outstanding ADSs are 7,684,781. Each ADS represents two underlying Equity Shares.

We have entered into a Deposit Agreement dated 15 July 2002 with The Bank of New York, the Depository. Pursuant to the said Deposit Agreement, we have deposited 20,161,868 equity shares of Rs. 2/- each with the Depository. The Depository has executed and delivered to General Atlantic Mauritius Limited 20,161,868 ADRs representing such equity shares where each ADR represents one equity share of Rs.2 per share.

The addresses of offices / locations are given elsewhere in this Annual Report.

ANNUAL DECLARATION BY CEO PURSUANT
TO CLAUSE 49(I)(D)(ii) OF THE LISTING AGREEMENT

As per the requirements of Clause 49(I)(D)(ii) of the Listing Agreement, I, Narendra K Patni, Chairman & CEO, hereby declare that all the Board Members and senior management personnel of the Company have affirmed compliance with the Company s Code of Business Conduct and Ethics for the year 2006.

Sd/-

Narendra K Patni
Chairman & CEO

24 April 2007

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Certificate of Compliance with the Corporate Governance requirements under Clause 49 of the Listing Agreement

To the Members of Patni Computer Systems Limited

We have examined the compliance of conditions of corporate governance by Patni Computer Systems Limited for the year ended on 31 December 2006, as stipulated in clause 49 of the listing agreement of the said Company with stock exchanges.

The compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of conditions of the corporate governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of corporate governance as stipulated in the abovementioned listing agreement.

We state that such compliance is neither an assurance as to the future viability of the company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For BSR & Co.

Chartered Accountants

Natrajan Ramkrishna

Partner

Membership No: 032815

Place: Mumbai

Date: April 24, 2007

Certification by the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) on Financial Statements of the Company

We, Narendra K Patni, Chairman & CEO and Surjeet Singh, Chief Financial Officer, of Patni Computer Systems Limited, certify that:

(a) We have reviewed financial statements and the cash flow statement for the year and that to the best of our knowledge and belief:

i. these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;

ii. these statements together present a true and fair view of the company s affairs and are in compliance with existing accounting standards, applicable laws and regulations.

(b) There are, to the best of our knowledge and belief, no transactions entered into by the company during the year which are fraudulent, illegal or violative of the company s code of conduct.

(c) We are responsible for establishing and maintaining internal controls and that we have evaluated the effectiveness of the internal control systems of the Company and we have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of internal controls, if any, of which we are aware and the steps we have taken or propose to take to rectify these deficiencies.

(d) We have indicated to the auditors and the Audit committee:

(i) significant changes in internal control during the year;

(ii) significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and

(iii) instances of significant fraud of which we have become aware and the involvement therein, if any, of the management or an employee having a significant role in the Company s internal control system.

Narendra K Patni
Chairman & CEO

Surjeet Singh
Chief Financial Officer

Place: Mumbai

Date: April 24, 2007

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Ratios (as per US GAAP)

Financial results:	**2004 consolidated**		**2005 consolidated**		**2006 consolidated**	
Ratios - growth						
Revenues	30.1	%	37.9	%	28.5	%
Operating profit	39.3	%	15.8	%	34.1	%
PAT	27.3	%	30.8	%	-2.7	%
Basic EPS	15.2	%	28.0	%	-11.2	%
Ratios - financial performance						
Cost of revenues / Revenues	62.0	%	64.1	%	63.9	%
Selling, general and administrative expenses / Revenues	18.6	%	20.0	%	19.0	%
Operating profit / Revenues	18.6	%	15.6	%	16.3	%
PBT / Revenues	18.2	%	16.6	%	18.5	%
Taxation / Revenues	3.9	%	3.1	%	8.2	%
PAT / Revenues	14.3	%	13.5	%	10.2	%
Return on capital employed (ROCE) (PBIT / Average Capital employed)	28.7	%	21.5	%	23.1	%
Return on average networth (RONW) (PAT / Average Networth)	21.7	%	17.1	%	12.5	%
Ratios - Balance Sheet						
Debt Equity Ratio	0.0		0.0		0.0	
Debtors Turnover (days)	84		62		75	
Fixed assets turnover (days)	57		72		79	
Current Ratio	4.6		4.0		3.8	
Cash and Cash equivalents / Total Assets	43.6	%	52.5	%	45.2	%
Cash and Cash equivalents / Revenues	49.8	%	64.5	%	50.0	%
Per share data						
Basic and Diluted EPS ($)	0.38		0.48		0.43	
Book value per share ($)	2.19		3.19		3.68	
No. of Employees	9,661		11,802		12,804	

PATNI COMPUTER SYSTEMS LIMITED

STANDALONE FINANCIALS UNDER INDIAN GAAP

Auditors Report

To the Members of **Patni Computer Systems Limited**

We have audited the attached Balance Sheet of Patni Computer Systems Limited (the Company) as at 31 December 2006, the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

1 As required by the Companies (Auditor s Report) Order, 2003 (the Order) issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956 (the Act), we enclose in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.

2 Further to our comments in the Annexure referred to above, we report that:

a) we have obtained all the information and explanations which to the best of our knowledge and belief, were necessary for the purposes of our audit;

b) in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;

c) the Balance Sheet, Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;

d) in our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in subsection (3C) of Section 211 of the Companies Act, 1956;

e) on the basis of written representation received from the directors of the Company, as at 31 December 2006 and taken on record by the Board of Directors, we report that none of the directors are disqualified as at 31 December 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956, and

f) in our opinion, and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 December 2006;

ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date; and

iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For **BSR & Co.**
Chartered Accountants

Natrajan Ramkrishna
Partner
Membership No: 032815

Mumbai
Date: 8 February 2007

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Annexure to the Auditors Report - 31 December 2006

With reference to the Annexure referred to in paragraph 1 of the Auditors Report to the members of Patni Computer Systems Limited (the Company) on the accounts for the year ended 31 December 2006, we report that:

1 a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

b) The Company has a regular programme of physical verification of its fixed assets, by which all fixed assets are verified in a phased manner over a period of three years. During the current year, as part of a cyclical plan, the Company has carried out physical verification of certain fixed assets and no material discrepancies were noticed upon such verification. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets.

c) Fixed assets disposed off during the year were not substantial and therefore do not affect the going concern assumption.

2 The Company is a service company, primarily rendering IT consulting and software development services and does not hold inventories. Accordingly, matters specified in clause 4(ii) of the Order are not applicable to the Company.

3 According to the information and explanations given to us, the Company has not granted or taken any loans, secured or unsecured, to/from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956.

4 In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and nature of its business with regard to purchase of fixed assets and with regard to sale of services. The activities of the Company do not involve purchase of inventory and the sale of goods. We have not observed any major weakness in the internal control system during the course of the audit.

5 a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in Section 301 of the Companies Act, 1956 have been entered in the register required to be maintained under that section.

b) In our opinion, and according to the information and explanations given to us, the transactions made in pursuance of contracts and arrangements referred to in (a) above and exceeding the value of Rs. 5 lakh with any party during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.

6 The Company has not accepted any deposits from the public.

7 In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.

8 According to the information and explanations given to us, the Central Government has not prescribed the maintenance of cost records under Section 209(1) (d) of the Companies Act, 1956 for any of the services rendered by the Company.

9 (a) According to the information and explanations given to us and on the basis of our examination of the records of the Company, the Company is generally regular in depositing undisputed statutory dues including Provident Fund, Employees State Insurance, Income tax, Sales tax, Wealth tax, Service tax, Customs duty, Cess and other material

statutory dues with the appropriate authorities. As explained to us, the Company does not have any dues on account of Investor Education and Protection Fund and Excise duty. According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Employees State Insurance, Income tax, Sales tax, Wealth tax, Customs duty, Cess and other material statutory dues were in arrears as at 31 December 2006 for a period of more than six

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months from the date they became payable. There were no dues on account of cess under section 441A of the Companies Act, 1956, since the date from which the aforesaid section comes into force has not yet been notified by the Central Government.

(b) According to the information and explanations given to us, following are the details of the disputed dues that have not been paid to the concerned authorities:

Name of statute	**Nature of dues**	**Demand (Rs. in mn.)**	**Amount paid (Rs. in mn.)**	**Period**	**Forum where dispute is pending**
Income tax Act, 1961	Income tax	630		Assessment year 2004-05	Commissioner of Income Tax (Appeals)

10 The Company does not have accumulated losses at the end of the financial year and has not incurred cash losses in the current financial year and in the immediately preceding financial year.

11 The Company did not have any outstanding dues to any financial institution, banks or debenture holders during the year. Accordingly, the provisions of paragraph 4 (xi) of the Order are not applicable to the Company.

12 According to the information and explanations given to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities. Accordingly, the provisions of paragraph 4 (xii) of the Order are not applicable to the Company.

13 In our opinion and according to the information and explanations given to us, the Company is not a chit fund/ nidhi/ mutual benefit fund/ society. Accordingly, the provisions of clause 4 (xiii) of the Order are not applicable to the Company.

14 According to the information and explanations given to us, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of paragraph 4(xiv) of the Order are not applicable to the Company.

15 In our opinion and according to the information and explanations given to us, the terms and conditions on which the Company has given guarantees for loans taken by others from banks or financial institutions are not prejudicial to the interest of the company.

16 The Company did not have any term loans outstanding during the year. Accordingly, the provisions of paragraph 4(xvi) of the Order are not applicable to the Company.

17 According to the information and explanations given to us, and on an overall examination of the balance sheet of the Company, we report that no funds raised on short-term basis have been used for long term investment.

18 The Company has not made any preferential allotment of shares to companies/ firms/ parties covered in the register maintained under Section 301 of the Companies Act, 1956.

19 According to the information and explanations given to us, the Company does not have any outstanding debentures during the year. Accordingly, the provisions of paragraph 4 (xix) of the Order are not applicable to the Company.

20 We have verified the end-use of money raised by public issue as disclosed in the notes to the financial statements.

21 According to the information and explanations given to us, no material fraud on or by the Company has been noticed or reported during the course of our audit.

For **BSR & Co.**
Chartered Accountants

Natrajan Ramkrishna

Mumbai
Partner
Date: 8 February 2007
Membership No: 032815
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Balance Sheet as at 31 December 2006

(Currency: in thousands of Indian Rupees except share data)

	Note	2006	2005
SOURCES OF FUNDS			
Shareholders funds			
Share capital	3	276,564	275,597
Share application money		2,688	
Reserves and surplus	4	21,811,218	20,145,180
		22,090,470	**20,420,777**
Loan funds			
Secured loans	5	30,639	31,813
Deferred tax liability	17	85,014	70,848
		22,206,123	**20,523,438**
APPLICATION OF FUNDS			
Fixed assets			
Gross block	6	6,143,031	4,772,848
Less: Accumulated depreciation		2,793,545	2,092,600
Net block		3,349,486	2,680,248
Capital work-in-progress		2,112,804	1,209,278
		5,462,290	**3,889,526**
Investments	7	13,870,176	8,049,677
Deferred tax asset, net	17	54,195	11,877
Current assets, loans and advances			
Sundry debtors	8	5,386,266	4,166,236
Cash and bank balances	9	367,937	5,706,226
Costs and estimated earnings in excess of billings		98,405	174,331
Loans and advances	10	457,817	407,645
		6,310,425	**10,454,438**
Less: Current liabilities and provisions			
Current liabilities	11	2,172,801	1,047,347
Provisions	12	1,318,162	834,733
		3,490,963	**1,882,080**
Net current assets		**2,819,462**	**8,572,358**
		22,206,123	**20,523,438**

The accompanying notes form an integral part of this Balance Sheet.

As per attached report of even date.

For **BSR & Co.**
Chartered Accountants

For and on behalf of the Board of Directors

N K Patni
Chairman and CEO

G K Patni
Executive Director

Arun Duggal
Director

Pradip Shah
Director

Natrajan Ramkrishna
Partner

Surjeet Singh
Chief Financial Officer

Arun Kanakal
Company Secretary

Membership No: 032815

Mumbai

8 February 2007

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Profit and Loss Account for the year ended 31 December 2006

(Currency: in thousands of Indian Rupees except share data)

	Note	2006	2005
INCOME			
Sales and service income		9,978,301	8,755,962
Other income	13	497,640	130,046
		10,475,941	**8,886,008**
EXPENDITURE			
Personnel costs	14	4,461,532	3,928,003
Selling, general and administration costs	15	2,141,127	1,831,086
Depreciation	6	725,683	600,345
Less: Transfer from revaluation reserve	4	81	81
Interest costs	16	88,792	40,787
		7,417,053	**6,400,140**
Profit for the year before prior period items and taxation		3,058,888	2,485,868
Prior period items			43,423
Profit for the year before taxation		3,058,888	2,442,445
Provision for taxation	17	971,681	354,771
MAT credit entitlement	17	(5,735)	
Provision for taxation - Fringe benefits		35,313	30,349
Provision for taxation (prior periods)			113,196
Profit for the year after taxation		2,057,629	1,944,129
Profit and loss account, brought forward		8,048,445	6,694,146
Amount available for appropriation		10,106,074	8,638,275
Proposed Dividend on equity shares		414,846	344,684
Dividend tax		58,182	50,733
Transfer to general reserve		205,763	194,413
Profit and loss account, carried forward		**9,427,283**	**8,048,445**
Earnings per equity share of Rs 2 each			
- Basic		14.91	15.46
- Diluted		14.80	15.25
Weighted average number of equity shares outstanding during the year			
- Basic		137,957,477	125,736,592
- Diluted		139,067,699	127,457,632

The accompanying notes form an integral part of this Profit and Loss Account.

As per attached report of even date.

For **BSR & Co.**
Chartered Accountants

For and on behalf of the Board of Directors

N K Patni
Chairman and CEO

G K Patni
Executive Director

Arun Duggal
Director

Pradip Shah
Director

Natrajan Ramkrishna
Partner

Surjeet Singh
Chief Financial Officer

Arun Kanakal
Company Secretary

Membership No: 032815

Mumbai

8 February 2007

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Cash Flow Statement for the year ended 31 December 2006

(Currency: in thousands of Indian Rupees except share data)

	2006	2005
Cash flows from operating activities		
Profit before taxation	3,058,888	2,442,445
Adjustments:		
Depreciation	725,602	600,263
(Profit) on sale of fixed assets, net	(1,022)	(133,957)
(Profit) on sale of investments, net	(76,954)	(49,395)
Provision for decline in the fair value of investment	332	29
Dividend income	(269,250)	(109,439)
Interest income	(102,248)	(45,584)
Interest expense	1,635	1,384
Provision for doubtful debts and advances	2,239	(22)
Unrealised foreign exchange (gain)/loss	(163,852)	28,332
Reversal of impairment loss		(14,043)
Operating cash flows before working capital changes	**3,175,370**	**2,720,013**
(Increase)/Decrease in sundry debtors	(1,178,892)	845,332
Decrease/(Increase) in cost and estimated earnings in excess of billings	75,926	(45,560)
Decrease/(Increase) in loans and advances	78,719	(57,776)
Increase in billings in excess of cost and estimated earnings	25,248	12,612
Increase in sundry creditors-Others	169,072	25,140
(Decrease)/Increase in advance from customers	(1,068)	304
Increase in payables to subsidiary companies	383,275	10,051
Increase in other liabilities	333,775	292,569
Increase/(Decrease) in provision for retirement benefits	32,453	(26,899)
Cash generated from operations	**3,093,878**	**3,775,786**
Income taxes paid	(664,386)	(463,327)
Net cash provided by operating activities (A)	**2,429,492**	**3,312,459**
Cash flows from investing activities		
Purchase of fixed assets	(2,087,710)	(2,134,516)
Sale of fixed assets	4,480	191,232
Purchase of non trade investments	(26,103,267)	(15,342,162)
Sale of non trade investments	20,359,390	14,162,597
Dividend received	269,250	109,439
Interest received	100,409	45,584
Net cash used in investing activities (B)	**(7,457,448)**	**(2,967,826)**

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	2006	2005
Cash flows from financing activities		
Issue of equity shares	82,485	5,442,110
Share application money received pending allotment	2,688	
Dividend paid, including dividend tax	(392,697)	(285,175)
Interest paid	(1,635)	(1,384)
Proceeds from finance lease obligations incurred	16,529	17,683
Finance lease obligations repaid	(17,703)	(14,515)
Net cash (used in) / provided by financing activities (C)	**(310,333)**	**5,158,719**
Net (decrease) / increase in cash and cash equivalents during the year (A+B+C)	(5,338,289)	5,503,352
Cash and cash equivalents at the beginning of the year	5,706,226	202,874
Cash and cash equivalents at the end of the year	**367,937**	**5,706,226**

Notes to the Cash flow statement

Cash and cash equivalents consist of cash on hand and balances with banks.

Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts.

	2006	2005
Cash in hand	10,690	14,975
Balance with banks:		
- Current accounts	348,311	5,638,914
- Exchange earners foreign currency account	41,253	62,653
- Effect of changes in Exchange rate	(32,317)	(10,316)
	367,937	**5,706,226**

As per attached report of even date.

For **BSR & Co.**

Chartered Accountants

For and on behalf of the Board of Directors

N K Patni
Chairman and CEO

G K Patni
Executive Director

Arun Duggal
Director

Pradip Shah
Director

Natrajan Ramkrishna
Partner

Surjeet Singh
Chief Financial Officer

Arun Kanakal
Company Secretary

Membership No: 032815

Mumbai

8 February 2007

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Notes to the Financial Statements for the year ended 31 December 2006

(Currency: in thousands of Indian Rupees except share data)

1 Background

Patni Computer Systems Limited (Patni or the Company) was incorporated on 10 February 1978 under the Companies Act, 1956. On 18 September 2003, the Company converted itself from a Private Limited company into a Public Limited company. In February 2004, Patni completed initial public offering of its equity shares in India comprising fresh issue of 13,415,200 shares and sale of 5,324,000 equity shares by the existing shareholders.

In December 2005, Patni issued 5,125,000 American Depository Shares (ADSs) at a price of US$ 20.34 per ADS. There was a secondary offering of additional 1,750,000 ADSs to the existing shareholders. Patni also issued 1,031,250 ADSs at the price of US$ 20.34 per ADS on the exercise of Greenshoe option by the underwriters. Each ADS represented two equity shares of Rs 2 each fully paid-up.

Patni owns 100% equity interest in Patni Computer Systems, Inc. USA, a company incorporated in USA, Patni Computer Systems (UK) Limited, a company incorporated in UK and Patni Computer Systems GmbH, a company incorporated in Germany. In April 2003, Patni Computer Systems Inc. acquired 100 % equity interest in The Reference Inc, a company incorporated in USA. In November 2004, Patni Computer Systems, Inc. USA, acquired 100 % equity in Patni Telecom Solutions Inc - USA (formerly Cymbal Corporation) and its subsidiaries. The Reference Inc. and Cymbal Information Services (Thailand) Ltd, subsidiary of Patni Telecom Solutions Inc. USA, have been dissolved during the year. Patni also has foreign branch offices in USA, Japan, Sweden, Korea, Netherlands, Australia and Finland.

Patni is primarily engaged in the business of IT consulting and software development. Most of the business of Patni is subcontracted from its subsidiary companies in the USA, UK and Germany. The Company provides multiple service offerings to its clients across various industries comprising financial services, manufacturing companies and others such as energy and utilities, telecom, retail and hospitality companies. The various service offerings comprise application development and maintenance, enterprise application systems, enterprise system management, research and development services and business process outsourcing services.

2 Significant accounting policies

2.1 Basis of preparation of financial statements

The accompanying financial statements have been prepared under the historical cost convention with the exception of land and buildings, which have been revalued, on the accrual basis of accounting, in accordance with the relevant provisions of the Companies Act,1956 and comply with the Accounting standards (AS) issued by the Institute of Chartered Accountants of India (ICAI), to the extent applicable.

The preparation of the financial statements in accordance with generally accepted accounting principles requires that management makes estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities as of the date of financial statements and the reported amounts of revenue and expenses during the reporting period. Management also yearly assesses using external and internal sources, whether there is an indication that an asset may be impaired. An impairment occurs where the carrying value exceeds the present value of future cash flows expected to arise from the continuing use of the asset and its eventual disposal. The impairment loss to be expensed is determined as the excess of the carrying amount over the higher of the asset s net sales price or present value as determined above.

2.2 Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation, except for items of land and buildings which were revalued in March 1995. Cost includes inward freight, duties, taxes and incidental expenses related to acquisition and installation of the asset. Depreciation is provided on the Straight Line Method (SLM) based on the estimated useful lives of the assets as determined by the management. For additions and disposals, depreciation is provided pro-rata for the year of use.

The rates of depreciation based on the estimated useful lives of fixed assets are higher than those prescribed under Schedule XIV to the Companies Act, 1956. The useful lives of fixed assets are stated below:

Asset	**Useful life (in years)**

Leasehold land and improvements	Over the lease period or the useful life of the assets, which ever is shorter
Buildings	40
Electrical installations	8
Computers, computer software and other service equipments	3
Furniture and fixtures	8
Office equipments	5
Vehicles	5

2.3 Impairment of Assets

The Company assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset or the recoverable amount of the cash generating unit which the asset belongs to, is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognized in the profit and loss account. If at the balance sheet date there is an indication that a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of depreciable historical cost.

2.4 Leases

In accordance with Accounting Standard 19 Accounting for

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leases issued by the ICAI, assets acquired on finance leases, have been recognised as an asset and a liability at the inception of the lease, at an amount equal to the lower of the fair value of the leased asset or the present value of the future minimum lease payments. Such leased assets are depreciated over the lease term or its estimated useful life, whichever is shorter. Further, the payment of minimum lease payments have been apportioned between finance charges, which are debited to the profit and loss account, and reduction in lease obligations recorded at the inception of the lease.

Lease arrangements, where the risks and rewards incidental to ownership of an asset substantially vests with the lessor, are recognised as operating leases. Lease payments under operating lease are recognised as an expense in the profit and loss account.

2.5 Revenue and cost recognition

The Company derives its revenues primarily from software development activities. Revenue from time-and-material contracts is recognised as related services are rendered. Revenue from fixed-price contracts is recognised on a percentage of completion basis, measured by the percentage of costs incurred to-date to estimated total costs for each contract. This method is used because management considers costs to be the best available measure of progress on these contracts.

Contract costs include all direct costs such as direct labour and those indirect costs related to contract performance, such as depreciation and satellite link costs. Selling, general, and administrative costs are charged to expense as incurred. Provision for estimated losses on uncompleted contracts are made in the year in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revision to costs and income and are recognised in the year in which the revisions are determined.

The asset Cost and estimated earnings in excess of billings represents revenues recognised in excess of amounts billed. These amounts are billed after the milestones specified in the agreement are achieved and the customer acceptance for the same is received. The liability Billings in excess of costs and estimated earnings represents billings in excess of revenues recognised.

Direct and incremental contract origination and set up costs incurred in connection with support/maintenance service arrangements are charged to expense as incurred. These costs are deferred only in situations where there is a contractual arrangement establishing a customer relationship for a specified year. The costs to be deferred are limited to the extent of future contractual revenues. Further, costs attributable to set up activities is deferred and recognised systematically over the years that the related revenues are earned, as services performed during set up year do not result in the culmination of a separate earnings process.

Revenue on maintenance contracts is recognized on a straight-line basis over the period of the contract.

Dividend income is recognized when the Company s right to receive dividend is established. Interest income is recognized on the time proportion basis.

2.6 Employee retirement and other benefits

Contributions to the provident fund, which is a defined contribution scheme, are charged to the profit and loss account in the year in which the contributions are incurred.

Gratuity, pension and leave encashment costs, which are defined benefits, are based on actuarial valuations carried out by an independent actuary at the balance sheet date.

The Company provides compensatory-offs to its employees, which entitle the employees to avail paid leave in future periods for services already rendered. These entitlements are not encashable by the employees. The Company makes provision for such compensatory absences by estimating the likely salary payable to the employees availing such leave based on historical data of such entitlements availed in the past.

2.7 Foreign currency transactions

India Operations

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of the transaction. Foreign currency denominated monetary assets and monetary liabilities at the year-end are translated at the year-end exchange rate. Exchange rate differences resulting from foreign exchange transactions settled during the year, including year-end translation of monetary assets and liabilities are recognised in the profit and loss account other than those exchange differences arising in relation to liabilities incurred for acquisition of fixed assets from outside India, which are adjusted to the carrying value of the underlying fixed assets.

In respect of forward exchange contracts which hedge the foreign currency risk of the underlying outstanding at the year-end or which hedge a firm commitment or highly probable forecasted transactions, the Company values these contracts based on the spot rate at the year-end and the resultant gain or loss is included in the profit and loss account. Gains / losses on cancellation of forward contracts designated as hedge of highly probable forecasted transactions are recognised in the Profit and Loss account in the period in which the forecasted transaction is expected to occur. The premium or discount on all forward exchange contracts arising at the inception of each contract is amortised as income or expense over the life of the contract.

The Company has also entered into foreign currency option contracts in the nature of combination options (net written options) with expiration dates which range upto twelve months. These net written options are revalued at fair values at reporting period end, with any profit or loss arising on the revaluation being recognised in the profit and loss account.

Foreign branch office operations

Revenue items other than depreciation costs are translated into the reporting currency at monthly average exchange rates. Foreign currency denominated monetary assets and monetary liabilities at balance sheet date are translated at exchange rates prevailing on the date of the balance sheet. Fixed assets are translated at exchange rates on the date of the transaction and depreciation on fixed assets is translated at the exchange rates used for translation of the underlying fixed assets. Net exchange difference resulting from translation of items in the financial statements of the foreign branches is recognised in the profit and loss account.

2.8 Investments

Long-term investments are stated at cost, and provision for diminution is made when in the management s opinion there is a decline, other than temporary, in the carrying value of such investments. Current investments are carried at lower of cost and fair value.

2.9 Taxation

Income tax expense comprises current tax expense, deferred tax expense or credit and fringe benefit tax is computed in accordance with the relevant provisions of the Income Tax Act, 1961. Provision for current taxes is recognised under the taxes payable method based on the estimated tax liability computed after taking credit for allowances and exemptions in accordance with the Indian Income-tax Act, 1961. In case of matters under appeal, full provision is made in the financial statements when the Company accepts the liabilities.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to timing differences that result between the profits offered for income taxes and the profits as per the financial statements of the Company. Deferred tax assets and liabilities are measured using the tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. The effect on deferred tax assets and liabilities of a change in tax rates is recognised only to the extent that there is virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Other deferred tax assets are recognised only if there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

Deferred tax assets are reviewed as at each balance sheet date and written down or written-up to reflect the amount that is reasonably / virtually certain (as the case may be) to be realised.

Substantial portion of the profits of the Company are exempted from income tax, being profits from undertakings situated at Software Technology Parks. Under the tax holiday, the Company can utilise exemption of profits from income taxes for a period of ten consecutive years. The Company has opted for this exemption and these exemptions expire on various dates between years 2005 and 2009. In this regard, the Company recognises deferred taxes in respect of those originating timing differences, which reverse after the tax holiday year resulting in tax consequences. Timing differences, which originate and reverse within the tax holiday year do not result in tax consequence and therefore no deferred taxes are recognised in respect of the same. For this purpose, the timing differences, which originate first are considered to reverse first.

2.10 Earnings per share

The basic earnings per share is computed by dividing the net profit attributable to the equity shareholders for the year by the weighted average number of equity shares outstanding during the year. Diluted earnings per share is computed using the weighted average number of equity shares and also the weighted average number of equity shares that could have been issued on the conversion of all dilutive potential equity shares. The dilutive potential equity shares are adjusted for the proceeds receivable, had the shares been actually issued at fair value. Dilutive potential equity shares are deemed converted as of the beginning of the year, unless they have been issued at a later date. The number of shares and potentially dilutive equity shares are adjusted for stock splits and bonus shares, as appropriate.

2.11 Provisions and contingent liabilities

The Company creates a provision when there is a present obligation as a result of an obligating event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

3 Share capital

	2006	2005
	500,000	**500,000**

Authorised		
250,000,000 (2005: 250,000,000) equity shares of Rs 2 each		
Issued, subscribed and paid - up		
138,281,853 (2005: 137,798,399) equity shares of Rs 2 each fully paid	**276,564**	**275,597**

1) Of the above, 14,500,000 equity shares of Rs 2 each were allotted as fully paid bonus shares in March 1995 by capitalisation of general reserve aggregating Rs 29,000.

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2) In June 2001, Patni s Board of Directors approved a sub division of existing equity shares of Rs 10 each into 5 equity shares of Rs 2 each.

3) The above also includes 46,867,500 equity shares of Rs 2 each allotted as fully paid bonus shares in August 2001 by capitalisation of share premium aggregating Rs 93,735.

4) In December 2002, in pursuance of section 77A of the Companies Act, 1956, Patni completed buyback of 1,650,679 equity shares by utilising the share premium account. In this regard, an amount equivalent to the nominal value of the share capital bought back by the Company aggregating Rs 3,301, has been transferred from general reserve to capital redemption reserve.

5) In August 2003, the Company allotted 37,140,283 equity shares of Rs 2 each as fully paid bonus shares by capitalization of share premium aggregating Rs 74,281.

6) In February 2004, Patni completed initial public offering (IPO) of its equity shares in India comprising fresh issue of 13,415,200 shares and sale of 5,324,000 equity shares by the existing shareholders. In this regard, equity shares of Rs 2 each were issued at a premium of Rs 228 aggregating Rs 3,085,496.

7) In December 2005, Patni issued 6,156,250 American Depository Shares (ADSs) representing 12,312,500 equity shares of Rs. 2 each fully paid-up at a price of US$ 20.34 per ADS for a gross proceeds of Rs. 5,739,262. Each ADS represents two equity shares of Rs 2 each fully paid-up.

8) Amount received from employees on exercise of stock options pending allotment of shares is shown as share application money.

9) Refer note 24 for employee stock compensation plans.

4 Reserves and surplus

	2006	2005
Land revaluation reserve		
• Balance carried forward	**7,935**	**7,935**
Building revaluation reserve		
• Balance brought forward	1,515	1,596
• Transfer to profit and loss account	(81)	(81
	1,434	**1,515**
Capital redemption reserve		
• Balance carried forward	253,301	253,301
	253,301	**253,301**
Share premium		
• Balance brought forward	10,752,309	5,331,763
• Share premium received on issue of equity shares	81,518	5,789,952
• Share premium utilized in connection with share issue expenses incurred during the year		(369,406)
	10,833,827	**10,752,309**
General reserve		
• Balance brought forward	1,081,675	887,262
• Transfer from profit and loss account	205,763	194,413
	1,287,438	**1,081,675**

Profit and loss account, balance carried forward	**9,427,283**	**8,048,445**
	21,811,218	**20,145,180**

5 Secured loans

	2006	**2005**
Lease obligation in relation to vehicles acquired under finance lease (Refer note 22)	**30,639**	**31,813**

Nature of security

Finance lease obligations are secured against the vehicles acquired on lease.

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6 Fixed assets

	Land (Freehold)	Land (Leasehold)	Buildings and leasehold improvements	Computer software	Computers, and other service equipments	Electrical installations	Office equipments	Furniture and fixtures	Vehicles	Total as at 31 December 2006	Total as at 31 December 2005
Gross block											
As at 1 January 2006	9,019	169,706	1,131,740	791,129	1,296,203	293,797	399,097	589,663	92,494	4,772,848	3,664,601
Additions		61,643	419,556	137,182	272,078	195,536	174,159	118,913	19,312	1,398,379	1,258,401
Deletions					9,970			172	18,054	28,196	150,154
As at 31 December 2006	**9,019**	**231,349**	**1,551,296**	**928,311**	**1,558,311**	**489,333**	**573,256**	**708,404**	**93,752**	**6,143,031**	**4,772,848**
Accumulated depreciation											
As at 1 January 2006		3,831	123,143	378,195	992,561	103,059	205,704	236,775	49,332	2,092,600	1,599,183
Charge		2,809	49,931	294,922	151,733	47,974	74,747	85,831	17,736	725,683	600,345
Deletions					9,958			131	14,649	24,738	106,928
As at 31 December 2006		**6,640**	**173,074**	**673,117**	**1,134,336**	**151,033**	**280,451**	**322,475**	**52,419**	**2,793,545**	**2,092,600**
Net block as at 31 December 2006	**9,019**	**224,709**	**1,378,222**	**255,194**	**423,975**	**338,300**	**292,805**	**385,929**	**41,333**	**3,349,486**	**2,680,248**
Net block as at 31 December 2005	9,019	165,875	1,008,597	412,934	303,642	190,738	193,393	352,888	43,162	2,680,248	

Notes:

1. Gross block of computers, computer software and other service equipments at 31 December 2006 includes foreign exchange gain capitalised during the year aggregating Rs 71 (2005: 110).

2. Gross block of vehicles as of 31 December 2006 includes assets acquired on lease, refer note 22.

7 Investments

	2006	2005
Long term (at cost)		
Trade		
Unquoted		
Investment in Subsidiary companies		
50,000 (2005: 50,000) equity shares of 1 pound each fully paid of Patni Computer Systems (UK) Limited	2,409	2,409
Contribution of Euro 150,000 (2005: Euro 150,000) towards Capital of Patni Computer Systems GmbH	6,076	6,076
7,500 (2005: 7,500) equity shares fully paid of Patni Computer Systems, Inc. (no par value)	3,571,561	3,571,561
	3,580,046	**3,580,046**
Others		
Investments in Bonds		
13,500 units (2005: nil) of Nabard Bonds	**135,000**	
Current (at lower of cost or fair value)		
Non-trade		
Unquoted		
5,000,000 units (2005: nil) of Deutsche Fixed Term Fund - Series 6 growth	50,000	
15,000,000 units (2005: nil) of TFHFD3 TATA Fixed Horizon Fund Series-3 Scheme F 18 month	150,000	
10,000,000 units (2005: nil) of M121YG ABN Amro FTP Series 2 13Mnth plan Growth	100,000	
20,000,000 units (2005: nil) of B815G Birla FTP - Series H - Growth	200,000	

150,000 units (2005: nil) of DSP Merrill Lynch Fixed term Plan Series 3A Growth	150,000
10,000,000 units (2005: nil) of Deutsche Fixed Term Fund - Series 5 Growth Option	100,000
10,000,000 units (2005: nil) of G144 Grindlays Fixed Maturity - 22nd Plan Growth	100,000
10,000,000 units (2005: nil) of G150 Standard Chartered Fixed Maturity - 2nd Plan Growth	100,000

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	2006	2005
10,000,000 units (2005: nil) of OFTS4G HSBC Fixed Term Series 4 Growth	100,000	
15,000,000 units (2005: nil) of JM Fixed Maturity Fund Series II yearly Olan YSA Growth 156	150,000	
10,000,000 units (2005: nil) of Kotak FMP Series 13 - Growth	100,000	
13,000,000 units (2005: nil) of TFHCG3 TATA Fixed Horizon FUND Series-3 Scheme C 13 month	130,000	
10,000,000 units (2005: nil) of TFHDG3 TATA Fixed Horizon FUND Series-3 Sch-D 13 mth Growth	100,000	
10,000,000 units (2005: nil) of UTI - Fixed Term Income Fund - Series 1 Plan 18-Q4 Dividend Plan	100,000	
10,000,000 units (2005: nil) of Tata FHF Series 6-Scheme A-13m Gr	100,000	
10,000,000 units (2005: nil) of ABN Amro FTP Series 3-366 days-Growth	100,000	
10,000,000 units (2005: 10,00,0000) of Reliance FHF-I-Annual Plan-Series 1	100,000	100,000
5,000,000 units (2005: nil) of Kotak FMP Series XXI - Growth	50,000	
100,00,000 units (2005: nil) of Principal Deposit Fund (FMP-4-20) 460 Days -Growth Plan - FEB 06	100,000	
10,000,000 units (2005: nil) of B813G Birla FTP - Series F - Growth	100,000	
15,000,000 units (2005: nil) of Principal Deposit Fund (FMP-4-20) 385 Days-Growth Plan - MAR 06	150,000	
15,257,144 units (2005: nil) of TATA FHF Series 6-Scheme G-Half Yearly	152,572	
15,000,000 units (2005: nil) of Principal PNB FMP-91 days -Series V-Dividend Payout	150,000	
10,000,000 units (2005: nil) of Reliance FHF-I-Annual Plan-Series 2	100,000	
25,367,715 units (2005: nil) of JM FMP Series III-Qtrly (Q5) Option	253,677	
15,000,000 units (2005: nil) of ABN Amro FTP-Sr 3-Qrtly Plan H (monthly pay scheme)	150,000	
15,000,000 units (2005: nil) of ABN Amro FTP-Sr 4-Plan A-qtrly dividend	150,000	
250,000 units (2005: nil) of DSPML FTP-Sr 1F-Qtrly Divi	250,000	
9,150,000 units (2005: nil) of Deutsche FTF-Series 22-Qrtly-divi	91,500	
15,227,400 units (2005: nil) of SCFMP-QS 2-Qtrly	152,274	
20,000,000 units (2005: nil) of ABN Amro FTP-Sr 4-Qrtly Plan B	200,000	
23,195,171 units (2005: nil) of Kotak FMP 3M Series 7-Divi Reinvest	231,953	
20,000,000 units (2005: nil) of Birla Fixed Term Plan- Series O - Growth	200,000	
7,500,000 units (2005: nil) of UTI - (QFMP/1206) Dividend Plan	75,000	
22,416,978 units (2005: 9,981,703) of Birla Cash Plus - Institutional premium dividend Plan Weekly Dividend - Reinvestment	224,865	100,065
3,718,503 units (2005: 9,384,472) of Birla Cash Plus - IP- Growth	39,624	100,000
47,481,238 units (2005: nil) of Birla Cash Plus - IP - WD - Folio No. 1013038717	475,903	
2,568,783 units (2005: 975,523) of HDFC Cash Management Fund - Saving Plan - Weekly Dividend Option	27,302	10,363
14,190,973 units (2005: 14,190,973) of H16 - OISID HSBC Cash Fund - Institutional Plus - Growth	150,000	150,000
7,144,745 units (2005: 7,144,745) of HDFC Cash Management Fund - Saving Plan - Growth	100,000	100,000
40,163,586 units (2005: 15,561,332) of I-262_ING Vysya Liquid Fund Super Institutional - WD	405,049	155,862
18,862,225 units (2005: 10,689,205) of Kotak Liquid (Institutional Premium) - Weekly Dividend	189,349	107,207
5,333,343 units (2005: nil) of Kotak Liquid (Institutional Premium) - WDI - Folio No. 675491/51	53,530	
14,345,967 units (2005: 14,345,967) of Principal Cash Management Fund Liquid Option - Instl. Prem. Plan Growth	150,000	150,000
42,619,971 units (2005: nil) of Principal Cash Management Fund Liquid Option - Instl. Prem Plan - Weekly Dividend Folio 19529356	426,238	
633,140 units (2005: 68,451) of TLSW01 TATA Liquid Super High Inv. Fund - Weekly Dividend	722,490	77,615
1690 units (2005: 121,417) of TLSG01 Tata Liquid Super High Inv. Fund - Appreciation	1,936	150,000
209,736 units (2005: nil) of G71_Standard Chartered liquidity Manager Weekly Dividend	209,799	
17,103,029 units (2005: nil) of GSSIF-Medium Term -Fortnightly Dividend Option	171,070	
23,343,684 units (2005: nil) of Principal Income Fund-ST-Inst Plan-WDR	255,169	
11,588,301 units (2005: nil) of Reliance Liquidity Fund-WDR	115,899	
388,776 units (2005: nil) of DSPML Liquid Plus-IP-WDR	388,919	
21,832,456 units (2005: nil) of ABN Amro Cash Fund- Institutional Plus WDR	218,357	
8,510,481 units (2005: nil) of JM Money Manager Fund-Super Plus Plan-DDR	85,105	

	2006	2005
25,177,633 units (2005: nil) of HSBC Liquid Plus-Inst Plus Plan- WDR-129355/32	251,908	
14,478,668 units (2005: nil) of JM Money Manager Fund-Super Plus Plan-DDR-7023145875	144,787	
59,236 units (2005: nil) of Templeton India TMA-Super IP-WDR-2109902621756	60,199	
8,980,834 units (2005: nil) of HSBC Liquid Plus-Inst Plus Plan- WDR-512570/31	89,843	
361,082 units (2005: nil) of SCLM-Plus-WDR-730278/08	361,133	
9,593,706 units (2005: nil) of HDFC CMF Call Plan-DDR	100,030	
17,957,602 units (2005:nil) of Rel Liquid Fund-Cash Plan-DDR	200,066	
5,000,000 units (2005: nil) of TATA Fixed Horizon Fund Series 7 Scheme D Growth IP	50,000	
Nil units (2005: 155,139) of D50 DSP Merrill Lynch Liquidity Fund - Weekly Dividend		155,237
Nil units (2005: 10,000,000) of Deutsche Fixed Term Fund - Series 7		100,000
Nil units (2005: 10,000,000) of Deutsche Fixed Term Fund - Growth option		100,000
Nil units (2005: 9,880,642) of D6_Deutsche Short Maturity Fund - Md -		100,000
Nil units (2005: 6,993,007) of G60 GSSIF - St - Plan C - Monthly Dividend		70,000
Nil units (2005: 12,412,862) of G63 GSSIF - Short Term - Plan C Growth 21349 / 70		125,000
Nil units (2005: 9,576,067) of ABN Amro Cash fund Institutional Growth		100,000
Nil units (2005: 14,086,623) of GCCG Grindlays Cash Fund Inst Fund C Growth		150,000
Nil units (2005: 10,000,000) of G9 Grindlays Fixed Maturity 18th plan - Dividend		100,000
Nil units (2005: 5,000,000) of G104 Grindlays Fixed Maturity -4th Plan B Growth		50,000