Patni Computer Systems LTD
Form 20-F
June 26, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2007

OR

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

OR

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

Date of event requiring this shell company report
For the transition period from to

Commission File Number: 001-32692

Patni Computer Systems Limited

(Exact name of registrant as specified in its charter)

Not applicable

(Translation of registrant s name into English)

Republic of India

(Jurisdiction of incorporation or organization)

Akruti Softech Park, MIDC Cross Road No.21

Andheri (E), Mumbai 400 093, India

+91 22 6693 0500

(Address of principal executive offices)

Surjeet Singh, Chief Financial Officer, +91 22 6693 0500, surjeet.singh@patni.com

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

(Name, telephone, e-mail and/or facsimile number and address of company contact person)

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

Title of each class:	Name of each exchange on which registered:
American Depositary Shares, each representing two equity shares, par value Rs.2 per share. Equity shares, par value Rs. 2 per share*	New York Stock Exchange

*** Not for trading but only in connection with Registration of the ADSs**

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

None

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

Not applicable

The number of outstanding shares of each of the issuer s classes of capital or

common stock as of December 31, 2007 was:

Equity shares: 139,009,409

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405

of the Securities Act of 1933, or the Securities Act.

YES o NO x

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

YES o NO x.

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

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

Large accelerated filer o Accelerated filer x Non-accelerated filer ¨

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 x

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements in this filing

USGAAP x. International Financial Reporting Standards o Others o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES o NO x.

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CURRENCY OF PRESENTATION AND CERTAIN DEFINED TERMS

Unless otherwise stated in this Annual Report or unless the context otherwise requires, references in this Annual Report on Form 20-F, or Annual Report to:

- we, us, , our , our company and Patni are to Patni Computer Systems Limited and its consolidated subsidiaries;
- India are to the Republic of India;
- Japanese Yen and JPY are to the legal currency of Japan and all references to Euro are to the legal currency to the European Union.
- Indian rupees, rupees and Rs. are to the legal currency of India and all references to U.S. dollars, dollars or US $ or $ are to the legal currency of the United States; and
- a particular fiscal year are to our fiscal year ended December 31 of such year.

The financial statements have been prepared using U.S. dollars as the reporting currency. In addition, for your convenience, this Annual Report contains translations of certain Indian rupee amounts into U.S. dollars amounts which should not be construed as a representation that those Indian rupee or U.S. dollar amounts could have been, or could be, converted into U.S.dollars or Indian rupees, as the case may be, at any particular rate, the rate stated below, or at all.

Except as otherwise stated in this Annual Report, all translations from Indian rupees to U.S. dollars contained in this Annual Report have been based on the noon buying rate in the City of New York on December 31, 2007 for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York. The noon buying rate on December 31, 2007 was Rs. 39.41 per $1.00.

Information contained in our websites, including our corporate website, www.patni.com, is not part of this Annual Report.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements. The forward-looking statements are contained principally in the sections entitled Key Information Risk Factors, Information on the Company, and Operating and Financial Review and Prospects . These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Forward-looking statements include statements about:

- our ability to attract and retain clients;
- the anticipated benefits and risks associated with our business strategy, including those relating to our current and future service offerings;

- our future operating results;
- the anticipated benefits and risks of our strategic customer relationships and acquisitions;
- the anticipated size or trends of the market segments in which we compete and the anticipated competition in those markets;
- government regulation and the outcome of any tax, legal or regulatory review, action or litigation; and
- our future capital requirements and our ability to satisfy our capital needs.

In some cases, you can identify forward-looking statements by terminology such as may, will, could, should, expect, plan, intend, an believe, estimate, predict, potential or continue, the negative of such terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors, including the risks outlined in Item 3.D. Key Information Risk Factors . These factors may cause our actual results to differ materially from any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievement.

Forward-looking statements speak only as of the date they are made. Other than required by law, we do not undertake any obligation to update them in light of new information or future developments.

This Annual Report includes statistical data about the IT industry that comes from information published by sources including Forrester Research,Inc., or Forrester, a provider of market information and strategic information for the IT industry and the National Association of Software and Service Companies, or NASSCOM, an industry trade group. This type of data represents only the estimates of Gartner, NASSCOM, Forrester and other sources of industry data. In addition, although we believe that data from these sources is generally reliable, this type of data is inherently imprecise. We caution you not to place undue reliance on this data.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

3.A. Selected financial data

The selected consolidated historical financial data set forth below should be read in conjunction with our consolidated financial statements, the notes to those statements and Item 5. Operating and Financial Review and Prospects included elsewhere in this Annual Report. The selected data presented below under the captions Statement of Income Data , Balance Sheet Data and Cash Flow Data for, and as of the end of, each of the years in the five-year period ended December 31, 2007, are derived from our audited consolidated financial statements (except for cash dividend per equity share) and have been prepared and presented in accordance with U.S. GAAP. The consolidated financial statements as of December 31, 2007 and 2006, and for each of the years in the three-year period ended December 31, 2007, and the audit report thereon, are included elsewhere in this Annual Report. Historical results are not necessarily indicative of the results to be expected for any future period.

	Fiscal Year ended December 31,				
	2003	2004	2005	2006	2007
	(in thousands, except share data and per share)				
Statement of Income Data					
Revenues	$ 251,043	$ 326,582	$ 450,332	$ 578,851	$ 662,912
Cost of revenues	159,543	205,439	292,456	373,966	450,085
Gross Profit	**$ 91,500**	**$ 121,143**	**$ 157,876**	**$ 204,885**	**$ 212,827**
Selling, general and administrative	47,995	58,218	85,754	107,663	117,442
Foreign exchange (gain) loss, net	(172)	2,082	1,693	2,748	(23,351)
Operating Income	**$ 43,677**	**$ 60,843**	**$ 70,429**	**$ 94,474**	**$ 118,736**
Other Income / (Expense)					
Interest and dividend income	1,574	4,223	4,190	10,088	12,540
Interest expenses	(2,146)	(2,083)	(2,044)	(2,840)	(3,592)
Gain on sale of investments, net	1,278	144	1,128	1,679	6,370
Other income (expenses), net	(2,025)	(3,693)	966	3,541	1,706
Change in fair value of put option	1,186				
Income before income taxes	**$ 43,544**	**$ 59,434**	**$ 74,669**	**$ 106,942**	**$ 135,760**
Income taxes	10,240	12,886	13,802	47,692	21,784
Cumulative effect due to change in accounting principle due to adoption of SFAS No. 150	3,274				
Net income	**$ 36,578**	**$ 46,548**	**$ 60,867**	**$ 59,250**	**$ 113,976**
Earnings per share, basic & diluted					
Income before cumulative effect of a change in accounting principle (basic and diluted)	$ 0.30				
Cumulative effect of a change in accounting principle (basic and diluted)	0.03				
Net Income : Basic	**$ 0.33**	**$ 0.38**	**$ 0.48**	**$ 0.43**	**$ 0.82**
Diluted	**$ 0.33**	**$ 0.38**	**$ 0.48**	**$ 0.43**	**$ 0.82**
Weighted average number of common shares used in computing earnings per share					
Basic	111,420,849	123,066,042	125,736,592	137,957,477	138,660,785
Diluted	111,420,849	124,084,992	127,457,632	138,904,860	139,569,933
Cash dividend per equity share	$ 0.009	$ 0.025	$ 0.046	$ 0.057	$ 0.086

	At December 31,				
	2003	2004	2005	2006	2007
	(in thousands)				
Balance Sheet Data					
Cash and cash equivalents	$ 47,940	$ 77,143	$ 148,820	$ 46,510	$ 32,626
Investments in securities	49,245	85,623	141,776	246,016	301,152
Total assets	226,084	373,063	553,886	640,341	848,755
Capital lease obligations	540	657	706	692	604
Total shareholders equity	154,832	273,227	439,029	508,593	680,964

	Fiscal Year ended December 31,				
	2003	2004	2005	2006	2007
	(in thousands)				
Cash Flow Data					

Net cash provided by (used in):					
Operating activities	$ 41,382	$ 47,792	$ 73,058	$ 59,091	$ 111,272
Investing activities	(27,816)	(85,484)	(111,750)	(155,426)	(130,036)
Financing activities	(1,165)	61,423	111,875	(7,106)	(8,682)
Capital expenditures	(13,742)	(21,591)	(53,282)	(48,620)	(61,891)

Exchange rates

Fluctuations in the exchange rate between the Indian rupee and the U.S. dollar will affect the U.S. dollar equivalent of the Indian rupee price of our equity shares on the Indian Stock Exchanges and, as a result, will likely affect the market price of the American Depository Shares, or ADSs, in the United States, and vice versa. Such fluctuations will also affect the U.S. dollar conversion by the depositary of any cash dividends paid in Indian rupees on our equity shares represented by the ADSs.

The following table sets forth, for the fiscal years indicated, information concerning the number of Indian rupees for which one U.S. dollar could be exchanged based on the average of the noon buying rate in the City of New York for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York:

Year	Average(1)	High	Low	Period-End
2003	Rs. 46.59	Rs. 48.10	Rs. 45.29	Rs. 45.55
2004	45.26	46.45	43.27	43.27
2005	44.00	46.26	43.05	44.95
2006	45.19	46.83	43.89	44.11
2007	41.19	44.49	38.48	39.41
2008 (through June 23, 2008)	40.55	42.97	39.12	42.97

(1) Represents the average of the noon buying rate on the last day of each month during the period.

The following table sets forth the high and low exchange rates for the previous six months and is based on the noon buying rate in the City of New York on the last business day of each month during the period for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York:

	High	Low
December 2007	39.55	39.29
January 2008	39.55	39.13
February 2008	40.11	39.12
March 2008	40.46	39.76
April 2008	40.45	39.73
May 2008	42.93	40.45
June 2008 (through June 23, 2008)	42.97	42.38

On June 23, 2008 the noon buying rate in the city of New York was Rs. 42.97 per $1.

3.B. Capitalization and indebtedness

Not applicable.

3.C. Reasons for the offer and use of proceeds

Not applicable.

3.D. Risk factors

Investors should carefully consider all of the information set forth in this Annual Report and the following risk factors that affect us and our industry. The risks below are not the only ones we face. Additional risks not currently known to us or that we presently deem immaterial may also affect our business operations. Our business, financial condition or results of operations could be materially or adversely affected by any of these risks. This Annual Report also contains forward-looking statements that involve risks and uncertainties. Our results could materially differ from those anticipated in these forward-looking statements as a result of certain factors, including the risks we face as described below and elsewhere. See Special Note Regarding Forward-Looking Statements.

Risks Related to our Operations

Our revenues are highly dependent on a limited number of clients and the loss of any one of our major clients could adversely affect our revenues.

We derive a significant portion of our revenues from a limited number of clients in a few select industries. In 2005, 2006 and 2007 our largest client, General Electric, accounted for 22.1%, 14.6% and 11.8% of our revenues and our second largest client accounted for 11.5%, 9.6% and 9.1% of our revenues. In 2005, 2006 and 2007, our top ten clients accounted for 59.3%, 53.1% and 47.6% of our revenues. As a result of our reliance on a limited number of clients, we may face pricing and other competitive pressures. The volume of work performed for specific clients is likely to vary from year to year, especially since we are not the exclusive external service provider for our clients. In addition, there are a number of factors, other than our performance, that could cause the loss of a client and that may not be predictable. For example, our clients may decide to reduce spending on IT services or sourcing from us due to a challenging economic environment and other factors, both internal and external, relating to their business such as restructuring or supplier rationalizations. The loss of any one of our major clients, a decrease in the volume of work they outsource to us or a decrease in the price at which we sell our services to them could adversely affect our revenues.

Our client contracts, including those with our two largest customers, typically can be terminated without cause and with little or no notice or penalty, which could negatively impact our revenues and profitability.

Our clients typically retain us through non-exclusive master services agreements, or MSAs. Most of our client project contracts, including those that are on a fixed-price and fixed-price service level agreement, or SLA, basis, can be terminated with or without cause, with 0 to 90 days notice and without termination-related penalties. Our MSAs typically do not include any commitment by our clients to give us a specific volume of business or future work. Additionally, certain of our MSAs do not require the client to make payments for any services or work product reasonably deemed unacceptable to the client. Our business is dependent on the decisions and actions of our clients, many of which are outside our control, which might result in the termination of a project or the loss of a client and we could face liabilities as a result of such termination. Our clients may demand price reductions, change their outsourcing strategy by limiting the number of suppliers they use, moving more work in-house or to our competitors or replacing their existing software with packaged software supported by licensors. Any of these decisions or actions could adversely affect our revenues and profitability.

Our revenues are highly dependent on clients located in the United States. Economic slowdowns or factors that affect the economic health of the United States may adversely affect our business.

In 2005, 2006 and 2007, approximately 84.8%, 80.8% and 77.9% of our revenues were derived from clients located in the United States. Any economic slowdown in the United States may result in our clients reducing or postponing their technology spending significantly, which may in turn lower the demand for our services.

Our clients operate in a limited number of industries. Factors that adversely affect these industries or IT spending by companies within these industries may adversely affect our business.

We derive a large proportion of our revenues from clients which operate in a limited number of industries. In 2005, 2006 and 2007, we derived 27.7%, 23.2% and 23.6% of our revenues from the insurance industry, 21.9%, 21.7% and 23.8% of our revenues from the manufacturing industry,15.3%, 18.9% and 13.4% of our revenues from the communications, media and entertainment industry, and 16.0%, 15.3% and 14.1% of our revenues from the financial services industry. Any significant decrease in IT services spending by clients in these industries or other industries from which we derive significant revenues in the future may reduce the demand for our services. Further, any significant decrease in the growth of the insurance, manufacturing, financial services or communications, media and entertainment industries, or significant consolidation in those industries, or any decrease in growth or consolidation in other industry segments in which we operate, may reduce the demand for our services.

We face intense competition for employees in our market. Our success depends in large part upon our highly skilled software professionals and our ability to attract and retain these personnel.

Our ability to execute projects and to obtain new clients depends largely on our ability to attract, train, motivate and retain highly-skilled software professionals, particularly project managers and other mid-level professionals. Our attrition rates have been high due to a highly competitive labor market in India. Our attrition rates were 20.1%, 28.5% and 26.5% in 2005, 2006 and 2007. We define our attrition rate as the ratio of the number of employees that have left us during a defined period to the average number of employees that are on our payroll during such period.

We invest in training the professionals that we hire to perform the services we provide. These professionals are often targeted by the lateral recruitment efforts of our competitors. If we cannot hire and retain additional qualified personnel, our ability to bid on and obtain new projects may be impaired and our revenues could decline. In addition, we may not be able to expand our business effectively. We believe that there is significant worldwide competition for software professionals with the skills necessary to perform the services we offer, including from non-Indian, international service providers such as Accenture Limited, or Accenture, and International Business Machines Corporation, or IBM. Additionally, we may not be able to redeploy and retrain our software professionals to keep pace with continuing changes in technology, evolving standards and changing client preferences.

Our revenues, expenses and profits are difficult to predict and can vary significantly from quarter to quarter. This could cause the market value of our equity shares and the ADSs to decline.

Our quarterly operating results may vary significantly from quarter to quarter. Therefore, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as an indication of our future performance. It is possible that in the future some of our quarterly results of operations may be below the expectations of market analysts and our investors, which could lead to a significant decline of the market value of our equity shares and the ADSs.

As a large part of any quarter s revenues are derived from existing customers, revenue growth can vary due to project start and stops and customer-specific situations. Operating income variation is due to various factors such as changes in compensation, which are typically effected in the second quarter and reduce our operating margin in such quarter; changes in our use of onsite subcontractors, with higher usage in any quarter leading to lower operating income; changes in the ratio of onsite and offshore services, with higher offshore revenues enhancing the particular quarter s operating income; changes in utilization of resources, with lower utilization leading to reduction in operating income; and changes in foreign exchange rates. We also experience variations in immigration costs.

Factors which affect the fluctuation of our revenues, expenses and profits include:

- variations, expected or unexpected, in the duration, size, timing and scope of our projects, particularly with our major clients;
- changes in our pricing policies or those of our clients or competitors;
- the proportion of services that we perform in our development centers in India as opposed to outside India;
-

the effect of seasonal hiring patterns, unanticipated attrition and the time required to train and productively utilize our new employees, particularly software professionals;

- annual increases in compensation of our employees;
- the size and timing of expansion of our facilities;
- unanticipated cancellations, non-renewal of our contracts by our clients, contract terminations or deferrals of projects; and
- changes in our employee utilization rate, which is affected by various factors.

A significant part of our expenses, particularly those related to personnel and facilities, are fixed in advance of any particular quarter. As a result, unanticipated variations in the number and timing of our projects or employee utilization rates may cause significant variations in our operating results in any particular quarter. There are also a number of factors other than our performance that are not within our control that could cause fluctuations in our operating results from quarter to quarter. These include:

- the duration of tax holidays or exemptions and the availability of other Government of India incentives;
- the outcome of any tax, legal or regulatory review, action or litigation;
- currency exchange rate fluctuations, particularly when the rupee appreciates in value against the U.S. dollar since the majority of our revenues are in U.S. dollars and a significant part of our expenses are in rupees; and
- other general economic factors.

Our earnings may be adversely affected if we receive an adverse determination resulting from a pending U.S. Internal Revenue Service tax review of our U.S. operations.

We face challenges from domestic and foreign tax authorities regarding the amount of current taxes due. These challenges include questions regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. To the extent we are able to prevail in matters for which accruals have been established or are required to pay amounts in excess of such accruals, our effective tax rate in a given financial statement period may be materially affected. During 2006, we reached a settlement with the U.S. Internal Revenue Service, or IRS, relating to our tax returns for our U.S. operations for 2001 and 2002.The IRS has also commenced, but not yet completed, a tax review of our U.S. operations for 2003 through 2005. Pursuant to the settlement, we revised our tax provisions for 2001 and 2002 and recomputed our tax provision for 2003, 2004 and 2005. This revision, representing changes in estimates, has resulted in an additional charge of approximately $14.1 million in our financial statements for the year ended December 31, 2006. Additionally, a consequential interest and deferred tax charge in an amount of $6.0 million has been accrued in our financial statements for the year ended December 31, 2006. Our total income tax liability for the year ended December 31, 2006 was $47.7 million, of which $30.3 million resulted from provisioning due to reassessment of our payroll and corporate tax obligations for our international operations. For the year ended December 31, 2007, we have accrued additional interest amounting to $2.9 million on the IRS liability and a deferred tax benefit of $1.2 million in our financial statements. As the IRS review for 2003 through 2005 is still in progress, we cannot currently assess whether this review may result in increase or decrease in tax liability.

We operate in a highly competitive environment and this competitive pressure on our business is likely to continue.

We operate in a highly competitive environment and this competitive pressure on our business is likely to continue. The market for IT services is rapidly evolving and highly competitive. We expect that competition will continue to intensify. We face competition or competitive pressure from:

- Indian IT services companies, such as Tata Consultancy Services Limited, Infosys Technologies Limited, Wipro Limited, Satyam Computer Services Limited, and HCL Technologies Limited;
- international IT services companies, such as Accenture, Cognizant Technology Solutions, Computer Sciences Corporation, Sapient Corporation and Electronic Data Systems;
- divisions of large multinational technology firms such as IBM, and Hewlett-Packard Company, or Hewlett-Packard;

- in-house IT departments of large corporations;
- other international, national, regional and local firms from a variety of market segments, including major international accounting firms, systems consulting and implementation firms, applications software firms, service groups of computer equipment companies, general management consulting firms, programming companies and temporary staffing firms;

- offshore service providers in other countries with low wage costs such as China and the Philippines, and countries in Eastern Europe and Latin America; and
- involvement of third party intermediaries who negotiate IT services and outsourcing contracts on behalf of their clients.

A number of our international competitors are setting up operations in India. Further, a number of our international competitors with existing operations in India are ramping up their presence as offshore operations in India have become an important element of their delivery strategy. This has resulted in increased employee attrition among Indian vendors and increased wage pressure to retain software professionals and reduce such attrition.

Many of our competitors have significantly greater financial, technical and marketing resources and generate greater revenues than we do. Clients may prefer vendors that have delivery centers located globally or are based in countries that are more cost-competitive than India. Therefore, we cannot assure you that we will be able to retain our clients while competing against such competitors. We believe that our ability to compete also depends in part on a number of factors beyond our control, including the ability of our competitors to attract, train, motivate and retain highly skilled technical employees, the price at which our competitors offer comparable services and the extent of our competitors responsiveness to client needs.

Any inability to manage our growth could disrupt our business and reduce our profitability.

We have experienced significant growth in recent years. Our revenues have grown at a compound annual growth rate, or CAGR, of 21.4% from $251 million in 2003 to $662.9 million in 2007. The total number of our employees has grown from 7,096 as of December 31, 2003 to 14,945 as of December 31, 2007.

Our operations have also expanded in recent years through the development, enhancement and acquisition of new service offerings and industry expertise, and the broadening of our geographic presence. Specifically, we:

- augmented our offerings in our service lines in business process outsourcing, product engineering, infrastructure management services and quality assurance;
- gained expertise and operations in the provision of services to clients in the communications, media and entertainment industry through our acquisition of Patni Telecom Solutions, Inc, or Patni Telecom (formerly Cymbal Corporation, or Cymbal) and Logan Orviss International, or Logan Orviss;
- expanded our expertise and market specific services in the life sciences practice through our acquisition of Patni Life Sciences Inc. (formerly Taratec Development Corporation, or Taratec);
- expanded our expertise and operations in our product engineering technology practices;
- enhanced our operations in Europe and Asia; and
- expanded our facilities in India.

We expect our future growth to place significant demands on both our management and our resources. This will require us to continuously evolve and improve our operational, financial and internal controls across the organization. In particular, continued expansion increases the challenges we face in:

- recruiting, training and retaining sufficient skilled technical, sales and management personnel;
- adhering to our high quality and process execution standards;
- maintaining high levels of client satisfaction;
- creating and managing economies of scale;
- managing a larger number of clients in a greater number of industry sectors;

- integrating expanded operations while preserving our culture, values and entrepreneurial environment; and
- developing and improving our internal administrative infrastructure, particularly our financial, operational, communications and other internal systems.

Any inability to manage our growth may have an adverse effect on our business, results of operations and financial condition.

We may face difficulties in providing services within our industry and technology practices, offering new and existing service lines and managing increasingly large and complex projects, which could lead to clients discontinuing their work with us.

We have been expanding the nature and scope of our engagements by extending the breadth of our practices and the services we offer. The success of our new practices and service offerings is dependent, in part, upon demand for such services by our existing and new clients and our ability to meet this demand in a cost-competitive and effective manner. We cannot be certain that we will be able to attract existing and new clients for such new services or effectively meet our clients needs.

We intend for the increased breadth of our practices and service offerings to result in larger and more complex projects for our clients. To achieve this result, we need to establish closer relationships with our clients and develop a thorough understanding of their operations. Our ability to establish such relationships will depend on the proficiency of our management personnel, software professionals and, if necessary subcontractors, as well as other competitive factors such as our performance and delivery capability. Larger and more complex projects may involve multiple engagements or stages, and there is a risk that a client may choose not to retain us for additional stages or may cancel or delay additional planned engagements. Such cancellations or delays make it difficult to plan for project resource requirements, and failure to plan appropriately may have a negative impact on our business, results of operations and financial condition.

Our business will suffer if we fail to keep pace with the rapid changes in technology in the industries on which we focus. We need to anticipate and develop new services and enhance existing services in order to keep our clients satisfied.

The IT services market is characterized by rapid technological changes, evolving industry standards, changing client preferences and new product and service introductions. Our future success will depend on our ability to anticipate these advances and develop new service offerings to meet client needs. We may not be successful in anticipating or responding to these advances on a timely basis or, if we do respond, the services or technologies we develop may not be successful in the marketplace. Furthermore, services or technologies that are developed by our competitors may render our services non-competitive or obsolete.

We have undertaken and may continue to undertake strategic acquisitions, which may prove to be difficult to integrate and manage or may not be successful, and may result in increased expenses or write-offs.

We have pursued and may continue to pursue strategic acquisition opportunities to enhance our capabilities and address gaps in industry expertise, technical expertise and geographic coverage. It is possible that we may not identify suitable acquisition or investment candidates or joint venture partners, or if we do identify suitable candidates or partners, we may not complete those transactions on terms commercially acceptable to us or at all. The inability to identify suitable acquisition targets or investments or joint ventures or the inability to complete such transactions may adversely affect our competitiveness and our growth prospects.

In 2007 we completed the acquisitions of Taratec Development, a life sciences company and Logan Orviss, a telecommunication consulting service company, which are now integrated with our operations.

If we acquire another company, we could have difficulty in assimilating such company s personnel, operations, products, services, technology and software into our operations. In addition, the key personnel of the acquired company may decide not to work with us. These difficulties could disrupt our ongoing business, distract our management and employees and increase our expenses. Further, any such acquisition, merger or joint venture that we attempt, whether or not completed, or any media reports or rumors with respect to any such transactions, may adversely affect the value of our equity shares and the ADSs.

We are investing substantial cash assets in new facilities and physical infrastructure, and our profitability could be reduced if our business does not grow proportionately.

We expect to invest approximately $80 million to $120 million in capital expenditures in 2008, which is a significant increase from our past capital expenditures. Most of the new spending will be for construction of new facilities and physical infrastructure. However, we may not receive the benefits that we expect from our investment in these facilities. Further, we may encounter cost overruns or project delays in connection with new facilities. These expansions will increase our fixed costs. If we are unable to grow our business and revenues proportionately, our profitability will be reduced.

We are subject to risks arising from exchange rate fluctuations.

Although our functional currency is the Indian rupee, we transact a significant portion of our business in several other currencies, particularly the U.S. dollar. Our exchange rate risk primarily arises from our foreign currency revenues, receivables, payables and other foreign currency assets and liabilities. We expect that a majority of our revenues will continue to be generated in U.S. dollars for the foreseeable future. In 2005, 2006 and 2007, our dollar denominated revenues represented 90.3%, 87.1% and 82.9% of our total revenues respectively.

A significant portion of our expenses, comprising the cost of revenues and selling, marketing and general administrative expenses, are and will continue to be denominated and incurred in Indian rupees. In 2005, 2006 and 2007, rupee costs represented 39.1%, 37.0% and 42% of these cost of revenues and selling, marketing and general administrative expenses. Therefore, changes in the exchange rate between the rupee and other currencies, especially with respect to the U.S. dollar, may have a material adverse effect on our revenues, other income, cost of services, operating costs and net income, which may in turn have a negative impact on our business, operating results and financial condition. On December 31, 2007, the exchange rate per U.S. dollar was Rs. 39.41 compared to Rs. 44.11 on December 31, 2006 and Rs. 44.95 on December 31, 2005. On June 23, 2008, the exchange rate per US$ was Rs. 42.97. The exchange rate between the rupee and the dollar has changed substantially in recent years and may fluctuate substantially in the future.

We have sought to reduce the effect of exchange rate fluctuations on our operating results by purchasing derivative instruments such as foreign exchange forward contracts, purchased options and net written options to cover a portion of outstanding accounts receivables. As of December 31, 2007, we had outstanding forward contracts in the amount of $165.2 million, JPY 481.6 million ($4.3 million) and Euro 4 million ($5.6 million), outstanding written options of Euro 5 million ($7 million), outstanding currency purchased options in the amount of $81.5 million and outstanding currency written options in the amount of $2.5 million. We have increased our foreign currency hedging activity given the recent volatility in the value of the Indian rupee against the U.S. dollar. However, we may not be able to purchase contracts to insulate ourselves adequately from foreign currency exchange risks. In addition, any such contracts may not perform effectively as a hedging mechanism. See Item 11.Quantitative and Qualitative Disclosures about Market Risk Exchange Rate Risk .

Our success depends in large part upon our senior management and key personnel and our ability to attract and retain them.

We are highly dependent on our senior management, including Mr. Narendra K. Patni, our Chairman and Chief Executive Officer. Our future performance will be dependent upon the continued service of these persons. We do not maintain key man life insurance for any of the senior members of our management team or other key personnel. Competition for senior management in our industry is intense, and we may not be able to retain such senior management personnel or attract and retain new senior management personnel in the future. The loss of any of the members of our senior management or other key personnel may adversely affect our business.

Our revenues could be significantly affected if the governments in the United States or other countries in which our customers are based restrict companies from outsourcing work to non-domestic corporations.

Offshore outsourcing has become a politically sensitive topic in the United States and Europe due to its perceived association with the loss of jobs in such countries. Current or prospective clients may elect to perform services we offer or themselves may be discouraged from transferring these services to offshore providers to avoid any negative perception that may be associated with using an offshore provider. These trends could harm our ability to compete effectively with competitors that operate primarily out of facilities located in the United States. A variety of U.S. federal and state legislation has been proposed that, if enacted, could restrict or discourage U.S. companies from outsourcing their services to companies outside the United States. In addition, it is possible that legislation could be adopted that would restrict U.S. private sector companies that have federal or state government contracts from outsourcing their services to offshore service providers. Because most of our clients are located in the United States, any expansion of existing laws or the enactment of new legislation restricting offshore outsourcing by U.S. companies could adversely impact our ability to do business.

Our inability to complete fixed-price contracts within budget and at the required level of performance could reduce our revenues and profitability.

We derived 35.2% and 32.4% of our revenues from fixed-price contracts in 2006 and 2007. We bear the risk of cost overruns, completion delays and wage inflation in connection with all fixed-price projects, any of which may result in a decrease in our margins from work performed on fixed-price contracts. Our revenues from fixed-price contracts also include revenues from fixed-price SLAs, which are conditioned upon our meeting predetermined performance levels. Any failure to meet such performance levels could result in a reduction in our revenues. Any failure to accurately estimate the resources and time required for a project or any failure to complete our contractual obligations at the committed performance level could adversely affect our revenues and profitability.

Our ability to expand our business and procure new contracts or enter into beneficial business arrangements may be affected by non-competition clauses in our agreements with existing clients or business partners.

Certain of our existing MSAs and other agreements have non-competition clauses, which restrict us from providing services to competitors of our existing clients or entering new markets where a business partner may already have a presence. Many of our MSAs contain clauses that restrict our employees working for a particular client from providing services to a competitor of that client. Such clauses may restrict our ability to offer services to clients in a specific industry in which we have acquired expertise and may adversely affect our business and growth.

We may be liable to our clients for damages caused by system failures or breaches of security obligations.

Many of our contracts involve projects that are critical to the operations of our clients businesses. Further, our client contracts may require us to comply with certain security obligations including maintaining network security and back-up data, ensuring our network is virus free and verifying the integrity of employees that work with our clients by conducting background checks. Any failure in a client s system or breach of security relating to the services we provide to the client could damage our reputation or result in a claim for substantial damages against us. We cannot assure you that any limitations of liability set forth in our service contracts will be enforceable in all instances or will otherwise protect us from liability for damages in the event of a claim for breach of our obligations. Our insurance coverage may not be sufficient for all such claims or damages and additional insurance coverage may not be available in the future on reasonable terms or in amounts sufficient to cover large claims. Successful assertions of one or more large claims against us could have a significant adverse effect on our business, results of operations and financial condition.

Our clients proprietary rights may be misappropriated by our employees or subcontractors in violation of applicable confidentiality agreements.

We require our employees and subcontractors to enter into non-disclosure arrangements to limit access to and distribution of our clients intellectual property and other confidential information as well as our own. We can give no assurance that the steps taken by us in this regard will be adequate to enforce our clients intellectual property rights. If our clients proprietary rights are misappropriated by our employees or our subcontractors or their employees, in violation of any applicable confidentiality agreements or otherwise, our clients may consider us liable for that act and seek damages and compensation from us.

We may be subject to third party claims of intellectual property infringement.

Although there are currently no material pending or threatened intellectual property claims against us, infringement claims may be asserted against us in the future. Our contracts contain broad indemnity clauses, and under most of our contracts, we are required to provide specific indemnity relating to third party intellectual property rights infringement. In some instances, the amount of these indemnities may be greater than the revenues we receive from the client. If we become liable to third parties for infringing their intellectual property rights, we could be required to pay a substantial damage award and be forced to develop non-infringing technology, obtain a license or cease selling the applications or products that contain the infringing technology. We may be unable to develop non-infringing technology or to obtain a license on commercially reasonable terms, or at all. We may also be required to change our methodologies so as not to use the infringed intellectual property, which may not be technically or commercially feasible and may cause us to expend significant resources. Any claims or litigation in this area, irrespective of the outcome, could be time-consuming and costly and/or injure our reputation.

As the number of patents, copyrights and other intellectual property rights in our industry increases, we believe that companies in our industry will face more frequent infringement claims. Defending against these claims, even if not meritorious, could be expensive and divert our attention and resources from operating our company.

We have a limited ability to protect our intellectual property rights, and unauthorized parties may infringe upon or misappropriate our intellectual property.

We rely on a combination of copyright, trademark and design laws, confidentiality procedures and contractual provisions to protect our intellectual property, including our brand identity. However, the laws of India may not protect intellectual property rights to the same extent as laws in the United States. Therefore, our efforts to protect our intellectual property may not be adequate and we may not be able to detect unauthorized use or take appropriate and timely steps to enforce our intellectual property rights. Our competitors may independently develop proprietary methodologies similar to ours or duplicate our products or services. Unauthorized parties may infringe upon or misappropriate our services or proprietary information. The misappropriation or duplication of our intellectual property could disrupt our ongoing business, distract our management and employees, reduce our revenues and increase our expenses. We may need to litigate to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Any such litigation could be time consuming and costly and the outcome of any such litigation cannot be guaranteed. For more information regarding our intellectual property, see Item 4.B. Information on the Company Business Overview - Intellectual Property.

An economic downturn may impair our growth and operating results.

Discretionary spending on IT products and services in many parts of the world has increased after a period of decreased spending resulting from a challenging global economic environment. If economic growth slows or the current trend reverses, companies may cancel, reduce or defer expenditures for IT services. In an economic downturn, our utilization and billing rates for our software professionals could decline, which may adversely affect our growth and profitability.

Risks Related to Investments in Indian Companies and International Operations Generally

We are incorporated in India and a substantial portion of our assets and our employees are located in India. Consequently, our financial performance and the market price of our ADSs will be affected by changes in exchange rates and controls, interest rates, Government of India policies, including taxation policies, as well as political, social and economic developments affecting India.

Immigration restrictions could limit our ability to expand our operations in the United States. We derive a high proportion of our revenues from clients located in the United States which may be affected materially by such restrictions.

Most of our employees are Indian nationals. The ability of our software professionals to work in the United States, Europe and in other countries depends on our ability to obtain necessary visas and work permits. As of December 31, 2007, a majority of our software professionals in the United States held H-1B visas, a temporary visa which allows the employee to remain in the United States while he or she remains an employee of the sponsoring firm, and L-1 visas, an intra company transfer visa allowing managers and executives or employees with specialized knowledge to stay in the United States only temporarily. An H-1B visa may be granted to certain categories of persons in several specialty occupations including software professionals such as our employees, so long as their compensation meets annually adjusted minimums. Those adjustments may force increases in the salaries we pay to our employees with H-1B visas, resulting in lower profit margins. Although there is currently no limit to new L-1 visas, there is a limit to the aggregate number of new H-1B visas that may be approved by the United States government in any fiscal year. Such annual limit is fixed at 65,000 and has already been reached for the year 2008 (October 1, 2007 to September 30, 2008). We believe that the demand for H-1B visas will continue to be high. Further, the United States government has increased the level of scrutiny in granting visas. This may lead to limits on the number of L-1 visas granted. The U.S. immigration laws also require us to comply with other legal requirements including those relating to displacement and secondary displacement of U.S. workers and recruiting and hiring of U.S. workers, as a condition to obtaining or maintaining work visas for our software professionals working in the United States.

Immigration laws in the United States and in other countries are subject to legislative change, as well as to variations in standards of application and enforcement due to political forces and economic conditions. It is difficult to predict the political and economic events that could affect immigration laws, or the restrictive impact they could have on obtaining or monitoring work visas for our software professionals. Our reliance on work visas for a significant number of software professionals makes us particularly vulnerable to such changes and variations. As a result, we may not be able to obtain a sufficient number of visas for our software professionals or may encounter delays or additional costs in obtaining or maintaining such visas.

Wage pressures in India may prevent us from sustaining our competitive advantage and may reduce our profit margins.

Wage costs in India have historically been significantly lower than wage costs in the United States and Europe for comparably skilled professionals, which has been one of our competitive strengths. However, wage increases in India may prevent us from sustaining this competitive advantage and may negatively affect our profit margins. Wages in India are increasing at a faster rate than in the United States, which could result in increased costs for software professionals, particularly project managers and other mid-level professionals. We may need to continue to increase the levels of our employee compensation to remain competitive and manage attrition.

Clients may seek to reduce their dependence on India for outsourced IT services or take advantage of the services provided in countries with labor costs similar to or lower than India.

Clients who presently outsource a significant proportion of their IT services requirements to vendors in India may, for various reasons, including to diversify geographic risk, seek to reduce their dependence on one country. We expect that future competition will increasingly include firms with operations in other countries, especially those countries with labor costs similar to or lower than India, such as China, the Philippines and countries in Eastern Europe. Since wage costs in our industry in India are increasing, our ability to compete effectively will become increasingly dependent on our reputation, the quality of our services and our expertise in specific industries.

Our net income would decrease if the Government of India reduces or withdraws tax benefits and other incentives it currently provides to us or otherwise increases our effective tax rate.

Presently, we benefit from the tax holidays given by the Government of India for the export of IT services from specially designated software technology parks and special economic zones in India. As a result of these incentives, which include a 10 year tax holiday from Indian corporate income taxes for the operation of most of our Indian facilities, our operations have been subject to relatively low tax liabilities.

In December 2006, we received a demand notice from the Indian Income Tax department of approximately Rs 630.17 million, including an interest demand of approximately Rs 186.85 million ($15.99 million including an interest demand of approximately $4.73 million) for the assessment year 2004-05. The tax demand was mainly on account of disallowance of deduction claimed by us under Section 10A of the Income Tax Act, 1961, or Income Tax Act, in respect of profits earned by our various eligible undertakings. Section 10A of Income Tax Act exempts the profits earned by an undertaking for the export of computer software upon the fulfillment of certain conditions. One of the conditions is that the unit should not have been formed by the splitting up of an existing business. We expanded our software development business whereas the Indian Income Tax department contends that the business of the new units is comprised of business transferred from existing units by splitting them. In consultation with our tax advisers, we filed an appeal in January 2007 challenging the disallowance.

One of the requirements under the Indian Income Tax Rules to proceed with an appeal is to deposit, either immediately or through monthly installments, a sum equivalent to 50% of the amount that is under appeal. As of February 2008, we have deposited a sum of Rs. 310.28 million ($7.73 million). Considering the facts and nature of disallowances and based on the advice given by our legal counsel, we believe that the disallowance is not tenable and we are confident of a favorable outcome in appeal proceedings and hence no provision for such income tax demand is considered necessary.

Subsequently, in February 2008 we received an order from the Commissioner of Income Tax (CIT) (Appeals) in favour of the Company by allowing the deduction claimed under Section 10A. We received the refund of the taxes paid after adjustment of the new demand for the assessment year 2002-03.

In December 2007, we received another demand, of Rs. 261.70 million including interest of approximately Rs 139.88 million ($6.64 million including an interest of approximately $3.54 million) for the assessment year (AY) 2002-03. The new demand concerns the same issue of disallowance of tax benefits under Section 10A. In our opinion, and based on advice received, the demand is not tenable against us and we already filed an appeal with the appellate authority.

Subsequently, in March 2008 we have received an order from the CIT (Appeals) in our favor allowing the deduction claimed under Section 10A for the assessment year (AY) 2002-03. The entire tax paid is refundable.

Further, provisions of the Income Tax Act of India are amended on an annual basis by enactment of the Finance Act. The Finance Act, 2008 has extended the scope of service tax to cover software developement. This change, if implemented in its current form, will not increase our operating expenses, since the same will be recovered from the customers.

In addition, we may also be subject to changes in taxation resulting from the actions of applicable income tax authorities in India or from Indian tax laws that may be enacted. For example, we may incur increased tax liability as a result of a determination by applicable income tax authorities that the transfer price applied to transactions involving our subsidiaries and us was not appropriate.

Any increases in our effective tax rate as a result of the expiration of tax benefits we currently enjoy, changes in applicable tax laws or the actions of applicable income tax or other regulatory authorities could materially reduce our profitability. For more information, see Item 5.A. Operating and Financial Review and Prospects Operating Results Taxes .

Any disruption in the supply of power, IT infrastructure and telecommunications lines to our facilities could disrupt our business process or subject us to additional costs.

Any disruption in basic infrastructure, including the supply of power, could negatively impact our ability to provide timely or adequate services to our clients. We rely on a number of telecommunications service and other infrastructure providers to maintain communications between our various facilities in India and our clients operations in the United States and elsewhere. Telecommunications networks are subject to failures and periods of service disruption which can adversely affect our ability to maintain active voice and data communications among our facilities and with our clients. Such disruptions may cause harm to our clients business. We do not maintain business interruption insurance and may not be covered for any claims or damages if the supply of power, IT infrastructure or telecommunications lines is disrupted. This could disrupt our business process or subject us to additional costs.

Anti-takeover provisions under Indian law could prevent or deter an entity from acquiring control of us.

Indian takeover regulations contain certain provisions that may delay, deter or prevent a future takeover or change in control of us. These provisions may discourage a third party from attempting to take control of our company, even if a change in control would result in the purchase of ADSs at a premium to the market price or would otherwise be beneficial to our ADS holders. See Item 10. B. Additional Information Takeover Code.

There are certain differences in shareholder rights and protections between the laws of India and the United States and between governance standards for a U.S. public company and a foreign private issuer such as us.

We are incorporated in India and investors should be aware that there are certain differences in shareholder rights and protections between the laws of India and the United States. There are also certain differences in the governance standards for a U.S. company and those applicable to a foreign private issuer such as us. A U.S. investor should consider such differences in shareholder rights and governance.

In certain circumstances, our ability to acquire companies organized outside India may require the approval of the Government of India and/or the Reserve Bank of India and we may fail to obtain such approvals in a timely manner or at all.

As part of our strategy, we intend to acquire companies, in India or abroad, which have a synergistic fit with our operations.

Subject to compliance with certain Indian laws and regulations, including Indian exchange control laws and regulations, we are permitted:

- to make overseas direct investments in a joint venture or wholly-owned subsidiary outside India of up to 400% of our net worth as of the date of our last audited balance sheet;

- to make overseas direct investments, without limits on net worth, in any foreign security from the proceeds of an international offering of ADRs or Global Depository Receipts, or GDRs, or from the account balances held in our exchange earner s foreign currency bank accounts; and

- subject to certain conditions, to acquire shares of a foreign company engaged in a *bona fide* business activity in exchange for our ADRs or GDRs, provided that such an investment, taken together with all our overseas direct investments, does not exceed an amount equivalent to ten times our export earnings during the preceding financial year as reflected in our audited balance sheet.

In certain other cases, we are required to obtain the approval of the Reserve Bank of India to acquire shares of a foreign company for cash consideration.

Additionally, if we are to invest in a foreign company through a share swap transaction, other than by way of an exchange of our ADRs or GDRs, we are required to obtain the approval of the Government of India and/or the Reserve Bank of India.

In certain circumstances, we may not be able to meet the Indian regulatory requirements with respect to certain acquisitions of foreign companies and may require the prior approval of the Reserve Bank of India and/or the Government of India to consummate acquisitions of such foreign companies. We may not be able to obtain some or all of these approvals in a timely manner or at all, and thereby may be impeded in our efforts to acquire companies organized outside India. This inability may limit our growth, render us uncompetitive relative to our competitors and adversely affect our business, revenues and profitability.

You may have difficulty enforcing any judgment obtained in the United States against us or our directors or executive officers in India.

We are incorporated under the laws of India and many of our directors and executive officers reside outside the United States. Furthermore, most of our assets and the assets of our directors and executive officers are located outside the United States. As a result, you may be unable to:

- effect service of process upon us or our directors and executive officers; or

- enforce judgments obtained in the United States courts against us or such persons in the United States, including judgments predicated upon the civil liability provisions of the federal securities laws of the United States.

The United States and India do not currently have a treaty providing for reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters.

Incidents such as terrorist attacks and other acts of violence or war involving India, the United States, and other countries could adversely affect the financial markets, result in loss of client confidence, and adversely affect our business, results of operations and financial condition.

Incidents such as the terrorist attacks that occurred in the United States, India and other countries and other acts of violence or war, including those involving India, the United States or other countries, may adversely affect global equity markets and economic growth. These acts may also result in a loss of business confidence and have other consequences that could adversely affect our business, results of operations and financial condition. Travel advisories, reluctance to travel and increased visa scrutiny for travelers as a result of such attacks may have an adverse impact on our ability to operate effectively. Any of these events could adversely affect client confidence in India as an outsourcing base.

Regional conflicts in South Asia could adversely affect the Indian economy, disrupt our operations and cause our business to suffer.

South Asia has, from time to time, experienced instances of civil unrest and hostilities among neighboring countries, such as between India and Pakistan. In recent years there have been military confrontations along the India-Pakistan border. The potential for hostilities between the two countries is high due to past terrorist incidents in India and troop mobilizations along the border, and the geopolitical situation in the region. Military activity or terrorist attacks in the future could influence the Indian economy by disrupting communications and making travel more difficult. Political tensions could increase the perception that investments in Indian companies involve a higher degree of risk than companies in other countries such as the United States. This, in turn, could have a material adverse effect on the market for securities of Indian companies, including our equity shares and our ADSs, and on the market for our services.

Our performance is linked to the stability of policies and the political situation in India.

The role of the Indian central and state governments in the Indian economy and their effect on producers, consumers and regulators has remained significant over the years. Since 1991, successive governments of India have pursued policies of economic liberalization, including significantly relaxing restrictions on the private sector. The present Government of India, which was formed in May 2004, has announced policies and taken initiatives that continue to support the economic liberalization policies pursued by previous governments. We cannot assure you that these liberalization policies will continue in the future. The rate of economic liberalization could change, and specific laws and policies affecting technology companies, foreign investment, currency exchange rates and other matters affecting investment in our securities could change as well. A significant change in India s economic liberalization and deregulation policies could adversely affect business and economic conditions in India generally, and our business in particular.

Since 1996, the Government of India has changed several times. The current Indian government is a coalition of many parties, some of which are communist and other far left parties. The withdrawal of one or more of these parties or any dispute between groups of those parties could result in political instability. Any political instability could delay or otherwise adversely affect the reform of the Indian economy and could have a material adverse effect on the market for our equity shares and our ADSs and on the market for our services.

We are vulnerable to natural disasters that could severely disrupt the normal operation of our business and adversely affect our earnings.

India is susceptible to natural disasters, including tsunamis, floods and earthquakes. On December 26, 2004, southeast Asia, including the eastern coast of India, experienced a tsunami that caused significant loss of life and property damage. While our facilities were not damaged, the tsunami struck Chennai and other areas in which we operate. Substantially all of our facilities and IT professionals are located in India including Mumbai, which has also experienced heavy flooding in recent years. If our facilities are damaged by a tsunami, flood, earthquake or other natural disaster, our global delivery capability could be interrupted or delayed significantly. Although we maintain comprehensive natural perils insurance up to policy limits our insurance coverage may not be sufficient to cover all of our potential losses. In addition, disaster management facilities in India may not be adequate to protect against potential losses. As a result, a natural disaster in India could have a material adverse effect on our business, financial condition and results of operations.

Compliance with new and changing corporate governance and public disclosure requirements adds uncertainty to our compliance policies and increases our costs of compliance.

Laws, regulations and standards relating to accounting, corporate governance and public disclosure, new SEC regulations, NYSE rules, Securities and Exchange Board of India rules, and Indian stock exchanges listing regulations are subject to change and can create uncertainty for companies like ours. New or changed laws, regulations and standards could lack specificity or be subject to varying interpretations. Their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such governance standards.

In particular, continuing compliance with section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal controls over financial reporting requires the commitment of significant financial and managerial resources and our external auditors independent assessment of the internal controls over financial reporting.

We are committed to maintaining high standards of corporate governance and public disclosure, and our efforts to comply with evolving laws, regulations and standards in this regard have resulted in, and are likely to continue to result in, increased general and administrative expenses.

Risks Relating to Our ADSs and our Trading Market

Sales and issuances of our equity shares or ADSs may adversely affect the market price of the ADSs and our equity shares.

Sales of a substantial number of equity shares, including sales by our insiders, into the public market, whether on the Indian stock exchanges or into the United States by issuances of ADSs, or the perception that such sales may occur, could adversely affect the market price of the ADSs and our equity shares or our ability to raise capital through an offering of our securities. In the future, we may also sponsor the sale of shares currently held by some of our shareholders, or issue new shares. We can make no prediction as to the timing of any such sales or the effect, if any, that future sales of our equity shares, or the availability of our equity shares for future sale, will have on the market price of our equity shares or ADSs prevailing from time to time. In addition, we have adopted an employee stock option plan as a means to reward and motivate our employees. You may experience dilution of your shareholding to the extent that we make future equity offerings or issue equity shares pursuant to the exercise of stock options under our employee stock option plan.

We have controlling shareholders who have the ability to exercise significant control over us, and whose interests may conflict with the interests of our other shareholders.

Mr. Narendra K. Patni, Mr. Gajendra K. Patni and Mr. Ashok K. Patni, together with their families and entities controlled by them, and General Atlantic Mauritius Limited, or General Atlantic, own 14.64%, 14.38%, 14.82% and 16.48% of our outstanding equity shares, respectively.

Our Articles of Association confer certain rights on our controlling shareholders relating to our governance, including representation on our Board of Directors and an ability to adjourn a shareholder or Board of Directors meeting for lack of quorum if their representative is not present at the first such meeting. In addition, our Articles of Association can only be amended if members holding not less than 75% of our equity shares (and who are entitled to vote) cast votes in favor of such amendments and such votes include the favorable votes of each of the controlling shareholders, so long as the respective groups hold at least 10% of our equity shares and vote on such amendment. Pursuant to the terms of our Articles of Association, Mr. Narendra K. Patni is the permanent Chairman of our Board, with a casting vote in the event of a tie.

Pursuant to an employment agreement with our U.S. subsidiary, Patni Americas Inc., (formerly Patni Computer Systems, Inc.,) and a consultancy agreement between our U.S. subsidiary and us, Mr. Narendra K. Patni serves as our Chairman and Chief Executive Officer and as the Chief Executive Officer of our U.S. subsidiary. So long as our consultancy agreement is in effect, Mr. Narendra K. Patni will act as our Chairman and Chief Executive Officer and, pursuant to our Articles of Association, so long as he remains our Chief Executive Officer, he will have the right to appoint and remove all key senior personnel and senior management, following consultation with General Atlantic. The employment agreement with Mr. Narendra K. Patni has an initial term expiring on December 31, 2008, which can be extended at Mr. Patni s option for an additional five year term. In addition, our Board of Directors has approved the extension of the consultancy agreement to December 31, 2010. However, the agreement with Mr. Narendra K. Patni can be terminated only upon payment of additional compensation.

We had entered into employment agreements with each of Mr. Gajendra K. Patni and Mr. Ashok K. Patni pursuant to which each served as executive director. Each of Mr. Gajendra K. Patni and Mr. Ashok K. Patni were reappointed as our executive directors for a further period of five years beginning from October 24, 2005 with the approval of our shareholders at the Annual General Meeting held on June 21, 2006. In 2007, Mr. Gajendra K. Patni and Mr. Ashok K. Patni ceased to be Executive Directors with effect on October 2, 2007, although they remain as directors of the Company in a non executive capacity.

Our Articles of Association required that each of Mr. Narendra K. Patni, Mr.Gajendra K. Patni and Mr.Ashok K. Patni not compete against us; however, these non-compete provisions expired in February 2005. None of Mr. Narendra K. Patni, Mr.Gajendra K. Patni or Mr.Ashok K. Patni has entered into a standard non-solicitation and non-compete agreement that all of our other employees are required to sign as a condition of employment.. In addition, Mr. Gajendra K. Patni and Mr. Ashok K. Patni, together with their family members, have management control of certain companies, which include PCS Technology Limited, PCS International Limited, PCS Cullinet Private Limited, PCS Finance Private Limited and Ashoka Computer Systems Private Limited. We have not entered into any non-solicitation or non-compete agreements with any of these companies. While these companies currently are not competing with us to a material extent, we cannot assure you that in the future they may not compete with us, may not solicit our employees or otherwise have interests that may not conflict with ours.

Each of the four controlling shareholders has the right to appoint one director to our Board of Directors so long as such controlling shareholder holds 5% or more of our equity shares. In addition, Mr Arun Duggal and Mr Louis T. van den Boog, two of our directors, formerly served as special advisors to General Atlantic.

Accordingly, our controlling shareholders have the ability to exercise significant influence over our management, including over matters requiring shareholder approval or approval by our Board of Directors. This could delay, defer or prevent a change in control, impede a merger, consolidation, take-over or other business combination involving us, or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us.

Certain of our shareholders also have certain additional rights with respect to SEC registration for resale of our equity shares. See Item 7.B. Related party transactions Registration Rights Agreement.

Trading suspensions and closures at the Indian stock exchanges may adversely affect the trading price of ADSs.

Our equity shares are listed and traded in India on the Indian stock exchanges. The regulation and monitoring of Indian securities markets and the activities of investors, brokers and other participants differ, in some cases significantly, from those in the United States. Indian stock exchanges have in the past experienced problems, including temporary exchange closures, broker defaults, settlement delays and strikes by brokerage firm employees, which, if continuing or recurring, could affect the market price and liquidity of the securities of Indian companies, including our equity shares and ADSs, in both domestic and international markets.

The two Indian stock exchanges on which our equity shares are listed, The Bombay Stock Exchange Limited and the National Stock Exchange of India Limited, also have a specific price band for each security listed. When a price fluctuation exceeds the specific limits of the price band, trading of the security is stopped for that trading session. Such price volatility controls and the specific price bands are decided by each individual exchange and may differ from exchange to exchange. A closure of or trading stoppage on the Indian Stock Exchanges could adversely affect the trading price of the ADSs. In addition, the liquidity and trading patterns of securities quoted on the Indian Stock Exchanges may be substantially different from those of securities listed on the NYSE. Historical trading prices, therefore, may not be indicative of the prices at which the ADSs will trade in the future.

Exchange rate fluctuations between the dollar and the rupee will affect the value of the ADSs.

Fluctuations in the exchange rate between the rupee and the dollar will affect the dollar value of any cash dividends paid in rupees on our equity shares represented by the ADSs. In addition, these fluctuations will affect the dollar equivalent of the rupee price of our equity shares on the Indian Stock Exchanges and, as a result, the prices of our ADSs in the United States, as well as the dollar value of the proceeds a holder would receive upon the sale in India of any equity shares withdrawn from the depositary under the deposit agreement. Holders may not be able to convert rupee proceeds into dollars or any other currency, and there is no guarantee of the rate at which any such conversion will occur, if at all.

Indian law imposes certain restrictions that limit a holder s ability to transfer the shares obtained upon surrender of ADSs and repatriate the proceeds of such transfer, which may cause our ADSs to trade at a premium or a discount to the market price of our equity shares.

Under certain circumstances, the Reserve Bank of India must approve the sale of equity shares underlying ADSs by a non-resident of India to a resident of India. The Reserve Bank of India has given general permission to effect sales of existing shares or convertible debentures of an Indian company by a resident to a non-resident, subject to certain conditions, including the price at which the shares may be sold. Additionally, except under certain limited circumstances, if an investor seeks to convert the rupee proceeds from a sale of equity shares in India into foreign currency, approval from the Reserve Bank of India will have to be obtained for each such transaction. Required approval from the Reserve Bank of India or any other government agency may not be obtained on terms favorable to a non-resident investor or at all.

An investor in our ADSs may not be able to exercise preemptive rights for additional equity shares and may thereby suffer dilution of its equity interest in us.

Under the Indian Companies Act, 1956, or Indian Companies Act, a company incorporated in India must offer its holders of equity shares preemptive rights to subscribe and pay for a proportionate number of shares to maintain their existing ownership percentages prior to the issuance of any new shares, unless such preemptive rights have been waived by holders of three-fourths of the shares voting on the resolution to waive such rights. A holder of ADSs may be unable to exercise preemptive rights for equity shares underlying ADSs unless a registration statement under the Securities Act is effective with respect to such rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to prepare and file such a registration statement and our decision to do so will depend on the costs and potential liabilities associated with any such registration statement, as well as the perceived benefits of enabling the holders of ADSs to exercise their preemptive rights, and any other factors we consider appropriate at the time. We cannot assure you that we would file a registration statement under these circumstances. If we issue any such securities in the future, such securities may be issued to the depositary, which may sell such securities for the benefit of the holders of the ADSs. There can be no assurance as to the value, if any, the depositary would receive upon the sale of such securities. To the extent that a holder of ADS is unable to exercise preemptive rights granted in respect of the equity shares represented by the ADSs, his proportional interest in us would be reduced.

ADS holders may be restricted in their ability to exercise voting rights.

At our request, the depositary will mail the holders of ADSs any notice of a shareholder meeting received from us together with information explaining how to instruct the depositary to exercise the voting rights of our shares represented by the ADSs. If the depositary receives voting instructions from the holders in time, relating to matters that have been forwarded to them, it will endeavor to vote the shares represented by the ADSs in accordance with such voting instructions. However, the ability of the depositary to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities on deposit. We cannot assure that the holders will receive voting materials in time to enable them to return voting instructions to the depositary in a timely manner. Shares for which no voting instructions have been received will be voted by our management. There may be other communications, notices or offerings that we only make to holders of our shares, which will not be forwarded to holders of ADSs. Accordingly, the holders of ADSs may not be able to participate in all offerings, transactions or votes that are made available to holders of our shares.

An active or liquid trading market for our ADSs is not assured.

An active, liquid trading market for our ADSs may not be maintained in the long term. We cannot predict the extent to which an active, liquid public trading market for our ADSs will exist. If there is no longer any active trading market for our ADSs, or if we fail to meet eligibility requirements, we may be required to delist from the NYSE, which could adversely affect the price of our ADSs and, potentially, our equity shares. Although ADSs holders are entitled to withdraw the equity shares underlying our ADSs from our Depositary at any time, there is no public market for our equity shares in the United States.

ITEM 4. INFORMATION ON THE COMPANY

4.A. History and development of the Company

We were incorporated as Patni Computer Systems Private Limited on February 10, 1978 under the Indian Companies Act. We are registered with the Registrar of Companies, Pune, Maharashtra, India. Our company registration number is 11-020127 (CIN U72200MH1978PLC020127). In 1988, since our turnover exceeded prescribed limits under the then-applicable Section 43A of the Indian Companies Act, we became a deemed public company and subsequently on April 15, 1991 we were converted into a private limited company. In 1995 we once again became a deemed public company and upon the deletion of Section 43A from the Indian Companies Act, we were converted to a private limited company on June 27, 2002. We were again converted to a public limited company on September 18, 2003 and changed our name to Patni Computer Systems Limited. Our registered office is located at S-1A Irani Market Compound, Yerawada, Pune 411 006, Maharashtra, India and the telephone number of our registered office is +91 20 2669 3457.

The original activities of the Company were computer time rental, the resale of imported computer hardware, and software exports. In 1981, we promoted PCS Data Products (Private) Limited, or PCSDP, for the sale and marketing of computer equipment and hardware maintenance. In 1987, we formed PCS Data General India, or PCSDG, a joint venture with The Data General Corporation, USA, for the manufacture and maintenance of computer hardware. In 1994, the name of PCSDP was changed to PCS Industries Limited, or PCSIL, and PCSDG was merged into PCSIL. Since 1994, we have been entirely focused on software exports. In 1999, the shares of PCSIL held by us and other non-operating assets were de-merged into other group companies and our Company emerged as a focused IT services company.

Our corporate headquarters are located at Akruti Softech Park, MIDC Cross Road No. 21, Andheri East, Mumbai 400 093, India, and our North American headquarters are located at One Broadway Cambridge, MA 02142. General Atlantic made a significant investment in our company in 2002. To enhance our domain expertise in financial services and communications, media and entertainment, we made selective acquisitions such as Patni Telecom (formerly Cymbal), which we acquired in November 2004. We completed our initial public offering of equity shares in India in February 2004 and our initial offering of ADSs listed on the New York Stock Exchange in December 2005. In 2007 we acquired Logan Orviss International a European based telcommuniation consulting company and Patni Lifesciences (formerly Taratec Development Corporation) a US based lifesciences consulting company to widen our telecommunications and lifesciences expertise respectively. In addition we acquired from one of our major customers the world wide rights for a software propriety intellectual property right that enables communication service providers to offer customer management, retail point-of- sales and billing services for variety of product and services.

In February 2008, the Board of Directors approved the proposal to buy back fully paid equity shares to the extent of up to 10% of the paid up capital and free reserves, at a maximum price of Rs. 325 per equity share, for an aggregate amount upto Rs. 2,370 million ($ 60.1 million) in accordance with the provisions of Section 77A, 77AA, 77B and other applicable provisions of the Companies Act, 1956 and the provisions of Securities and Exchange Board of India (Buy-Back of Securities) Regulations, 1998 (Buy Back Regulations), for which necessary public announcements have been made in April 2008. The Company plans to announce the date of buyback at a future date.

Our capital expenditures for 2005, 2006 and 2007 were $55.4 million, $53.4 million and $59.8 million respectively. These capital expenditures were primarily to finance the expansion of our existing facilities as well as the construction / purchase of new facilities in India. We anticipate capital expenditures of between approximately $80 million to $120 million in 2008, principally to finance the construction of our new facilities in Noida, Pune Hinjewadi, Airoli - Navi Mumbai Gandhinagar and other facilities and physical infrastructure in India. We are obliged under a number of contracts relating to capital expenditure. Estimated amounts remaining to be executed on such contracts (net of advances), aggregated approximately $33.4 million at December 31, 2007. We currently intend to finance our planned capital expenditure entirely from the proceeds of our ADS offering and funds generated from operations.

4.B. Business overview

We are a leading Indian provider of information technology services. We deliver a comprehensive range of IT services through globally integrated onsite and offshore delivery locations primarily in India, which we call our global delivery model. We offer our services to customers through industry-focused practices, including insurance, manufacturing, financial services and communications, media and entertainment, and through technology-focused practices. Within these practices, our service lines include application development, application maintenance and support, packaged software implementation, infrastructure management services, product engineering services, business process outsourcing and quality assurance services.

We have in-depth knowledge in our industry and technology practices. Insurance, manufacturing, communications, media and entertainment and financial services accounted for 23.2%, 21.7%, 18.9% and 15.3% of our revenues in, 2006 and 23.6%, 23.8%, 13.4% and 14.1% in 2007, respectively. We also have knowledge, experience and a growing presence in other industries including retail, energy and utilities, logistics and transportation and life sciences. Our technology practices offer research, design and development services for product engineering. Through our dedicated sales and management teams in each of our industry and technology practices, we believe we are able to provide better client service, effectively cross-sell services to our existing clients and develop new client relationships.

We have a track record of successfully developing and managing large, long-term client relationships with some of the world s largest and best known companies. Our customer base has increased significantly from 115 clients as of December 31, 2003 to 318 clients as of December 31, 2007. Several of our key executives are located in our client geographies to better develop and maintain client relationships at senior levels. Repeat business accounted for 91.7% of our revenues in 2005, 91.5% in 2006 and 92.4% in 2007.

Our revenues grew from $251.0 million in 2003 to $662.9 million in 2007, representing a CAGR of 21.4%. Our net income grew from $36.5 million in 2003 to $113.9 million in 2007, representing a CAGR of 25.5%. Our total number of employees was 7,096 as of December 31, 2003 and 14,945 as of December 31, 2007. We are investing in new high-tech facilities, which we refer to as knowledge parks , designed for expanding our operations and training our employees. As of December 31, 2007, we had 223 sales and marketing personnel supported by dedicated industry specialists in 23 sales offices around the globe, including North America, Europe, Japan and the rest of the Asia-Pacific region.

We have a highly qualified management team with a broad range of experience in the IT industry. Our Chief Executive Officer is an entrepreneur and engineer who has been in this industry for over 30 years and has led us from our inception in 1978. Most of our senior management has worked as a team with us for over 20 years. We use our competitive recruitment program to select the best talent from India s premier engineering institutions.

Global IT Industry Overview

Enterprise adaption of technology applications continues to grow with an increasing emphasis on standardization, process efficiency and automation. Today, the electronic medium has become indispensable to most forms of business communication and for integrating the expanding global supply chain.

The year 2007 was a test of pliability for the Indian IT industry. The sector successfully countered the fresh wave of a slowing economy and financial crisis in the U.S. and steep appreciation of the Indian rupee against the U.S. dollar in addition to the supple side constraints and maintained double digit revenue growth.

The strength in the overall performance of the IT industry, despite concerns of a cutback in technology budgets in the U.S., was also supported by gradual shifts in regional spending patterns. While growth in U.S. technology spending in 2007 was similar to that observed in 2006, the relatively faster growth in Europe, Middle East, Africa (EMEA) and Asia-Pacific (APAC) ensured a healthy growth of the worldwide aggregate, despite the decline in the share of America.

The global outsourcing market continued to become more broad based in 2007. India continues to remain the nerve-centre for major global outsourcing strategy, exhibiting sustained global growth for indigenous players.

IT spending experiences gradual geographical shift

Apart from the core drivers, there are a number of environmental factors, namely, economic growth, technology related spending and propensity to outsource IT & business processes, that influence impetus of global sourcing. Global IT spending on technology goods, services, and staff is estimated to be $2.4 trillion in 2008, up 8% from $2.2 trillion in 2007. The growth rates for regional IT spending, the U.S. and Western Europe clearly are on a low-growth track, with annual growth rates for 2007 to 2008 in the 4% to 6% range. In contrast, EMEA and APAC markets are on a high-growth track, with annual growth rates above 12% in 2007 and 2008. Latin America and Canada shows moderate growth of 6% to 8% in 2006, 2007, and 2008.*(Source: February 11, 2008 Global IT 2008 Market Outlook by Andrew Bartel for Vendor Strategy Professionals).*Though the short term U.S. outlook seems muted, global technology spending forecasts remain relatively on track, as supported by momentum in EMEA and APAC regions.

IT outsourcing as a means to optimize costs

The global outsourcing industry is fundamentally driven by three factors: access to newer talent pools, reduction in costs and business improvements. The future outlook for these factors favor strong growth for global outsourcing. Cost pressures are likely to continue unabated on businesses as customers continue to demand more for less in an ever increasing competitive environment. Developed countries like the U.S., UK, France and Japan are facing skilled workforce shortage, in contrast to the developing nations like India, Philippines, Brazil and Mexico.This imbalance in the available pool of talent is likely to continue driving the global outsourcing demand. Buyers utilize global out sourcing effectively to achieve other business improvements such as improved quality, productivity, customer satisfaction and profitability. Global outsourcing has become an effective tool for global companies to expand their businesses with optimized cost.

With significant potential still untapped, it is expected that the global outsourcing phenomenon will continue to expand in scope, scale and geographic coverage. As global delivery matures, multi-location strategies will become the norm and most sourcing destinations, including emerging locations, will grow in size. Building on its existing strengths, India will remain the leading destination and will continue to play an important role in most global outsourcing strategies. The Indian technology and related services sector is expected to reach $ 64 billion in fiscal year 2008 (Source: NASSCOM Strategic Review 2008).

Indian IT Industry Outlook

Strong fundamentals of a large talent pool, sustained cost competitiveness and an enabling business environment have helped establish India as the preferred outsourcing destination. Superior delivery model has ensured India remains the distinct leader in the global sourcing arena.

The industry s vertical market exposure is well diversified across several mature and emerging sectors. Banking, Financial Services and Insurance (BFSI) remains the largest vertical market for Indian IT exports, followed by high technology and telecom. These sectors together accounted for nearly 60% of the Indian Information technology business process outsourcing exports in 2007, with manufacturing and retail sectors contributing to 23% to the aggregate. Other key segments include media, healthcare, airlines, transportation and utilities.

(Source: NASSCOM Strategic Review 2008)

Technology adoption in the domestic market also reported steady gains in 2007. This segment is expected to exceed $23 billion in fiscal year 2008, reporting healthy growth across all key segments. Domestic IT services spending is estimated to grow at about 43% in fiscal year 2008. Software services and business process outsourcing spending growth in the domestic market is being supported by increasing adoption, and is expected to grow by over 42% and 45%, respectively.

There are several key factors favoring the growth of the Indian IT industry:

- Importance on delivery quality and security: The Indian IT sector has built an excellent reputation for its high standards of service quality and information security which has been acknowledged globally. The development centers at several of the Indian IT services providers have been assessed at SEI-CMM Level 5;
- Sustained cost competitiveness: India continues to deliver a significant cost advantage, driven by a wide differential in wages and other lower factor costs, and enhanced through productivity gains; and
- Growing talent pool: India s young demographic profile complemented by a vast and growing academic system continues to add to its pool of educated talent. There is no other country that offers a similar mix and scale of human resources.

Our Delivery Model

We address our clients needs with our global delivery model, through which we allocate resources in a cost-efficient manner using a combination of onsite client locations in North America, Europe and Asia and offshore locations in India. We believe an integral part of our delivery is our industry knowledge, which we refer to as our domain expertise.

We refer to our own industry experts, business analysts and solutions architects who are located primarily onsite with the client as our domain wedge . These experts are supported by additional personnel who provide technical services onsite on a temporary basis, and by our trained professionals located normally at one or more of our nine offshore centers in India. Typically, at the initial stage of a project, we provide services through our onsite industry and technology experts and our transient onsite delivery personnel. By applying our domain wedge approach, we deliver solutions that can be structured to scale to suit our clients needs. In certain cases we provide dedicated offshore development centers, set up for a particular client. Through these offshore development centers we integrate our clients processes and methodologies and believe we are better positioned to provide comprehensive and long-term support. We maximize the cost efficiency of our service offerings by increasing the offshore portion of the work as the client relationship matures. To complement our domain wedge, we have aligned a majority of our sales and marketing teams to focus on specific industry sectors.

Our Competitive Strengths

We believe our competitive strengths enable us to deliver high-quality, efficient and scalable services. These strengths include:

Focused Industry Expertise

We concentrate on industries where we believe we can generate sustained revenue growth, such as insurance, manufacturing, financial services and communications, media and entertainment. Through our extensive experience in these industries, we provide solutions that respond to technological challenges faced by our clients. For example, to enhance our domain expertise in life sciences, we acquired Taratec during the year. We also focus on technology practices, specifically in product engineering services.

Successful Client Relationships

We have demonstrated the ability to build and manage large client relationships. Our long-term relationships typically develop from performing discrete projects to providing multiple service offerings spread across the client s businesses. Through our flexible approach, we believe we offer services that respond to our clients needs irrespective of their size. By leveraging our industry experience with our project management capabilities and breadth of technical expertise, we solidify and expand our client relationships.

Extensive Suite of IT Services

We provide a comprehensive range of IT services, including application development, application maintenance and support, packaged software implementation, infrastructure management services, product engineering, business process outsourcing and quality assurance services. Our knowledge and experience span multiple computing platforms and technologies, which enable us to address a range of business needs and to function as a virtual extension of our clients IT departments. We offer a broad spectrum of services in select industry sectors, which we leverage to capitalize on opportunities throughout our clients organizations.

Delivery and Operational Excellence

Through our mature global delivery model, we deliver high quality and cost-effective IT services from multiple locations in a reduced timeframe. We vary the composition of our employee resource pool, in terms of seniority and location, to maximize our productivity and efficiency. Our processes and methodologies have achieved Capability Maturity Model Integrated (CMMi) Level 5, the highest attainable certification. We use project management tools to deliver services to client specifications in a timely and reliable manner while maintaining a high level of client satisfaction.

Highly-skilled Professionals

We have a highly qualified management team with a broad range of experience in the IT industry. Our Chief Executive Officer is an entrepreneur and engineer who has been in the IT industry for over 30 years and has led us from our inception in 1978. Most of our senior management team has worked as a team for over 20 years. We use our competitive recruitment program to select the best talent from India s premier engineering institutions.

Our Strategy

We seek to further enhance our position as a leading Indian provider of integrated IT services and solutions through our global delivery model. To achieve this we intend to:

Penetrate and Grow Strategic Client Accounts

We have achieved strong revenue growth by focusing on select, long-term customer relationships which we call strategic accounts. We aim to expand the scope of our client relationships by leveraging our focused industry sector expertise with delivery excellence, responsive engagement models and breadth of services. We intend to focus on adding new strategic clients and further penetrating our existing customer relationships. We address the needs of our larger strategic relationships through dedicated account managers who have responsibility for increasing the size and scope of our service offerings to such clients. We aim to strengthen our sales and marketing teams, a majority of whom are aligned to focus on specific industries.

Strengthen and Broaden our Industry Expertise

We intend to strengthen our understanding of key industries by investing in a strong base of industry experts, business analysts and solutions architects as well as considering select, targeted acquisitions. We believe that we can add more value than a general service provider because we understand the specific industry requirements of our clients.

Strengthen and Broaden our Service Lines

We aim to deepen our existing client relationships through new and more comprehensive service lines. In recent years we have added new capabilities in line with our growth and customer needs. We continually explore new initiatives through our internal centers of excellence, which focus on innovation in specific technology platforms or services. For example, we added quality assurance services as a new service line, and developed increased capabilities such as business intelligence, database administration and legacy system modernization in other service lines.

Optimize and Expand Delivery Capability

We are committed to enhancing our processes and methodologies by investing in project management tools that improve our efficiency. We aim to develop new productivity tools, refine our software engineering techniques and maximize reuse of our processes. For example, we use automation testing to increase the efficiency of our project methodologies and for process management, defect tracking, audit management and contract management. We also apply this commitment to our infrastructure and we are constructing new knowledge park campuses in India to provide world-class infrastructure, high standards of quality and secure delivery.

Build our Brand Globally

While our Patni brand is an established and recognized brand in India, we intend to increase recognition of our brand elsewhere in our client markets. We seek to achieve this through targeted analyst outreach programs, trade shows, white papers, sponsorships, workshops, road shows, speaking engagements and global public relations management. We believe that a stronger brand will facilitate our ability to gain new clients and to attract and retain talented professionals.

Pursue Strategic Acquisitions

We seek to pursue selective strategic acquisitions to augment our capabilities and to address gaps in industry expertise, technical expertise, service lines and geographic coverage. We will continue to consider and seek acquisition opportunities such as Logan Orvis and Taratec, which considerably widen our telecommunications and life sciences expertise respectively. Logan Orviss has enhanced our strategic consulting domain and Taratec has given us opportunity in the pharmaceutical sector.

Industry Practices, Technology Practices and Service Lines

We offer our services to customers through industry practices in insurance, manufacturing, financial services and communications, media and entertainment, as well as in other industries. We also have technology practices that offer services in product engineering and for Independent Software Vendors, or ISVs. Our industry practices and technology practices are complemented by our service lines, which we develop in response to client requirements and technology life cycles. Our service lines include application development, application maintenance and support, packaged software implementation, infrastructure management services, product engineering, business process outsourcing and quality assurance services.

Industry Practices

Insurance

We offer a range of integrated services to global insurance companies. Our industry experts employ their knowledge in all stages of the insurance business cycle, from underwriting to compliance. Our offerings include a broad spectrum of services to insurance carriers including life and health, property and casualty and reinsurance companies. The IT services we provide span several functions, including sales and marketing, distribution, policy services, claims, compliance, accounting and reinsurance. Our core services include:

- systems consolidation and integration of mergers and acquisitions;
- policy administration conversions;
- development of frameworks that reduce the cycle time and cost for policy issue and claim handling;
- new product (life and retirement) introductions;
- batch system optimization;
- data mining;
- development of business intelligence applications; and
- legacy support of several applications.

We are a member of global insurance industry organizations such as Life Office Management Association, or LOMA, the Association for Cooperative Research and Development, or ACORD, and the Insurance and Accounting Systems Association. Several of our business analysts are LOMA certified and certified by the American Institute for Chartered Property and Casualty Underwriters.

Manufacturing

Our manufacturing practice offers IT and business process outsourcing services that support the purchase, sales, production, engineering, finance, human resources and legal functions of a manufacturing company. Within the manufacturing industry, the sectors we service include consumer goods and durables, electronics, engineering, food and beverages, personal care products, paper, rubber products, life sciences and pharmaceuticals. To businesses in these sectors, we provide IT services in the following areas;

- supply chain management;
- demand chain management;
- manufacturing applications and core manufacturing systems (including package implementation);
- data warehousing; and

- business intelligence.

A significant portion of the services we provide to our customers in our manufacturing practice include implementation, customization and support of ERP platforms used by our customers

Financial Services

Our financial services business unit focuses on customers in the banking, diversified financial services and securities business segments. We provide consulting and software services including BPO (business process outsourcing) for consumer and corporate banking, treasury and risk management, mutual funds, investment management and securities. Our services to these business areas include:

- architecture design;

- application integration and development;
- information security assessments;
- legacy system maintenance;
- business intelligence;
- customer relationship management;
- mutual funds and benefits administration;
- portfolio accounting and reporting;
- stock exchange and brokerage house solutions; and
- ***business process outsourcing.***

Communications, Media and Entertainment

Our telecommunications practice provides domain expertise in a wide spectrum of IT operations and business support systems used by telecommunications service providers across various segments including mobile, wireline, cable, broadband and media. We have expertise particularly in the newer business models that are emerging in these markets such as mobile virtual network operations or integrated voice/data/entertainment content services over broadband and 3G networks. Our telecommunications experts provide solutions that combine a wide variety of services including:

- IT strategy;
- system consulting and design;
- application development;
- implementation and maintenance;
- quality assurance;
- new product development and launch;
- infrastructure management services;
- business process outsourcing; and
- IT outsourcing

The services we provide within the media and entertainment industry and television broadcasting include broadcast station management and automation applications, and traffic and billing systems. Our services for publishing companies cover content layout software and search systems. Our services for online gaming and casinos primarily involve accounts management.

In 2007, we renamed our telecommunications practice as communications, media and entertainment.

Other Industries

In addition, we offer services to clients in the following industries:

Retail

Our experience in the retail practice includes development, support and testing of applications for specialty and hi- tech retailers and grocery chains. We also offer services such as PCI compliance, development of multi-channel retail solutions and solutions around point of sale systems.

Energy & Utilities

Our experience in the energy and utilities industry includes development, integration and testing of customer billing, meter process automation and smart meter programs for electric and water utility customers. In addition, we also offer geographic information systems and related services.

Logistics & Transportation

We provide services to road, air and rail transportation companies covering operational applications such as fleet management, revenue accounting, reservations and flight operations. Apart from these, we also provide solutions to the logistic companies in areas such as warehouse management applications, supply chain and route optimization.

Technology Practices

Product Engineering

Our product engineering services practice provides services for product engineering, product life cycle support and research and development outsourcing space, with a specialized team of over 2600 engineers focused to service a variety of technology sectors ,such as medical electronics and life sciences, storage networks and computing, industrial automation, automotive, consumer electronics, mobile, wireless and telecom, enterprise platform software (ISV) and semiconductors.

Our product engineering practice services all the segments from application software, embedded hardware, embedded software engineering to computer aided engineering (Electro-mechanical) areas. Our product engineering services assist several fortune 500 product companies to bring new product quickly to the market by providing high quality, robust, domain backed complex software/hardware development services from offshore/nearshore.

Our services cover the following areas:

- *Software*
- Shrink wrapped and platform vendors
- System software
- Application framework vendors
- ASP, Vertical ISV
- *Electronics*
- Embedded software
- Hardware design
- Very large scale integration (VLSI) / Field programmable gate arrays (FPGA) design
- Packaging (Computer Aided Design / Computer Aided Manaufacturing)
- *Mechanical/Electro-Mechanical*
- Product life cycle management / Product data management

- Computer aided engineering/ Computer aided design / Computer aided manufacturing

From January 1, 2007, we combined our ISV and product engineering technology practices into a single segment.

Service Lines

Application Development

We custom design, develop and implement software solutions for a variety of client needs. We offer services across the software development lifecycle, including requirements analysis, design, implementation, integration and testing for our projects. We typically perform application design, implementation and testing primarily in our offshore delivery centers located in India, while requirements analysis, transition planning, user training and deployment are performed at our clients sites. In specific situations, we may work jointly with our clients teams. Our projects range from single-platform, single-site systems to multi-platform, multiple-site systems and typically include new development and/or significant functional enhancements to existing software applications. We have developed expertise in mainframe, client-server and internet technologies and on emerging platforms such as .NET and J2EE.

Application Maintenance and Support

Our application maintenance and support services include performance optimization and system modification, product and system support, preventive maintenance and migration to newer technologies and platforms. We perform most of our maintenance and re-engineering assignments at our offshore delivery centers located in India. In addition, we maintain small teams at our clients premises to coordinate support functions. We perform diagnostics to assess offshore outsourcing potential and prepare a customized offshore road-map. We share the benefits of our continuous improvement initiatives to reduce recurring maintenance costs for our clients. Our application maintenance projects are typically long-term in nature.

Packaged Software Implementation

We assess, evaluate, implement and maintain packaged software developed by global vendors in the areas of enterprise resource planning, customer relationship management or CRM, supply chain management, business intelligence and enterprise application integration. Our offerings comprise:

- consulting services, which include functional and technical assessment, architecture and technology consulting and training;
- implementation services, which include product implementation and rollout;
- application care services, which include post-implementation support, product customization, interface development and version upgrade; and
- functional extensions and integration of diverse enterprise applications.

Infrastructure Management Services

We offer full support services of the IT infrastructure and remote managed services of applications, network and hardware infrastructure for our clients. These services are delivered both at customer locations and from our offshore facilities located in India. We specialize in mainframe and client-server operating systems, a wide range of data and voice networks, enterprise management systems, infrastructure products from well-known vendors, web-server products, network security products, disaster recovery and business continuity management. From our network operations center in India we have the facility, hardware and technology to deliver remote managed services to our customers. Our service offerings address several managed services configurations such as traditional, integrated and automated remote monitoring, and management and reporting for enterprise-wide infrastructure environments including hardware, communications and software environments.

Product Engineering Services

Our product engineering services support the various industry requirements of multiple disciplines such as utilities, manufacturing, insurance, banking and finance. Our primary product engineering services include engineering design and modeling, electronic design, embedded software development, product lifecycle management which includes re-engineering, maintenance and sustenance of legacy products, testing and migrations to new technologies. We offer these services to clients in industry sectors such as consumer electronics, automotive, medical electronics, industrial automation, office automation, handheld/mobile device manufacturing and semiconductor manufacturing. Our technology expertise spans multiple computing languages including assembly language for various micro-controllers and processors, real-time operating systems, various computer aided design and manufacturing platforms, GIS platforms, communication protocols and digital signal processing. We also offer document conversion services and GIS services especially to our customers in the utilities industry.

Business Process Outsourcing

We started offering business process outsourcing services in 2002. Since then we have been enhancing our expertise and concentrating on transaction processing for our insurance, financial services and telecommunication clients and administrative processes in the areas of finance and accounting, payment processing, human resource management and technical help-desks.

Quality Assurance Services

Our quality assurance services include functional testing, test automation, performance testing, remote testing and test process consultancy. Apart from testing custom-built applications, we have experience in testing operating systems, utilities, specialized application servers and middleware products. With respect to automation, we have partnerships with leading vendors and expertise in leading commercial and open source tools.

Quality and Project Management

While quality always has been an integral part of our operations at Patni, we became formally certified and assessed for quality models in 1995. We started with ISO 9000-1994, underwent SEI-CMM level 4 and 5 assessments and as of today are ISO 9001-2000 certified and are assessed for P-CMM Level 3 and SEI-CMMi Level 5. ISO 9001 is an international standard for quality management systems maintained by the International Organization of Standardization. The Capability Maturity Model (CMM) is a method for evaluating the quality of a company s management and software engineering practices, with Level 5 being the highest attainable certification. The CMM was developed by the Software Engineering Institute (SEI) at Carnegie Mellon University. The Software Engineering Institute subsequently released a revised version known as the Capability Maturity Model Integration (CMMi). We have been using the Six Sigma Program to implement process changes including the above. We continuously strive to better our quality management system with the help of industry best practices and research findings. Our quality management system involves the review and continuous improvement of software development and related processes, testing of work products and regular internal and external quality audits. We apply sophisticated project management and solution deployment methodologies that we have developed to help ensure timely, consistent and accurate delivery of IT solutions to our clients. We were ranked highest among Indian offshore supply chain solution providers in a customer satisfaction survey conducted by Forrester Research Inc. In 2006, we were also 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.

Centers of Excellence. We have developed internal centers of excellence to create expertise in emerging technologies. We currently have centers of excellence that focus on middleware integration, legacy systems modernization, business intelligence, RFID, process consulting and service oriented architectures based on technologies such as J2EE and .NET. For example, we use our center of excellence on legacy systems modernization to develop solutions for our clients who want to maintain their current business-critical systems but at the same time want to utilize the latest technologies for new systems. We partner with leading technology vendors such as IBM and Microsoft to implement technology solutions soon after they are made available in the market.

Sales and Marketing

Our sales teams use a multi-pronged approach to market our services. They target certain industries and service lines through focused sales executives, geographies through regional sales executives and large clients through dedicated account managers. We have aligned a majority of our sales and marketing teams to focus on specific industries. In addition to our sales executives, we have industry experts and solution architects who complement our sales efforts by providing specific industry and service line expertise. Our sales efforts are also supported by our marketing professionals, who assist in brand-building and tracking our expertise. Our senior management and dedicated account managers are actively involved in managing client relationships and business development through targeted interaction with multiple contacts throughout our clients organizations. We aim to develop our client relationships into partnerships by working closely with our clients managers and senior executives to formulate and execute an offshore outsourcing strategy, implement engagement models that suit their particular challenges and explore new service lines.

We undertake detailed periodic reviews to identify existing and prospective clients that we believe can develop into large, strategic clients. We intend to focus on adding more strategic accounts, which we define as those who provide $5.0 million or more in annual revenues or those with whom we believe we have the potential to achieve such annual revenue amounts over a 24 to 30 month period. For each strategic client, a senior executive is identified and charged with managing the overall client relationship and leading periodic reviews with the client.

We have 23 sales offices across North America, Europe, Japan and rest of the Asia-Pacific region as of December 31, 2007, and 223 sales and marketing personnel who are supported by dedicated industry specialists. We set targets for our sales personnel at the beginning of each year, which are subject to periodic reviews. In addition to a base salary, our compensation package for sales personnel includes an incentive-based compensation plan driven by achievement of the prescribed sales targets.

Our sales and marketing professionals help promote the Patni brand through targeted analyst outreach programs, trade shows, white papers, sponsorships, workshops, road shows, speaking engagements and global public relations management. We believe that a stronger brand will facilitate our ability to gain new clients and to attract and retain talented professionals.

Clients

We market our services to clients located in the United States, Europe, India, Japan, the rest of the Asia-Pacific region (excluding Japan and India) and the rest of the world. A significant proportion of our revenues is derived from clients located in the United States, as illustrated in the table below:

	Fiscal year ended December 31,		
	2005	**2006**	**2007**
United States	84.8%	80.8%	77.9%
Europe	9.1%	11.6%	14.7%
India	0.3%	0.4%	0.8%
Japan	4.3%	3.8%	3.0%
Asia-Pacific (excluding Japan and India)	0.4%	1.9%	1.9%
Rest of the World	1.1%	1.5%	1.7%
Total	100.0%	100.0%	100.0%

Further, a significant proportion of our revenues has been derived historically from the insurance, manufacturing and financial services industries, as illustrated in the table below. We also derive a small proportion of our revenues from clients in other industries, which include retail, energy and utilities, logistics and transportation and from our technology practices, product engineering.

	Fiscal year ended December 31,		
	2005	2006	2007
Insurance	27.7%	23.2%	23.6%
Manufacturing	21.9%	21.7%	23.8%
Financial Services	16.0%	15.3%	14.1%
Communications, Media and Entertaiment(2)	15.3%	18.9%	13.4%
Product Engineering(1)	12.5%	14.2%	16.7%
Others	6.6%	6.7%	8.4%
Total	100.0%	100.0%	100.0%

(1) In January 2007, we combined our ISV and Product Engineering technology practices. Data for previous periods have been reclassified to conform to current period presentation.

(2) In 2007, we renamed our telecomunications practice as communications, media and entertainment.

A significant proportion of our revenues is derived from a small number of clients, as illustrated in the table below, although we believe we have successfully diversified our client base over the past three years:

	Fiscal year ended December 31,		
	2005	**2006**	**2007**
General Electric	22.1%	14.6%	11.8%
State Farm Insurance	11.5%	9.6%	9.1%
Top 5 Clients	46.8%	37.1%	34.8%
Top 10 Clients	59.3%	53.1%	47.6%

The following table illustrates a breakdown of our largest clients by revenue categories on a cumulative basis:

	Fiscal year ended December 31,		
	2005	**2006**	**2007**
No. of $1 million + clients	61	74	84
No. of $5 million + clients	19	26	31
No. of $10 million + clients	9	13	14
No. of $25 million + clients	2	3	5
No. of $50 million + clients	2	2	2

The General Electric Association

Our association with General Electric commenced in 1990. We provide services to a number of entities within the General Electric group of companies. For these businesses, we provide services in the areas of multi-year application support, new program development, infrastructure management, business intelligence solutions and software package implementation. Our largest General Electric engagement is with GE Consumer Finance, for which we act as the preferred IT services supplier for application development and maintenance to its credit card processing business.

Our engagement model with General Electric includes a dedicated development center, integrated telecommunications networks, quality program targets and highly integrated program management and reporting. Most projects are on the basis of fixed-price SLAs, with our responsibilities likewise fixed, and are bid on a competitive basis against other third-party IT service providers. Accordingly, our pricing for these projects is based on our cost and margin expectations for completing the project, which is the same basis that we bid for fixed price projects with other customers. Individual projects under the agreement are separately bid and negotiated by us.

On August 3, 2006, we entered into a new master Information Technology Services Agreement with General Electric, with a term from January 1, 2007 to December 31, 2009. The terms of this agreement generally reflect the provisions described below under Contractual Arrangements. In addition, the agreement provides that we will support General Electric s aim to have (i) at least 90% of all task orders under the agreement on a fixed price basis; (ii) no fewer than 85% of personnel assigned to work on a specific project to remain on such project; and (iii) at least 70% of work under the agreement undertaken at our offshore development centers.

General Electric became a shareholder in 2000, and its shareholding has declined from 9.99% as of December 31, 2000 to 1.9% as of March 31, 2007 to nil as of December 31, 2007.

Contractual Arrangements

We enter into non-exclusive MSAs with clients that typically have a specified term and contain general rights and obligations governing our relationship with the client. The MSAs specify the broad scope of work and typically do not include any commitment by the client to give us a specific volume of business or future work. For each work assignment, the client and we enter into separate work orders that specify the types of services we are required to provide to the client, the performance levels and the price terms. Although some of our MSAs contain the billing rates for time and materials work orders, for most of the services we provide, whether on a time and materials basis or on a fixed-price basis, the separately agreed work order contains the specific pricing and other commercial terms.

Most of our MSAs, including the MSAs with our two largest customers, can be terminated with or without cause, with 0 to 90 days notice and without termination-related penalties. The MSAs typically contain terms that:

- require us to provide various representations and warranties, including those relating to the services we perform;
- require us to maintain confidentiality relating to the client and the contract, **including compliance with various laws relating to privacy and data protection**;
- require us to protect the intellectual property of our clients;
- require us to comply with certain security obligations, including maintaining network security and back-up data, ensuring our network is virus free and verifying the integrity of employees whowork with our clients by conducting background checks;
- require us to indemnify the client, including for third party intellectual property infringement;
- limit the liabilities of both parties under the contract; and
- provide for reciprocal non-solicitation of employees by our clients and us.

The MSAs typically do not stipulate that we are the preferred supplier for the customer and do not provide that we are entitled to any minimum amount of work or revenues from the customer.

Competition

The market for IT services is rapidly evolving and highly competitive. We expect that competition will continue to intensify. We face competition or competitive pressure from:

- Indian IT services companies, such as, Tata Consultancy Services Limited, Infosys Technologies Limited, Wipro Limited, Satyam Computer Services Limited, and HCL Technologies Limited;
- international IT services companies, such as Accenture, Cognizant Technology Solutions, Computer Sciences Corporation, Sapient Corporation and Electronic Data Systems;
- divisions of large multinational technology firms such as IBM, and Hewlett-Packard Company, or Hewlett-Packard;

- in-house IT departments of large corporations;
- other international, national, regional and local firms from a variety of market segments, including major international accounting firms, systems consulting and implementation firms, applications software firms, service groups of computer equipment companies, general management consulting firms, programming companies and temporary staffing firms;
- offshore service providers in other countries with low wage costs such as China and the Philippines, and countries in Eastern Europe and Latin America; and

- involvement of third party intermediaries who negotiate IT services and outsourcing contracts on behalf of their clients.

A number of our international competitors are setting up operations in India. Further, a number of our international competitors with existing operations in India are ramping up their presence as offshore operations in India have become an important element of their delivery strategy. This has resulted in increased employee attrition among Indian vendors and increased wage pressure to retain software professionals. We believe that price alone is not a sustainable competitive advantage in an environment where IT solutions are becoming increasingly critical to clients core corporate strategy. We have therefore built our competitive position on our ability to leverage our industry specific knowledge and experience in a broad range of IT services, to manage and maintain large client relationships, to continually monitor and improve our delivery excellence and to attract and retain highly-skilled software professionals.

Innovation

We believe innovation should be institutionalized so as to ensure our ability to help clients meet emerging challenges. We have two groups involved in our research and development activity initiatives, the product and technology initiatives group and the delivery innovation group. We also have a business analysis group that serves as a channel between our clients and our innovation groups to provide analysis on the trends in client requirements and evolving needs.

Service and Technology Initiatives

The product and technology initiatives group is focused on applied research and development initiatives and employs emerging technologies to create new technology service offerings. The group has established systems to harness talent among our employees by providing a shared framework for idea generation. The group is responsible for identifying, evaluating and incubating new technology service offerings and later converting relevant technology offerings into centers of excellence. The current focus areas of the group include service oriented architectures and their usage in building next generation applications, mobile computing and its applications, usage of RFID technologies and legacy systems modernization.

Delivery Innovation

Our delivery innovation group is focused on providing operational excellence and serving our customers in the most efficient manner. This group s activities include developing best practices and refining our methodologies, tools and techniques used in the software engineering and project management activities, improving estimation processes and adopting new technologies for improving productivity. The delivery innovation group consists of professionals who are experts in process improvement and automation and who also act as a resource center for our nascent service lines such as our quality assurance services.

Human Resources

We employed 11,802, 12,804 and 14,945 employees as of December 31, 2005, 2006 and 2007, respectively. As of December 31, 2007, we had 11,624 software professionals, of these software professionals, 2,673 employees were categorized as onsite and 8,951 as offshore. The geographic breakdown for our employees as of December 31, 2007 is as follows:

Location	**Number of Employees**
India	12,011
North America	2,332
Rest of World	602

We believe that our ability to maintain and continue our growth depends to a large extent on our strength in attracting, training, motivating and retaining our employees. We operate in nine major cities in India, which enables us to recruit technology professionals from different parts of the country. The key elements of our human resource management strategy include recruitment, training and development, compensation and retention.

Recruitment

We have developed processes to evaluate and recruit large numbers of talented employees. Our hiring is driven by an annual budgeting process, which is monitored and adjusted on a monthly basis based on business visibility. We recruit talent from premier universities, colleges and institutes in India, including the Indian Institutes of Technology, known as IITs, regional engineering colleges, or RECs, and Indian Institutes of Management, or IIMs. For our offshore facilities located in India, our campus recruiting team visited over 158 campuses in 2007. Our rigorous selection process involves a series of activities including case interviews and technical and psychometric tests. We have a similarly competitive recruitment program for our lateral hires. All new hires are inducted into our organization through a structured program, which involves extensive training as well as mentoring.

Our software employees are highly-skilled and have diverse educational backgrounds. As of December 31, 2007, graduate engineers comprised 67.04%, post graduate engineers comprised 5.84%, employees with master s degrees in computer applications or computer management comprised 13.49% and employees with a masters in business administration and equivalent qualifications comprised 4.15% of our software professionals. Other degrees comprised 9.49% of our software professionals. We believe that we have a balanced mix of experience with approximately 44.60%, 27.66% and 27.74% of our software professionals with work experience of under 3 years, 3 to 6 years and over 6 years, respectively, as of December 31, 2007.

Training and Development

We are committed to investing in training programs to continually enhance the capabilities of our employees. We have a transparent evaluation system for tracking performance and identifying potential that results in individual development plans that help build capabilities and recognize preferences of our employees. We offer our employees multiple avenues and choices for personal and professional growth, including several distinct career paths. In addition, our innovative program, Leadership Excellence at Patni , communicates leadership attributes and helps us to identify and develop future leaders necessary for our growth. Our training plans are personalized and address both technical and soft-skill requirements. For each software professional, we plan a minimum of 10 working days of training per year. As of December 31, 2007, we had 19 dedicated full time faculty members in our training division. Our focus on using eLearning to create Self-Learning Modules (SLM) helped us increase our training delivery by 37% without any corresponding increase in the staffing. During the year, we moved into our new campus at Airoli at Navi Mumbai. The training infrastructure at Airoli consists of 10 fully equipped class rooms that are enabled to deliver the programs not only in the traditional face-to-face Instructor Led Training (ILT) mode but also Virtual Classroom mode. In addition, the center has two classrooms that are designed for the delivery of behavioural training programs. The total training capacity allows us to train around 650 employees concurrently.

We won the prestigious Golden Peacock National Training Award during 2007.

Compensation

Considering the demand-supply gap in the talent/resource pool, it is critical to know and align all aspects of compensation to market. We have a developed robust model to map our compensation to market benchmarks to systematically arrive at a competitive pay and benefit structure. We provide to our software professionals salaries and benefits which we believe are competitive in the industry. We adjust our compensation packages annually based on industry salary correction, compensation benchmarks and individual performance and have made compensation more attractive by introducing special project incentives / skill / performance based incentives in addition to the regular salaries. Senior employees are offered variable compensation depending upon attainment of pre-defined quarterly objectives. We also grant stock options to our employees to nurture the spirit of ownership and commitment towards the company. For more information on the terms of the stock option plan, see item Item 6.E. Director, Senior Management and Employees Share Ownership Employee Stock Option Plan.

Retention

It is imperative to retain talent and critical resources to stay competitive in our business. The current average attrition rate in the IT sector in India is very high. We endeavor to provide a challenging and entrepreneurial work environment and multiple growth opportunities coupled with career grooming learning and development programmes covering both technical and managerial aspects. Some of the significant initiatives taken by company on this direction in order to attract and retain the talent are Leadership excellence at Patni , E-Care, introduction of skill related bonuses, identification of Fast Track Employees for future leadership roles, transparent communication while hiring, top down communication meetings with the senior management, constant realignment of human resources practices and policies to make it more employee friendly and market driven.

None of our employees are represented by a union. We believe we have positive relations with our employees.

Seasonality

Our IT services business is not affected by seasonality.

Government Regulation

Regulation of our business by the Indian government affects our business in several ways. Currently, we benefit from tax holidays given by the Government of India for the export of IT services from specially designated software technology parks, or STPIs, and special economic zones, or SEZs, in India. These tax incentives currently include a 10-year holiday from the payment of Indian corporate income tax for the operations of most of our Indian facilities. As a result of this tax incentive, a substantial portion of our pre-tax income has not been subject to significant tax in recent years.

In December 2006, we received a demand notice from the Indian Income Tax department of approximately Rs 630.17 million, including an interest demand of approximately Rs 186.85 million ($15.99 million including an interest demand of approximately $4.73 million) for the assessment year 2004-05. The tax demand was mainly on account of disallowance of deduction claimed by us under Section 10A of the Income Tax Act, in respect of profits earned by our various eligible undertakings. Section 10A of Income Tax Act exempts the profits earned by an undertaking for the export of computer software upon the fulfillment of certain conditions. One of the conditions is that the unit should not have been formed by the splitting up of an existing business. We only expanded our software development business whereas the Indian Income Tax department contends that the business of the new units is comprised of business transferred from existing units by splitting them. In consultation with our tax advisers, we filed an appeal in January 2007 challenging the disallowance.

One of the requirements under the Indian Income Tax Rules to proceed with an appeal is to deposit, either immediately or through monthly installments, a sum equivalent to 50% of the amount that is under appeal. As of February 2008, we have deposited a sum of Rs 310.28 million ($7.73 million). Considering the facts and nature of disallowances and based on the advice given by our legal counsel, we believe that the disallowance is not tenable and we are confident of a favorable outcome in appeal proceedings and hence no provision for such income tax demand is considered necessary.

Subsequently, in February 2008 we received an order from the Commissioner of Income Tax (CIT) (Appeals) in favour of the Company by allowing the deduction claimed under Section 10A. We received the refund of the taxes paid after adjustment of the new demand for the assessment year 2002-03.

In December 2007, we received another demand, of Rs. 261.70 million inclusive an interest demand of approximately Rs 139.88 million ($6.64 million including an interest demand of approximately $3.54 million) for the assessment year (AY) 2002-03. The new demand concerns the same issue of disallowance of tax benefits under Section 10A. In our opinion, and based on advice received, the demand is not tenable against us and we have already filed an appeal with the appellate authority.

Subsequently, in March 2008 we received a order from the CIT (Appeals) in favor of us allowing the deduction claimed under Section 10A for the assessment year 2002-03. The entire tax paid is refundable.

The aggregate benefit of these tax holidays and deductions with respect to our net income was $19.0 million, $25.3 million and $28.9 million for 2005, 2006 and 2007 respectively. Our current tax holidays for STPI units expire in stages by 2009 and our partial taxable income deduction for profits derived from exported IT services expired in March 2005. The tax benefits available for some of our facilities have expired and certain others will expire upon completion of 10 years, however the tax holiday for the export of IT service will expire on March 31, 2009. Consequently, we expect our effective tax rate to increase.

On May 10, 2008, the Finance Minister of India announced that the Government of India has extended the availability of the 10-year tax holiday by a period of one year such that the tax holiday will be available until the earlier of fiscal year 2010 or 10 years after the commencement of a Company s undertaking.

We are also subject to other government regulations, including those relating to acquisition of foreign securities, raising capital outside India and conversion of our equity shares into ADSs.

Please see Item 10. Additional Information , as well as Item 3. D. Key Information Risk Factors for additional information on the effects of governmental regulation of our business.

Intellectual Property

We rely on a combination of copyright, trademark and design laws, confidentiality procedures and contractual provisions to protect our intellectual property, including our brand identity. We currently do not have any patents. We have registered our trademark and servicemark Patni in the U.S., U.K., Germany, Sweden, Japan, Singapore, Korea, Australia, Canada, the Netherlands and in Class 9 ,16 and 42 in India and have applied to register our trademark and/or service mark in China . However, we cannot guarantee that our applications will be successful or that our efforts to protect our intellectual property will be adequate.

We require our employees and subcontractors to enter into non-disclosure arrangements to limit access to and distribution of our clients proprietary and confidential information as well as our own. Generally we are responsible to our clients for complying with certain security obligations including maintaining network security, backing-up data, ensuring our network is virus free and verifying the integrity of those employees that work with our clients by conducting background checks. We cannot assure you that we will be able to comply with all such obligations without incurring any liability.

In addition, the terms of our client contracts often impose particular confidentiality and security standards. We have independently established a system of security measures to protect our computer systems from security breaches and computer viruses that may attempt to gain access to our communications network. We have deployed advanced technology and process-based methods to ensure a high level of security and we continually monitor such technologies to ensure that we maintain such levels consistently. Some of these components include clustered and multilevel firewalls, intrusion detection mechanisms, vulnerability assessments, content filtering, antivirus software and access control mechanisms. We use encryption techniques as required. We control and limit access to client-specific project areas.

Although we believe that our intellectual property rights do not infringe on the intellectual property rights of any other party, infringement claims may be asserted against us in the future. There are currently no material pending or threatened intellectual property claims against us.

4.C. Organizational structure

We have the following direct and indirect subsidiaries as of December 31, 2007, all of which are wholly-owned:

Name	**Country of Incorporation**
Patni Americas, Inc (formerly Patni Computer Systems Inc)	USA
Patni Computer Systems (UK) Limited	UK
Patni Computer Systems GmbH	Germany
Patni Telecom Solutions Inc. (1)	USA
Patni Telecom Solutions Private Limited (2)	India
Patni Telecom Solutions (UK) Limited (2)	UK
Patni Life Sciences.Inc (1)	USA
Patni Computer Systems Brasil Ltda	Brazil
Patni Computer Systems (Czech) s.r.o (3)	Czech Republic

(1) Owned through Patni Americas Inc (formerly Patni Computer Systems, Inc).
(2) Wholly-owned subsidiary of Patni Telecom Solutions Inc.
(3) Wholly owned subsidiary of Patni Computer Systems (UK) Limited, incorporated on March 3, 2008.

4.D. Property, plant and equipment

A key component of our global delivery model is the telecommunication linkages between client sites and our sites and between our distributed sites in India. We have designed a global network architecture which provides client connectivity, offshore development center connectivity and internet connectivity. This network provides seamless access and uses high availability networks and advanced routing protocols for redundancy and availability. Although we rely on third parties, such as telecommunications providers and internet service providers to provide such services, we ensure that we have multiple service providers using multiple routes and media to attain high levels of redundancy, availability and performance. We have dedicated teams to monitor the operations of our network operations 24 hours a day and seven days a week. We use encryption techniques for confidentiality of data as required.

Our principal executive offices are located at Mumbai, India. Our North American headquarters are located in Cambridge, Massachusetts. These facilities are used primarily for management functions and support functions such as sales, marketing and general administration.

We have state-of-the-art facilities in nine locations in India where our technical staff is located and which serve as our primary delivery centers. We also have imaging centers and distribution centers in the United States and in the United Kingdom for handling the digital processing of documents.

Our locations in India are as follows (as at December 31, 2007):

No.	Property	Square Feet	Industry/Technology Practices Covered/Services Provided
1.	Mumbai		
	Owned	130,474	
	Leased	53,174	
	Total Mumbai	183,648	Manufacturing, Financial Services, ISV, Other, Product Engineering Services
2.	Pune		
	Owned	75,477	
	Leased	232,473	
	Total Pune	307,950	Insurance, Manufacturing, Communications, media and entertainment, ISV, Other, Enterprise Application Systems, Enterprise Systems Development
3.	Gandhi Nagar		
	Owned	37,014	Insurance, ISV, Other
4.	Chennai		
	Owned	148,000	Financial Services, Manufacturing
5.	Noida		
	Leased	143,000	Financial Services, BPO
6.	Hyderabad		
	Owned	8,497	
	Leased	106,988	
	Total Hyderabad	115,485	Communications, media and entertainment
7.	Bangalore		
	Leased	114,330	Manufacturing, Product Engineering Services
8.	Thane		
	Owned	91,159	
	Leased	176,252	
	Total Thane	267,411	Insurance, Manufacturing, Financial Services, Enterprise Application Systems
9.	Airoli		
	Owned	462,845	Enterprise Application Systems, Product Engineering Services, Financial Services, Others
	Total	**1,779,683**	

We currently have capacity for approximately 17,500 professionals at these facilities. As of December 31, 2007, we used approximately 70 % of our existing office space in our operations.

Most of our global branch offices located outside of India are used for sales and marketing.

We have 23 sales and marketing offices located in the following locations:

In keeping with our plans for expansion, we have constructed new facilities in India, including in particular two knowledge parks in Navi Mumbai and Chennai. We anticipate that expenditures for our expansion plans will total approximately $80 million to $120 million in 2008. We intend these knowledge parks to have state-of-the-art resources with extensive workspace and training facilities and a modular design for ease of segregation of dedicated projects. These campuses will have secure, redundant infrastructure with the ability to provide scale and service to clients from one location. The Navi Mumbai and Chennai facilities are expected to accommodate up to 14,000 and 10,000 people, respectively, when completed. We estimate that we may spend an aggregate of approximately $140 million to complete these two projects. Phase I of the Navi Mumbai facility, having a capacity of 5000 seats, is complete and occupied. Phase I of the Chennai facility, having a capacity of 1,200 seats, is complete and partially occupied. As of December 31, 2007, we had spent approximately $133.7 million on the knowledge parks.

In continuation of our policy to have our own campus operations, land has been acquired at Pune, Hyderabad, Kolkata and Noida in addition to our campuses in Mumbai and Chennai. These facilities when fully constructed, will have a sitting capacity for approximately 28,000 professionals.

For the Chennai facility, we have entered into a lease dated September 30, 2004 with the State Industrial Promotion Corporation of Tamil Nadu, or SIPCOT. We have acquired 18.75 acres of land near Chennai for a lease term of 99 years to establish a project in connection with software development and support services. According to the terms of the agreement, we require SIPCOT s prior approval for any change in the composition of our Board of Directors that causes a change in ownership or management.

Further, for the Mumbai facility we have entered into license agreements dated February 10, 2005, with the Maharashtra Industrial Development Corporation, or MIDC. We have been granted licenses to construct facilities over 50 acres of land in a phased manner in Navi Mumbai. Our occupation of the land is subject to entering into a lease agreement with a term of 95 years. We have currently entered into lease agreements for 15 acres and will soon be entering into lease agreement for 25 acres. This land may only be used for activities related to the information technology industry.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of the financial condition and results of operations of our company should be read in conjunction with the financial statements and the related notes included elsewhere in this document. This discussion contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please see Item 3.D. Key Information Risk Factors.

Overview

We are a leading Indian provider of information technology services. We deliver a comprehensive range of IT services through globally integrated onsite and offshore delivery locations primarily in India, which we call our global delivery model. We offer our services to customers through industry-focused practices, including insurance, manufacturing, communications, media and entertainment and financial services, and through technology-focused practices. Within these practices, our service lines include application development, application maintenance and support, packaged software implementation, infrastructure management services, product engineering services, business process outsourcing and quality assurance services.

Our revenues grew from $251.0 million in 2003 to $662.9 million in 2007, representing a CAGR of 21.4%. Our net income grew from $36.5 million in 2003 to $113.9 million in 2007, representing a CAGR of 25.5 %. Our total number of employees was 7,096 as of December 31, 2003 and 14,945 as of December 31, 2007. We are investing in new high-tech facilities, which we refer to as knowledge parks, designed for expanding our operations and training our employees. As of December 31, 2007, we had 223 sales and marketing personnel supported by dedicated industry specialists in 23 sales offices around the globe, including North America, Europe, Japan and the rest of the Asia-Pacific region.

Our industry segments comprise of financial services, insurance services, manufacturing companies, communications, media and entertainment, technology services and others such as energy and utilities, retail,and logistics and transportation. We evaluate segment performance and allocate resources based on revenue growth. We categorize revenue in relation to segments based on items that are individually identifiable with that segment. Costs are not specifically allocable to individual segments as the underlying resources and services are used interchangeably. Fixed assets used in our business or liabilities contracted have not been identified with any of the reportable segments, as the fixed assets and services are used interchangeably between segments.

Our management evaluates our results of operations by examining financial and operating data in a variety of categories, including our industry and technology practices, onsite and offshore revenues, type of contract, type of customer and geographic region. We manage and market our business according to our industry and technology practices.

We have also developed technology practices that offers research, design and development services for product engineering and to ISVs. Our service lines support both our industry and technology practices. We do not, however, treat our service lines as separate components of our business for financial reporting purposes.

5.A. Operating results

Revenues

We discuss below the components of our IT service revenues by onsite and offshore revenues, industry and technology practice, contract type, customer type and customer geography.

Onsite and Offshore Revenues

We derive revenues from the provision of services offshore and onsite. Offshore revenues consist of revenues from IT services work conducted in India. Onsite revenues consist of revenues from IT services work conducted at clients premises outside India or from our limited number of premises outside India. Although a substantial portion of our software personnel are located at our offshore locations, our customers generally pay higher charges for onsite work, which is consistent with our industry practice. As a result, the margins with respect to our onsite revenues are proportionally higher than our offshore revenues.

We have not experienced significant changes in our prices since 2002, whether onsite or offshore, principally due to increased competition for IT outsourcing services. Some of our larger customers receive reduced pricing through volume discounts. In order to provide competitive pricing to our customers, we have endeavored to shift the delivery of our services from onsite locations to low costing offshore delivery centres.

As of December 31, 2006, 10,009 of 12,804 total employees were located in India and as of December 31, 2007, 12,011 of 14,945 total employees were located in India. Our overall employee numbers will increase as we add employees for both onsite and offshore work. We measure our service efforts that can be billed to clients in units of billed person-months. The number of offshore billed person-months has increased as a percentage of total billed person-months from 66.7% in 2006 to 69.6% in 2007

To some extent, the onsite/offshore breakdown by billed person-month varies by industry and technology practices as is illustrated in the table below. For example, insurance and communications, media and entertainment employ a higher level of onsite personnel than other industry and technology practices. Within our industry and technology practices, our offshore and onsite breakdown by billed person-month is as follows:

	Year ended December 31, 2006			Year ended December 31, 2007		
	Onsite Billed Person-months	Offshore Billed Person-months	Total	Onsite Billed Person-months	Offshore Billed Person-months	Total
Financial Services	5,006	12,389	17,395	4,790	16,379	21,169
Insurance	8,382	13,238	21,620	9,170	16,530	25,700
Manufacturing	7,116	15,661	22,777	8,334	18,640	26,974
Communications, Media and Entertainment(2)	5,484	6,347	11,831	4,176	3,646	7,822
Product Engineering(1)	3,616	12,537	16,153	4,787	18,498	23,285
Other	2,452	3,909	6,361	3,268	5,294	8,562
Total	32,056	64,081	96,137	34,525	78,987	113,512

(1) In January 2007, we combined our ISV and Product Engineering technology practices. Data for previous periods have been reclassified to conform to current period presentation.
(2) In 2007, we renamed the telecommunications practice as communication, media and entertainment.

Certain of our service lines, such as product engineering services and business process outsourcing, employ a greater level of offshore personnel, whereas our packaged software implementation service line utilizes a larger portion of onsite work compared to most of our other service lines.

Since 2004, we have seen a trend towards greater use of offshore services, which has positively affected our profitability. Services performed at a client site or our premises located outside India typically generate higher revenues per employee, but at a lower gross margin, than the same services performed at our facilities in India. These differences are attributable to the higher billing rates getting compensated by higher average cost of labor in the United States and other countries in which work is performed as compared to India. Accordingly, although offshore work (measured by billed person-months) is expected to increase, we do not expect that the mix of our onsite and offshore revenues will change significantly in the near future.

The above measurement of work does not reflect the actual revenues derived by us during the relevant period and you are cautioned not to estimate revenues in a particular period on the basis of these offshore and onsite billed person-months during such period.

Revenues by Industry Segments

Our operations pertain to provision of IT services and solutions to customers belonging to various industries such as insurance, manufacturing and financial services and also to technology practices. Accordingly, revenues represented along industry classes comprise the principal basis of segmental information.

We derive a significant proportion of our revenues from clients in the insurance, manufacturing, communications, media and entertainment and financial services industries. We also provide services to clients in other industries, including retail, energy and utilities and logistics and transportation. In addition, we market our services to clients through our technology practices, comprising our product engineering practice. The following table indicates the breakdown of our revenues by our industry and technology practices:

	Year ended December 31,		
Industry Segments	**2005**	**2006**	**2007**
Industry Practice			
Insurance	27.7%	23.2%	23.6%
Manufacturing	21.9%	21.7%	23.8%
Financial Services	16.0%	15.3%	14.1%
Communications, Media and Entertainment(2)	15.3%	18.9%	13.4%
Other	6.6%	6.7%	8.4%
Technology Practice			
Product Engineering(1)	12.5%	14.2%	16.7%
Total	100.0%	100.0%	100.0%

(1) In January 2007, we have combined our ISV and Product Engineering technology practices.Data for previous periods have been reclasified to conform to current period presentation.

(2) In 2007, we renamed the telecommunications practice as communication, media and entertainment.

Revenues by Contract Type

Our revenues are recorded either on a time-and-material, or T&M, basis or a fixed-price basis. The following table shows our revenues by contract type:

	Year ended December 31,		
	2005	**2006**	**2007**
Time-and-Material	59.5%	64.8%	67.6%
Fixed Price	40.5%	35.2%	32.4%
Total	100.0%	100.0%	100.0%

Although we seek to use our software engineering processes and past project experience to reduce the risks associated with estimating, planning and performing fixed-price projects, we bear the risk of cost overruns and completion delays in connection with fixed-priced contracts. Accordingly, we believe that we bear a greater amount of risk from our fixed-price contracts than from our T&M contracts.

A large proportion of our revenues from fixed-price contracts are from fixed-price SLAs. A large proportion of our fixed-price SLAs are application maintenance and support projects, as to which work and cost estimates have been fairly predictable. Our revenues from fixed-price SLAs were 27.9%, 24.4% and 22.2% in 2005, 2006 and 2007 respectively.

Revenues from T&M contracts as a percentage of our overall revenues increased in each of the past three years because a large portion of our new business is billed on a T&M basis and the proportion of our revenues generated from services provided to General Electric has declined. Most of our business with General Electric is on the basis of fixed-price contracts.

Revenue with respect to T&M contracts is recognized in the period that the services are performed. Revenue with respect to fixed-price SLA contracts is recognized ratably over the term of maintenance. Revenue with respect to other fixed-price contracts is recognized on a percentage of completion basis, measured by the percentage of costs incurred to date compared to the estimated total costs for each contract. See Critical Accounting Policies Revenue Recognition below.

Revenues by Top Customers

As illustrated in the table below, a significant proportion of our revenues is derived from a small number of clients. In recent years, however, we have diversified our client revenues as a result of various initiatives, including our addition of new strategic clients, our focus on additional industry practices, our development of technology practices and our expansion of the range of service lines we offer. As of December 31, 2007, we had 84 clients, each of whom generated revenues of $1.0 million or more, compared to 74 in 2006 and 61 in 2005. We expect that this trend toward greater client diversification will continue.

	Year ended December 31,		
	2005	**2006**	**2007**
General Electric	22.1%	14.6%	11.8%
State Farm Insurance	11.5%	9.6%	9.1%
Top 5 Clients	46.8%	37.1%	34.8%
Top 10 Clients	59.3%	53.1%	47.6%

Revenues by New and Existing Customers

Repeat business accounted for 91.7% ,91.5% and 92.4% of our revenues in, 2005, 2006 and 2007. Each customer is treated as a new customer for the quarter that it first starts business with us and continues to remain as a new customer for the four succeeding quarters. The revenues in any quarter from customers other than new customers are termed as repeat business. We provide services to our largest client, General Electric, in a number of industries, including financial services, insurance and manufacturing.

The following table indicates the breakdown of revenues we derive from new customers and existing customers.

	Year ended December 31, 2007		
	Existing Customers	**New Customers**	**Total**
		($ in millions)	
Industry Practice			
Insurance	151.7	4.9	156.6
Manufacturing	150.3	7.1	157.4
Financial Services	92.0	1.7	93.7
Communications, Media and Entertainment(2)	72.0	17.4	89.4
Other Industries	47.6	7.1	54.7
Technology Practice			
Product Engineering(1)	99.0	12.0	111.0
Total	**$ 612.6**	**$ 50.2**	**$ 662.8**

(1) In January 2007, we combined our ISV and Product Engineering technology practices. Data for previous periods have been reclassified to conform to current period presentation.
(2) In 2007, we renamed the telecommunication practice as communications, media and entertainment

Although we engage in one-time projects in some service lines, the majority of our projects are recurring in nature. Work done in product engineering services and packaged software implementation services, however, tends to be more for non-recurring projects.

Revenues by Geography

We record our revenue based on the location of our clients rather than according to the location where our services are provided. We classify our revenues into five geographic segments: the United States, Europe, India, Japan and Others. As the table below illustrates, a significant proportion of our revenues is derived from clients located in the United States. We expect that a substantial majority of our revenues will continue to be derived from clients located in the United States. We categorize revenues geographically based on the location of the specific client entity for which the project has been executed, irrespective of the location at which the invoice is rendered or whether the work for a specific client entity is performed onsite or from our offshore delivery centers in India.

	Year ended December 31		
	2005	2006	2007
United States	84.8%	80.8%	77.9%
Europe	9.1%	11.6%	14.7%
India	0.3%	0.4%	0.8%
Japan	4.3%	3.8%	3.0%
Asia-Pacific (excluding Japan and India)	0.4%	1.9%	1.9%
Rest of the World	1.1%	1.5%	1.7%
Total	100.0%	100.0%	100.0%

We have experienced revenue growth in the European market. Revenues in Europe have increased from $41.1 million in 2005 to $67.3 million in 2006 and were at $97.7 million in 2007.

Expenses

Cost of Revenues

Cost of revenues represented 64.9%, 64.6% and 67.9% of our revenues in 2005, 2006 and 2007. Our cost of revenues largely consists of costs relating to our software professionals, including salary and other compensation and benefits expenses, travel expenses, immigration expenses, data communications expenses, computer and software expenses and depreciation. Cost of revenues also includes the cost of subcontractors.

The principal component of our cost of revenues is the salary cost of our software professionals. A majority of our software professionals are located in India. However, because labor costs in the IT services industry in India have historically been significantly lower than in the United States and other countries where our customers are located, a majority of our compensation costs relate to salaries of software professionals located in the United States and those other countries. As wages in India increase at a faster rate than in the United States, we may experience increases in our costs of personnel, particularly project managers and other mid-level professionals. We seek to maintain salary levels in accordance with prevailing trends in our industry.

We hire subcontractors on a limited basis from time to time. We use subcontractors across our industry practices and service lines. The use of subcontractors is more prevalent in service lines that have a larger onsite element, such as packaged software implementation and infrastructure management services. We expect to continue to incur subcontractor costs principally to service specific technical requirements of some of our clients in a timely manner.

The utilization rates of our software professionals also affect our gross profits. We define employee utilization as the proportion of total billed person-months to total available person-months, including employees in training and holiday and vacation time, and excluding support personnel. We manage utilization by monitoring project requirements and timetables. The number of software professionals assigned to a project varies according to the size, complexity, duration, and demands of the project. Our utilization rates for the years ended December 31, 2005, 2006 and 2007 were 67.2%, 71.4% and 72.4%. We try to minimize the cost impact of unutilized capacity by ensuring that a majority of our unutilized capacity is attributable to software professionals based in India.

We incur immigration costs due to the onsite component of work performed on projects. We expect immigration expenses to increase due to increases in visa filing costs generally commensurate with our growth and increases in visa filing fees in the United States. We expense costs related to immigration as incurred.

We do not expect to incur borrowing costs to finance the addition of planned new facilities and physical infrastructure, including our knowledge parks in India. These new facilities will increase our depreciation expenses. However, we expect that the increased depreciation will largely be offset by reduced rental costs resulting from a shift from existing rental facilities to the new facilities. These new facilities will provide a consolidated location for our existing employees and new employees as we expand our service offerings.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of costs relating to personnel other than software professionals, including salary and other compensation and benefits expense, depreciation, sales and marketing expenses, telecommunication expenses, office expenses and traveling expenses. Selling, general and administrative expenses also includes legal and other professional fees and other miscellaneous administrative costs.

Selling, general and administrative expenses represented 19.1%,18.4% and 17.5% of our revenues in 2005, 2006 and 2007 respectively. These expenses comprise an important element of our sales strategy, as we seek to ensure that senior management personnel are based in client locations and continue to invest in developing our sales and marketing presence in key markets. We expect selling, general and administrative expenses to continue at current levels as a proportion of revenues. We continue to invest in sales and marketing and in building brand awareness, leading to a slight increase in sales and marketing expenses as a proportion of revenues. We have started to transfer a larger part of our general and administrative expenses offshore to India as the scale of our operations increases. We expect to achieve improved efficiencies in general and administrative expenses as a result of this transfer and economies of scale resulting from our recent growth. Accordingly, we expect our increased selling expenses to be partially offset by a decrease in our general and administrative expenses.

Foreign Currency Translation and Foreign Exchange Regulations

Our consolidated financial statements are reported in U.S. dollars. Our functional currency is the rupee, though the functional currency of our subsidiaries is the currency of the country in which the subsidiary is located. A substantial portion of our revenues is generated in dollars while a portion of our expenses are incurred in rupees and we expect that this will continue for the foreseeable future. Consequently, our results of operations will be affected to the extent the rupee fluctuates against the dollar.

We seek to mitigate the effect of exchange rate fluctuation on our operating results by purchasing foreign exchange forward and option contracts. However, these activities do not entirely mitigate the effects of exchange rate fluctuations. Effective May 2004, we designated certain forward contracts as cash flow hedges in accordance with SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*. We defer changes in fair value of designated cash flow hedges and record them as a component of accumulated other comprehensive income until the transactions close, at which time we recognize the gain/loss in our consolidated statements of income.

The translation of the rupee, U.K. pound and Euro into U.S. dollars is performed for balance sheet accounts using the exchange rate in effect at the balance sheet date and for revenues and expense accounts using an appropriate monthly weighted average exchange rate for the respective periods.

Under the Foreign Exchange Management Act, 1999 or FEMA, as amended, an Indian company is required to take all reasonable steps to realize and repatriate into India all foreign exchange earned by the company outside India, in accordance with the rules specified by the Reserve Bank of India, or RBI. FEMA also imposes certain restrictions on capital account transactions by Indian companies. These regulations do not significantly affect our operations at present.

Accounts Receivable

Our accounts receivable as of December 31, 2005, 2006 and 2007 were $74.4 million, $115.6 million and $136.4 million, respectively. Our days of sales outstanding in 2005, 2006 and 2007 were 62, 75 and 73 days, respectively. We define our days of sales outstanding as the ratio of accounts receivable at year-end to revenues in a year, multiplied by 365. We are increasing our focus on collections, and we expect the days of sales outstanding to decline further. The following table presents a profile of our accounts receivable in terms of days for which accounts receivable have been outstanding:

	2005	**2006**	**2007**
		($ in millions)	
Period in days			
0-90	68.9	105.9	116.1
91-180	4.4	8.6	17.2
More than 180	1.1	1.1	3.1
Total	74.4	115.6	136.4

In 2005, reversal of doubtful debts and advances was $0.2 million whereas in 2006 and 2007, provision was $1.2 million and $1.2 million respectively. We expect to continue to have low levels of provisions for doubtful debts.

Taxes

As an Indian company, we are a tax resident of India and are therefore subject to Indian income taxes on our global income. Our net income earned from providing services outside India is subject to tax in the country where we perform the work. Most of our tax paid in countries other than India can be applied as a credit against our Indian tax liability to the extent that the same income is subject to tax in India.

Currently, we benefit from tax holidays given by the Government of India for the export of IT services from specially designated software technology parks, or STPIs, and special economic zones, or SEZs, in India. The tax incentive currently include a 10-year holiday from the payment of Indian corporate income tax for the operations of most of our Indian facilities. As a result of this tax incentives, a substantial portion of our pre-tax income has not been subject to significant tax in recent years. The aggregate benefit of this tax holiday with respect to our net income was $19.0 million, $25.3 million and $28.9 million for 2005, 2006 and 2007 respectively. The tax benefits available for some of our facilities on account of tax holidays have expired and certain others will expire upon completion of 10 years, however the tax holiday for the export of IT service will expire on March 31, 2009. Consequently, we expect our effective tax rate to increase.

On May 10, 2008, the Finance Minister of India announced that the Government of India has extended the availability of the 10-year income tax holiday by a period of one year such that the tax holiday will be available until the earlier of fiscal year ending March 31, 2010 or 10 years after the commencement of a Company s undertaking.

In December 2006, we received a demand notice from the Indian Income Tax department of approximately Rs 630.17 million, including an interest demand of approximately Rs 186.85 million ($15.99million including an interest demand of approximately $4.73 million) for the assessment year 2004-05. The tax demand was mainly on account of disallowance of deduction claimed by us under Section 10A of the Income Tax Act, in respect of profits earned by our various eligible undertakings. Section 10A of Income Tax Act exempts the profits earned by an undertaking for the export of computer software upon the fulfillment of certain conditions. One of the conditions is that the unit should not have been formed by the splitting up of an existing business. We only expanded our software development business whereas the Income Tax department contends that the business of the new units is comprised of business transferred from existing units by splitting them. In consultation with our tax advisers, we filed an appeal in January 2007 challenging the disallowance.

One of the requirements under the Indian Income Tax Rules to proceed with an appeal is to deposit, either immediately or through monthly installments, a sum equivalent to 50% of the amount that is under appeal. As of February 2008, we have deposited a sum of Rs 310.28 million ($7.73 million). Considering the facts and nature of disallowances and based on the advice given by our legal counsel, we believe that the disallowance is not tenable and we are confident of a favorable outcome in appeal proceedings and hence no provision for such income tax demand is considered necessary.

Subsequently, in February 2008 we received an order from the Commissioner of Income Tax (CIT) (Appeals) in favour of the Company by allowing the deduction claimed under Section 10A. We received the refund of the taxes paid after adjustment of the new demand for the assessment year 2002-03.

In December 2007, we received another demand, of Rs. 261.70 million inclusive an interest demand of approximately Rs 139.88 million ($ 6.64 million including an interest demand of approximately $ 3.54 million) for the assessment year (AY) 2002-03. The new demand concerns the same issue of disallowance of tax benefits under Section 10A. In our opinion, and based on advice received, the demand is not tenable against us and we have already filed an appeal with the appellate authority.

Subsequently, in March 2008 we received a order from the CIT (Appeals) in favor of us allowing the deduction claimed under Section 10A for the assessment year 2002-03. The entire tax paid is refundable.

The provisions of the Income Tax Act of India are amended on an annual basis by enactment of the Finance Act. The Finance Act, 2008 has not changed the effective tax rate of 33.99%. The Finance Act, 2008 has increased the short term Capital Gain tax from 10% to 15%. The Finance Act, 2008 has also extended the scope of service tax to cover asset management services, Services provided by stock/commodity exchanges and clearing houses, right to use goods and development of customised software. These changes have no impact on our operating expenses.

In addition, we may also be subject to changes in taxation resulting from the actions of applicable income tax authorities in India or from Indian tax laws that may be enacted . For example, we may incur increased tax liability as a result of a determination by applicable income tax authorities that the transfer price applied to transactions involving our subsidiaries and us was not appropriate.

Any increases in our effective tax rate, as a result of the expiration of tax benefits we currently enjoy, changes in applicable tax laws or the actions of applicable income tax or other regulatory authorities could materially reduce our profitability.

In connection with a review of various tax aspects relating to our international operations, during 2006, we reached a settlement with the IRS, relating to our tax returns for our US operations for 2001 and 2002. The IRS has also commenced, but not yet completed, a tax review of our U.S. operations for the years 2003 through 2005. Pursuant to the settlement, we revised our tax provisions for 2001 and 2002 and recomputed our tax provision for 2003, 2004 and 2005. This revision, representing changes in estimates, has resulted in an additional charge of approximately $14.1 million in our financial statements for the year ended December 31, 2006. Additionally, a consequential interest and deferred tax charge in an amount of $6.0 million has been accrued in our financial statements for the year ended December 31, 2006 and $1.7 million for the year ended December 31, 2007. As the IRS review for 2003 through 2005 is still in progress, we cannot currently assess whether this review may result in increase or decrease in tax liability.

Our total income tax liability for the year ended December 31, 2006 was $47.7 million, of which $30.3 million resulted from provisioning due to reassessment of our payroll and corporate tax obligations for our international operations.

Cymbal Acquisition

In November 2004, we acquired Cymbal to establish expertise and operations in the provision of IT services to the telecommunications industry. We paid an initial purchase price of approximately $36.1 million, including expenses, of which $25.4 million has been accounted for as goodwill and $10.3 million has been accounted for as customer related intangibles. We agreed to pay contingent consideration in cash of up to $33.0 million to the sellers over a three-year period ending on October 31, 2007 based on the achievement of revenue and margin targets. This contingent consideration included the payment of up to $3.4 million as special incentives to specified employees of Cymbal. The contingent consideration for the period

July 2004 to June 2007 has been paid as of December 31, 2007 in the amount of $29.6 million and recorded as goodwill and an amount of $2.6 million has been paid as special incentive and recorded as compensation cost. Also as part of the purchase price adjustment in accordance with the stock purchase agreement and amendments thereof, an additional amount of $0.7 million was paid and has been recorded as goodwill. See also Critical Accounting Policies Income Taxes and Note 3 to our consolidated financial statements.. Cymbal has been renamed as Patni Telecom Solutions Inc.

Taratec Aquisition

On July 23, 2007, we acquired a 100% equity interest in Taratec which has been named as Patni Life Sciences Inc. Taratec is a leading consulting company in the life sciences industry providing integrated business, information technology, and regulatory compliance products and services. We paid an initial purchase price of approximately $15.7 million, including expenses, of which $8.3 million has been accounted for as goodwill and $1.7 million has been accounted for as customer related intangibles.The terms of the purchase also provide for payment of contingent consideration to all of the selling shareholders, payable over three years, and calculated based on the achievement of specified revenue and margin targets. The contingent consideration is payable in cash and cannot exceed $13.2 million. Further, as a part of the acquisition, we initiated an incentive plan linked to revenues and margins, for certain specific employees of Taratec and Patni. The incentive payments under this plan will not exceed $3.5 million over the next three years. Since the incentive payments are linked to continuing employment, the payments under the plan are recognized as compensation for post acquisition services. Accordingly, $156,974 and $ 17,867 have been recorded as cost of revenues and selling, general and administrative expenses, respectively for the year ended December 31, 2007.

Logan Orviss Aquisition

On July 2, 2007, we acquired the business and assets of Logan Orviss, an European telecommunications consulting services company. We paid an initial purchase price of approximately $8.6 million, including expenses, of which $6.5 million has been accounted for as goodwill and $2.1 million has been accounted for as customer related intangibles.Further, as a part of the acquisition, the Company initiated an incentive plan linked to revenues for certain specific employees. Accordingly, $ 22,664 and $ 222,690 have been recorded as cost of revenues and selling, general and administrative expenses respectivelyfor the year ended December 31, 2007. Management estimates that incentive payments under this plan will not exceed $13.08 million through June 2010.

Recent Developments

Expansion Plans

We operate through our facilities located in various parts of India. In the recent past we have acquired facilities to support our growth. In keeping with our plans for expansion, we have been constructing new facilities in India, including knowledge parks in Navi Mumbai and Chennai, Nodia. These knowledge parks will have state-of-the-art resources with extensive workspace and training facilities and a modular design for ease of segregation of dedicated projects. These campuses will have hi-tech infrastructure with the ability to provide scale and service to clients from one location. The Navi Mumbai and Chennai facilities are expected to accommodate up to 14,000 and 10,000 people, respectively, when completed.

Phase 1 of the Navi Mumbai facility having a capacity of 5,000 seats, is complete and occupied. Phase I of Chennai facility having a capacity of 1,200 seats, is complete and partially occupied..

See Item 4.D. Information on the Company Property, plant and equipment.

Buyback of Shares

In February 2008, our Board of Directors approved the proposal to buy- back fully paid equity shares to the extent upto 10% of the paid up capital and free reserves, at a maximum price of Rs. 325 per equity share, for an aggregate amount upto Rs. 2,370 million ($ 60.1million) in accordance with the provisions of Section 77A, 77AA, 77B and other applicable provisions of the Companies Act, 1956 and the provisions of Securities and Exchange Board of India (Buy-Back of Securities) Regulations, 1998 (Buy Back Regulations), for which necessary public announcements have been made in April 2008. The Company plans to announce the date of buyback at a future date.

Results of Operations

The following table sets forth certain financial information as a percentage of revenues, calculated from our consolidated financial statements :

	Year ended December 31		
	2005	2006	2007
Revenues	100%	100%	100%
Cost of revenues	64.9%	64.6%	67.9%
Gross profit	35.1%	35.4%	32.1%
Selling, general and administrative expenses	19.1%	18.6%	17.7%
Foreign exchange (gain)/loss, net	0.4%	0.5%	(3.5)%
Operating income	15.6%	16.3%	17.9%
Interest and dividend income	0.9%	1.7%	1.9%
Interest expense	(0.5)%	(0.5)%	(0.5)%
Gain on sale of investments, net	0.3%	0.3%	1%
Other income (expense), net	0.2%	0.6%	0.3%
Income before income taxes	16.5%	18.4%	20.6%
Income taxes	3.1%	8.2%	3.3%
Net income	13.4%	10.2%	17.3%

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Revenues

Our revenues were $662.9 million in 2007, representing an increase of 14.5% from revenues of $578.9 million in 2006. Revenues from existing customers contributed $612.6 million and new customers contributed $50.3 million to our revenues. This represented an increase of 15.6% in revenues from existing customers and increase of 2.6% in revenues from new customers compared to 2006. Growth in revenues from our existing operations was attributable to an increase of 18.1 % in the total billed person-months from work performed at both our offshore and onsite locations. Onsite work measured in billed-person months increased 7.7 % in 2007 compared to 2006, while offshore work increased 23.3% over the same period. We increased our client relationships to 318 as of December 31, 2007 from 239 as of December 31, 2006. In addition, the total number of clients that individually accounted for over $1.0 million in annual revenues increased to 84 as of December 31, 2007 from 74 as of December 31, 2006.

During 2007, our revenues from T&M projects increased by 19.6% over revenues in 2006, while revenues from fixed price contracts increased by 5.2% over the same period. T&M projects accounted for 67.6% of our revenues in 2007, compared to 64.8% in 2006, 65.4% of our new business was billed on a T&M basis.

Our client concentration, as measured by the proportion of revenue generated from our top ten clients, decreased to 47.3% in 2007 from 53.1% in 2006. General Electric, our largest client, contributed 11.8% of our revenues in 2007, compared to 14.6% in 2006.

During 2007, clients in the insurance, manufacturing, product engineering services and financial services industries continued to contribute a large proportion of our revenues. Revenues from clients in these industries in 2007 increased by 16.4%, 25.5%, 34.7% and 6.1%

as compared to 2006 and contributed 23.6%, 23.8%, 16.7% and 14.1% to overall revenues, respectively. Our other industry practices including communications, media and entertainment contributed 21.7% and 25.6% of our revenues in 2007 and 2006. Until December 31, 2006, we reported product engineering services and ISV as separate industry segments. The product engineering services business is primarily related to embedded technology services for products and the ISV unit provided the user interface for these products. Both these segements from part of technology services. Effective January 1, 2007, we have integrated these two business segments with the primary focus on the following synergies (i) demand for providing end-to-end solutions from product engineering clients. (ii) leveraging the domain skills and platform skills to provide end-to-end solutions.

During 2007, we continued to derive a significant proportion of our revenues from clients located in the United States. In 2007 and 2006, we derived 77.9% and 80.8% of our revenues from clients located in the United States. Revenues from these clients grew by 10.4% in 2007, while revenues from clients in other regions grew by 32% in the same period.

Cost of revenues

Our cost of revenues was $450 million in 2007, representing an increase of 20.3% from $374 million in 2006. Cost of revenues represented 67.9% and 64.6% of our revenues in 2007 and 2006. Out of increase of $76 million in cost of revenues, $59 million was attributable to wage costs, $7.1 million to travel costs, $1.2 million to data-link charges, $1.4 million to electricity cost of Airoli, $ 1.4 million to rent charges, $0.5 million on account of amortization of purchased intangible asset, and $4 million to depreciation charged on assets. Wage costs increased by $59 million due to an increase in headcount of software professionals, annual salary revisions and reversal of $9.0 million in 2006, payroll and related taxes for our international operations arising on reassessment of certain wages paid, and short-term benefits given to our employees when working outside India. Expansion of our facilities and capital expenditure incurred with respect to units such as Airoli led to an increase in depreciation cost and other related cost. Rupee appreciation also had an impact on the higher cost of revenues in 2007 as compared to 2006 with the rupee appreciating by approximately 11% as compared to 2006.

Gross profit

Our gross profit for 2007 was $212.8 million, representing an increase of 3.9% from $204.9 million in 2006. Gross profit as a percentage of our revenues decreased to 32.1% in 2007 from 35.4% in 2006 reflecting a higher increase in cost of revenues as compared to increase in revenues mainly on account of increase in wage cost and rupee appreciation.

Selling, general and administrative expenses

During 2007, our selling, general and administrative expenses were $116.3 million, representing an increase of 9.2% from $106.5 million in 2006. During 2007, our selling, general and administrative expenses as a percentage of our revenues decreased to 17.5% from 18.4% in 2006.

During 2007, our sales and marketing expenses were $45.8 million, representing an increase of 6.3% from $43.1 million in 2006. Personnel costs increased by $2.9 million due to the addition to sales and marketing personnel and higher compensation costs resulting from salary increases. Other selling and marketing costs increased by $0.2 million. We believe that our investment in selling and marketing expenses has

contributed to the growth and diversification of our client revenues.

Our general and administrative expenses were $70.5 million in 2007, representing an increase of 10.5% from $63.8 million in 2006. Personnel costs increased in 2007 by $4 million due to the addition of general and administrative personnel and annual salary revisions, directors remuneration increased by $2.3 million on account of termination payments to two of our executive directors, on their termination of employment with us. Other general and administrative charges increased by $0.4 million.

Foreign exchange gain/loss: ***In 2007, we had a foreign exchange gain of $ 23.4 million as against a loss of US$2.7 million in 2006, as our dollar-denominated receivables continued to be hedged to a significant level.*** Mark to market of foreign exchange contracts and revaluation of debtors resulted in a net foreign exchange gain.

Operating income: ***Our operating income was $118.7 million in 2007, representing an increase of 25.6% from $94.5 million in 2006 which is mainly due to a forex gain of $23.4million on account of rupee appreciation. As a percentage of revenues, operating income increased to 17.9% in 2007 from 16.3% in 2006 .***

Other income (expense), net: ***Other income (expense), net reflects interest and dividend income, interest expense, net gain on sale of investments and other income or expense. Our other income (expense), net was $17 million in 2007, increasing 36% from income of $12.5 million in 2006 resulting in net increase of $4.5 million. In 2007, our gain on sale of investments was $6.4 million as compared to $1.7 million in 2006. In 2007, our interest and dividend income were $12.5 million as compared to $10.1 million in 2006.***

Income taxes: ***We made a provision of $21.8 million for income taxes in 2007, representing a decrease of 54.3% from $47.7 million in 2006. Our effective tax rate was 16.1% in 2007 compared to 16.2%*** (excluding the impact of change in estimates on account of the IRS settlement) ***in 2006. The 2006 income taxes includes $30.3 million provision recognized as a result of reassessment of our payroll and corporate tax obligations for our international operations.***

Net income: ***Our net income was $114 million in 2007, representing an increase of 92.2% from $59.3 million in 2006. As a percentage of our revenues, net income increased to 17.2% in 2007 from 10.2% in 2006. The increase in the net income is mainly on account of reasons explained above.***

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Revenues: Our revenues were $578.9 million in 2006, representing an increase of 28.5% from revenues of $450.3 million in 2005. Revenues from existing customers contributed $529.8 million and new customers contributed $49.1 million to our revenues. This represented an increase of 28.2% in revenues from existing customers and increase of 32.0% in revenues from new customers compared to 2005. Growth in revenues was attributable to an increase of 18.1% in the total billed person-months from work performed at both our offshore and onsite locations. Onsite work measured in billed-person months increased 11.3% in 2006 compared to 2005, while offshore work increased 21.7% over the same period. We increased our client relationships to 239 as of December 31, 2006 from 199 as of December 31, 2005. In addition, the total number of clients that individually accounted for over $1.0 million in annual revenues increased to 74 as of December 31, 2006 from 61 as of December 31, 2005.

During 2006, our revenues from T&M projects increased by 40.0% over revenues in 2005, while revenues from fixed price contracts increased by 11.8% over the same period. T&M projects accounted for 64.8% of our revenues in 2006, compared to 59.5% in 2005 mainly because 75.4% of our new business was billed on a T&M basis.

Our client concentration, as measured by the proportion of revenue generated from our top ten clients, decreased to 53.1% in 2006 from 59.3% in 2005. General Electric, our largest client, contributed 14.6% of our revenues in 2006, compared to 22.1% in 2005.

During 2006, clients in the insurance, manufacturing, telecommunications (now, communications, media and entertainment) and financial services industries continued to contribute a large proportion of our revenues. Revenues from clients in these industries in 2006 increased by 7.7%, 27.1%, 58.6% and 22.4% compared to 2005 and contributed 23.2%, 21.7%, 18.9% and 15.3% to overall revenues as compared to 27.7%, 21.9%,15.3% and 16.0% in 2005. Our other industries practice contributed 6.7% and 6.6% of our revenues in 2006 and 2005. Our ISV practice contributed 4.1% and 5.0% of our revenues in 2006 and 2005 and our product engineering practice contributed 10.1% and 7.5% of our revenues in 2006 and 2005.

During 2006, we continued to derive a significant proportion of our revenues from clients located in the United States. In 2006 and 2005, we derived 80.8% and 84.8% of our revenues from clients located in the United States. Revenues from these clients grew by 22.5% in 2006, while revenues from clients in other regions grew by 62.1% in the same period.

Cost of revenues: The cost of revenues was $374.0 million in 2006, representing an increase of 27.9% from $292.5 million in 2005. Cost of revenues represented 64.6% and 64.9% of our revenues in 2006 and 2005. Out of the increase of $81.5 million in cost of revenues, $49.9 million was attributable to wage costs, $16.4 million to sub-contractor costs, $4.7 million to travel costs, $4.2 million to rental and repairs, $0.5 million to data-link charges, $1.2 million to deferred costs, $1.7 million to stock compensation costs, $2.1 million to other general administration costs and $2.8 million to depreciation charged on assets and a reduction of $2.2 million in immigration costs. Wage costs increased by $49.9 million due to an increase in headcount of software professionals and annual salary revisions which was partly compensated due to a reversal of $9.0 million on payroll and related taxes for our international operations arising on reassessment of certain wages paid, and short-term benefits given, to our employees when working outside India. Expansion of our facilities led to increased rental costs and other related expenses. Our immigration costs were lower due to a decrease in the number of applications processed.

Gross profit: Our gross profit for 2006 was $204.9 million, representing an increase of 29.8% from $155.9 million in 2005. Gross profit as a percentage of our revenues increased to 35.4% from 35.1% during 2006 reflecting a lower increase in cost of revenues as compared to increase in revenues.

Selling, general and administrative expenses: During 2006, our selling, general and administrative expenses were $106.5 million, representing an increase of 24.0% from $85.9 million in 2005. During 2006 our selling, general and administrative expenses as a percentage of revenues decreased to 18.4% from 19.1% in 2005.

During 2006, our sales and marketing expenses were $43.1 million, representing an increase of 19.6% from $36.0 million in 2005. Personnel costs increased by $6.2 million due to the additions to sales and marketing personnel and higher compensation costs resulting from salary increases. Other selling and marketing costs increased by $0.8 million. We believe that our investment in selling and marketing expenses has contributed to the growth and diversification of our client revenues.

Our general and administrative expenses in 2006 were $63.4 million, representing an increase of 27.1% from $49.9 million in 2005. Personnel costs increased by $7.5 million due to the addition of general and administrative personnel and annual salary revisions. Establishment costs increased by $0.9 million due to an increase in the number of facilities. Professional and consultancy charges increased by $0.9 million, bad debts provision increased by $1.3 million and other general expenses increased by $2.3 million. Depreciation expense increased by $0.6 million.

Foreign exchange gain/loss: In 2006, we had a foreign exchange loss of $2.7 million as compared to a loss of $1.7 million in 2005. Mark to market of foreign exchange contracts and revaluation of debtors resulted in the foreign exchange loss.

Operating income: Our operating income was $94.5 million in 2006, representing an increase of 34.1% from $70.4 million in 2005. As a percentage of revenues, operating income increased to 16.3% from 15.6% in 2005 reflecting a decrease in cost of revenues and selling, general and administration expenditures as compared to increase in revenues.

Other income (expense), net: Other income (expense), net reflects interest and dividend income, interest expense, net gain on sale of investments and other income or expense. Our other income (expense), net was income of $12.5 million in 2006, increasing 194.1% from income of $4.2 million in 2005 resulting in a net increase of $8.3 million. In 2005, we had recorded a gain on sale of asset of $3.2 million and a loss of revaluation of ADR proceeds of $2.0 million. In

2006, our gain on sale of investments was $1.7 million as compared to $1.1 million in 2005. In 2006, our interest and dividend income were $10.1 million as compared to $4.2 million in 2005. On account of reassessment of our payroll and corporate tax obligations for our international operations, we have recorded a reversal for interest and other related expenses with respect to delayed payments amounting to $1.1 million in 2006 against a provision of $1.7 million in 2005.

Income taxes: We made a provision of $47.7 million for income taxes in 2006, representing an increase of 245.5% from $13.8 million in 2005. Our effective tax rate (excluding the impact of change in estimates on account of the IRS settlement) decreased from 18.6% in 2005 to 16.2% in 2006. The 2006 income taxes include a $30.3 million provision due to the reassessment of our payroll and corporate tax obligations for our international operations. The 2005 tax provisioning included an amount of approximately $1.0 million relating to an adjustment for an earlier year s income tax assessment.

Net income: Our net income was $59.3 million in 2006, representing a decrease of 2.7% from $60.9 million in 2005. As a percentage of our revenues, net income decreased to 10.2% in 2006 from 13.5% in 2005. The reduction in net income is mainly on account of the tax provision we made in 2006 and the other reasons explained above.

5.B. Liquidity and Capital Resources

Our operations and our growth have been financed by cash generated from operations and from the proceeds of sales of equity shares. We received net proceeds of $117.0 million from our ADSs issue in 2005.

We invest in units of mutual funds either in open ended schemes or in fixed maturity plans . While the investments in open ended mutual fund units can be sold any time without exit fees, the investments in units of fixed maturity plan can be sold subject to an exit fee of approximately 1%-2%. We have categorized our investments in units of mutual fund schemes as Liquid mutual fund units and fixed maturity plans classified as available for sale investments in our consolidated financial statements.

As of December 31, 2007, we had $32.6 million in cash and cash equivalents, $138.4 million invested in units of liquid mutual funds, $143.1 million invested in units of mutual fund (fixed maturity plan) and $ 16.3 million invested in other investments. As of December 31, 2006 we had $46.5 million in cash and cash equivalents, $128.0 million invested in units of liquid mutual funds, $105.8 million invested in units of mutual funds (fixed maturity plan), and $9.2 million invested in other investments. As of December 31, 2007 and 2006, we have not incurred any exit fees on investments in mutual fund units of fixed maturity plans.

Our working capital (comprising current assets excluding cash and cash equivalents and investments less current liabilities) at December 31, 2007 and at December 31, 2006 was $90.7 million and $41.2 million, respectively. Our working capital is sufficient to meet our present requirements. We had no outstanding bank borrowings or long-term debt as of such date. Net cash provided by operating activities was $111.3 million, $59.1 million and $73.1 million in the years ended December 31, 2007, 2006 and 2005 respectively. The adjustments for the year ended December 31, 2007, to reconcile the $114 million net income to net cash provided by operating activities, consisted primarily of depreciation expense of $25.0 million and deferred tax credit of $10.1 million and gain from sale of investments of $ 6.4 million. The adjustments for the year ended December 31, 2006, to reconcile the $59.3 million net income to net cash provided by operating activities, consisted primarily of depreciation expense of $19.6 million and gain from sale of investments of $1.7 million. The adjustments for the year ended December 31, 2005, to reconcile the $60.8 million net income to net cash provided by operating activities, consisted primarily of depreciation expense of $16.0 million, gain from sale of property, plant and equipment of $3.2 million and gain from sale of investments of $1.1 million. The increase in depreciation was due to an increase in investment in property, plant and equipment to develop and expand our existing as well as new facilities. The net asset base was $188.3 million, $131.0 million and $92.0 in the years ended December 31, 2007, 2006 and 2005 respectively. Provision for bad debts was $1.2 million and $1.2 million for the year ended December 31, 2007 and 2006 , respectively. There was a reversal of provision for bad debts of $0.2 million for the year ended December 31, 2005.

Days of sales outstanding reduced to 73 days in the year ended December 31,2007 as compared to 75 days in the year ended December 31, 2006 and it was 62 days in the year ended Deccember 31, 2005. Net accounts receivable and cost and estimated earnings in excess of billings on uncompleted contracts increased by $ 21.8 million for the year ended December 31, 2007, $36.3 million in 2006 and $14.7 million in 2005 primarily as a result of increase in activity.

Current assets and other assets increased by $20.4 million for the year ended December 31, 2007 and $1.3 million for the year ended December 31, 2006 , however it decreased by $3.3 million for the year ended December 31, 2005. Cash outflows for the year ended December 31,2007 were$ 6.8 million in respect of deposit placed with tax authorities in India, $10.2 million in derivative contracts. Cash inflows for the year ended December 31, 2007 was mainly on account of the $0.9 million in gratuity asset. Cash outflows for the year ended December 31, 2006 were $1.4 million in leasehold land, $0.1 million in prepaid expenses, and $1.2 million in foreign exchange advances. Cash inflows for the year ended December 31, 2006 were $1.2 million in deferred cost and revenue and $0.2 million in advances to vendors. Cash outflows for the year ended December 31, 2005 were $0.7 million in advances to vendors, $0.3 million in other receivables, $0.8 million in prepaid expenses and $0.4 million in prepaid gratuities. Cash inflows for the year ended December 31, 2005 were $1.0 million in deposits and $4.7 million on derivative contracts.

Accounts payable and accrued expenses increased by $6.3 million for the year ended December 31, 2007, compared to an increase of $20.3 million in 2006 and $7.5 million in 2005. The increase in 2007 is due to an increase in accruals related to employee related expenses of $5.9 million, $0.9 million in accrued expenses and reduction of $1.8 million in trade accounts payable.

Our billings in excess of costs and estimated earnings on uncompleted contracts, which represent billings in excess of revenues that are recognized, increased by $0.06 million and $0.9 million in the year ended December 31, 2007 and 2006 respectively, and decreased by $0.5 million in 2005.

Taxes paid were $15.3 million,$39.9 million and $29.5 million as against a tax provision of $15.7 million, $43.3 million and $31.9 million for the years ended December 31, 2005, 2006 and 2007 respectively.

Other current liabilities and other liabilities increased by $8.2 million during the year ended December 31, 2007. The increase in the year ended December 31, 2007 resulted from increase of $2.1 million in leave encashment provision, $2.2 million increase in deferred revenue, $2.7 million increase in other liabilities on account of advance received on sale of furniture at India (Vashi) location, $1.0 million increase in advance from customer and $1.9 million decrease in other current liabilities. Other current liabilities and other liabilities decreased by $16.0 million during the year ended December 31, 2006. The decrease in the year ended December 31, 2006 resulted from a $6.7 million in derivative contracts, $14.6 million payroll and related tax liability on account of payment and liability reversal and an increase of $2.0 million leave encashment provision, $0.9 million increase in sales discount, $0.2 million increase in warranty provision, $1.7 million increase in pension benefit and $0.5 million increase in other current liabilities. Other current liabilities and other liabilities increased by $7.3 million during the year ended December 31, 2005. The increase in the year ended December 31, 2005 resulted from a $1.0 million leave encashment provision, a $0.3 million pension benefit, a $3.6 million payroll and related tax liability and corporate tax liability, $1.3 million in advances from customers and $0.7 million VAT payable.

The changes in the operating activities is in line with the growth in our revenues and volume of operations.

Net cash used in investing activities was $130.0 million for the year ended December 31, 2007, $155.4 million for 2006 and $111.7 million for 2005. Net cash used in the acquisition of property, plant and equipment for the years ended December 31, 2007, 2006 and 2005 was $61.9 million, $48.5 million and $48.9 million respectively. In 2007, 2006 and 2005 cash outflow was higher mainly on account of the purchases of new facilities and expansion of our existing facilities. Net purchases of investment securities were $14.8 million for the year ended December 31, 2007. Additional purchase consideration to Cymbal shareholders for the year ended December 31, 2007 amounted to $12.4 million. Net cash used in investing activities in 2007 included $21.4 million for the acquisition of Logan Orviss and Taratec, net of cash acquired. Payment for acquisition of technology related intangibles from one of our major customers amounted to $20.4 million. Net purchases of investment securities were $94.5 million for the year ended December 31, 2006. Additional purchase consideration to Cymbal shareholders for the year ended December 31, 2006 amounted to $12.2 million. Net purchases of investment securities were $57.2 million for the year ended December 31, 2005. Additional purchase consideration to Cymbal shareholders for the year ended December 31, 2005 amounted to $5.6 million.

Net cash used in financing activities was $8.7 million and $7.1 million for the years ended December 31, 2007 and 2006, respectively. Net cash provided by financing activities was $112.0 million for the year ended December 2005. We paid $11.9 million as dividends, including dividend tax, on our equity shares in the year ended December 31, 2007. We received proceeds of $3.2 million from our employee stock option plan during the year ended December 31, 2007. We paid $8.6 million in dividends, including dividend tax, on our equity shares in the year ended December 31, 2006. We received proceeds of $1.8 million from our employee stock option plan during the year ended December 31, 2006. We paid $6.5 million in dividends, including dividend tax, on our equity shares in the year ended December 31, 2005. We received net proceeds of $118.7 million from our initial offering of ADSs and our employee stock option plan during the year ended December 31, 2005.

We anticipate capital expenditures of between approximately $80 million to $120 million in 2008, principally to finance the construction of our new knowledge park facilities in Navi Mumbai and Chennai and other facilities and physical infrastructure in India. Estimated amounts remaining to be executed on such contracts (net of advances), aggregated approximately to $33.4 million at December 31, 2007. See Item 4.D. Information on the Company Property, plant and equipment. We believe that existing cash and cash equivalents and funds generated from operations will be sufficient to meet these requirements. However, we may significantly alter our proposed capital expenditures plans and, accordingly, may require additional financing to meet our requirements. We believe that a sustained reduction in IT spending, a longer sales cycle or an economic downturn in any of the various industry segments in which we operate, or a combination of these events, could result in a decline in our revenues and adversely affect our liquidity and capital resources.

5.C. Research and development, patents and licenses, etc.

Research and development expenditures for the years ended December 31, 2007, 2006 and 2005 were $2.1 million, $2.1 million and $2.2 million, respectively . For a description of our research and development initiatives, see Item 4.B. Information on the Company Business Overview - Innovation.

5.D. Trend information

Other than as described in Item 3.D. Key information Risk Factors , Item 4. Information on the Company and Item 5. Operating and Financial Review and Prospects and elsewhere in this Annual Report, to our knowledge there are no known trends or uncertainties that have or had or are expected to have a material adverse impact on our revenues or income from continuing operations or profitability or liquidity or capital resources, or that could cause reported financial information not necessarily indicative of future operating results or financial condition.

5.E. Off-balance sheet arrangements

We currently do not engage in any off-balance sheet arrangements.

5.F. Tabular disclosure of contractual obligations

The following table sets forth our contractual obligations and commercial commitments to make future payments as of December 31, 2007. The following table excludes our accounts payable, accrued operating expenses and other current liabilities which are payable in the normal course of operations.

	Payments due as of December 31, 2007				
	Total	Within 1 year	1-3 years (in millions)	3-5 years	More than 5 years
Capital (Finance) Leases	$ 0.6	$ 0.3	$ 0.3	$ 0.0	
Operating Leases	$ 20.5	$ 10.0	$ 10.2	$ 0.3	$ 0.0
Capital Commitment	$ 33.4	$ 32.0	$ 1.4		
Total Contractual Obligations(1)	**$ 54.5**	**$ 42.3**	**$ 11.9**	**$ 0.3**	**$ 0.0**

(1) In addition, pursuant to our agreement with Patni Life Sciences Inc. (formerly Taratec), we agreed to pay up to $13.2 million as contingent consideration over a three year period ending on June 30, 2010.

5.G. Safe Harbor

This Annual Report contains forward-looking statements. See the section entitled Special Note regarding Forward Looking Statements.

Recently Adopted Accounting Pronouncements under U.S. GAAP

Effective January 1, 2007, we adopted provisions of FASB Interpretation No. 48 Accounting for uncertainty in Income Taxes. FIN 48 addresses the accounting for uncertainty in income taxes recognized in an enterprise s financial statements and prescribes a threshold of more-likely-than-not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. FIN 48 also provides related guidance on measurement and classification of interest and penalties, and disclosure. As a result of the implementation of FIN 48, we recognized no increase or decrease in the tax liability. A reconciliation of the beginning and ending amount of unrecognized tax benefits is set out below:

	$ in millions
Balance at January 1, 2007	41.7
Additions based on tax positions related to the current year	7.6
Additions for tax positions of prior years	
Reductions for tax positions of prior years	
Settlements	
Balance at December 31, 2007	49.3

During the year ended December 31, 2007, we recognized $3.5 million in interest and penalties in other (expense)/ income. As of December 31, 2007, we had $9.3 million of accrued interest and penalties related to uncertain tax positions.

As of December 31, 2007, we had $46.0 million of net unrecognized tax benefits arising out of tax positions which would affect the effective tax rate if recognized.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 The FairValue Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115 (Statement 159). Statement 159 gives us the irrevocable option to carry most financial assets and liabilities at fair value that are not currently required to be measured at fair value. If the fair value option is elected, changes in fair value would be recorded in earnings at each subsequent reporting date. Statement.159 is effective for our fiscal year 2008. Effective January 1, 2008, we adopted the provisions of Statement No. 159. The Company has not made an election for fair value options for any existing eligible instruments.

In September 2006, the FASB issued FASB Statement No. 157, Fair Value Measurement (Statement 157). Statement 157 defines fair value, establishes a framework for the measurement of fair value and enhances disclosures about fair value measurements. The Statement does not require any new fair value measures. The Statement is effective for fair value measures already required or permitted by other standards for fiscal years beginning after November 15, 2007. We are required to adopt Statement 157 beginning on January 1, 2008. Statement 157 is required to be applied prospectively, except for certain financial instruments. Any transition adjustment is required to be recognized as an adjustment to opening retained earnings in the year of adoption. In November 2007, the FASB proposed a one-year deferral of Statement 157 s fair-value measurement requirements for non financial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis. The implementation of Statement 157 for financial assets and financial liabilities, effective January 1, 2008, did not have a material impact on our consolidated financial position and results of operations. We are currently assessing the impact of Statement 157 for nonfinancial assets and nonfinancial liabilities on our consolidated financial position and results of operations.

In December 2007, the FASB issued FASB Statement No. 141R, Business Combinations (Statement 141R) and FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment to ARB No. 51 (Statement 160). Statements 141R and 160 require most identifiable assets, liabilities, noncontrolling interests and goodwill acquired in a business combination to be recorded at full fair value and require noncontrolling interests (previously referred to as minority interests) to be reported as a component of equity, which changes the accounting for transactions with noncontrolling interest holders. Both Statements are effective for periods beginning on or after December 15, 2008, and earlier adoption is prohibited. Statement 141R will be applied to business combinations occurring after the effective date. Statement 160 will be applied prospectively to all noncontrolling interests, including any that arose before the effective date. We are currently evaluating the impact of adopting Statement 141R and Statement 160 on its results of operations and financial position.

Critical Accounting Policies

We consider the policies discussed below to be critical to an understanding of our financial statements as their application places the most significant demands on management s judgment, with financial reporting results relying on estimates about the effect of matters that are inherently uncertain. Specific risks for these critical accounting policies are described in the following paragraphs. For these policies, future events may not develop as forecast, and estimates may require revision.

Estimates

We prepare financial statements in conformity with U.S. GAAP, which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the financial reporting period. We primarily make estimates related to contract costs expected to be incurred to complete development of software, allowances for doubtful accounts receivable, our future obligations under employee retirement and benefit plans, useful lives of property, plant and equipment, deferred tax assets and liabilities and provisions for contingencies and litigation.

We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates. Changes in estimates are reflected in the financials statements in the period in which changes are made and, if material, their effects are disclosed in the notes to the consolidated financial statements.

Revenue Recognition

We recognize revenues by following specific and applicable accounting guidelines for measuring revenue. These guidelines require us to make certain judgments that affect recognized and unrecognized revenue. Judgments involve the method of recognizing revenue, costs and time required to complete projects for our clients etc.

We are in the software services business and, to a lesser extent, in business process outsourcing. Our revenues from software services are derived by providing the following services:

- custom application development;
- application maintenance and support;
- packaged software implementation;

- infrastructure management services;
- product engineering;
- business process outsourcing; and
- quality assurance services.

Software Services

We derive our revenues primarily from software services. Revenue is recognized when there is persuasive evidence of a contractual arrangement with customers, the sales price is fixed or determinable and collectibility is reasonably assured. Our software services contracts are either on a fixed-price,fixed time frame or on a time and material basis. Currently a majority of revenues are derived on time and material contracts. Revenues earned from services performed on a time and material basis are recognized as the related services are performed. Our fixed-price contracts include application maintenance and support services, on which revenue is recognized ratably over the term of maintenance. Our other fixed-price contracts are recognized on a percentage of completion basis.

Guidance has been drawn from paragraph 95 of Statement of Position (SOP) 97-2, Software Revenue Recognition to account for revenue from fixed price arrangements for software development and related services in conformity with *SOP-81-1 (Accounting for Performance of Construction Type and Certain Production Type Contracts).* The input method has been used because management considers this to be the best available measure of progress on these contracts as there is a direct relationship between input and productivity.

We review the estimated revenues and estimated costs on each project at the end of each reporting period. Any revisions to existing estimates are made when required by management having the relevant authority. As part of the review process, management regularly compares and analyzes the actual costs and the estimate of costs to complete the projects to the original estimated costs and the total contract price with revisions to estimates reflected in the period in which changes become known. As a policy, provisions for estimated losses on such engagements will be made during the period in which a loss becomes probable and can be reasonably estimated.

We charge direct and incremental contract origination and set up costs incurred in connection with application maintenance and support services to expense as incurred. We defer these costs only in situations where there is a contractual arrangement establishing a customer relationship for a specific period. The costs to be deferred are limited to the extent of future contractual revenues. Further, we defer and recognize revenue attributable to set up activities over the periods that the related fees are earned, as services performed during such periods do not result in separate earnings process.

We generally provide our clients with a one- to three-month warranty as post-sale support. Costs associated with such services are accrued based on management s estimates and historical data at the time related revenues are recorded. We use our past experience relating to actual warranty costs incurred on similar kinds of projects in order to estimate future warranty costs.

We grant volume discounts to certain customers, which are computed based on a pre-determined percentage of the total revenues from those customers during a specified period, pursuant to the terms of the contract. These discounts are earned only after the customer has generated a specified cumulative level of revenues in the specified period. The discounts can be utilized by the customer in the form of free services.

We estimate the total number of customers that will ultimately earn these discounts, based on which a portion of the revenue on the related transactions is allocated to the free services that will be delivered in the future.

Historically, changes in estimates of warranty costs and volume discounts have not had a material impact on our financial statements.

We include reimbursement of out-of-pocket expenses received from customers as part of revenues in accordance with EITF 01-14 Income Statement Characterization of Reimbursements Received for Out of Pocket Expenses Incurred .

Business Process Outsourcing

Revenues from business process outsourcing services are derived from both time-based and transaction-priced contracts. Revenue is recognized as the related services are performed, in accordance with the specific terms of the contracts with the customer.

Business Combinations, Goodwill and Intangible Assets

We account for business combinations in accordance with SFAS 141, *Business Combinations*, which requires that the purchase method of accounting be used for all business combinations. SFAS 141 requires intangible assets acquired in a business combination to be recognized and reported separately from goodwill. Accounting for contingent consideration based on earnings or other performance measures is a matter of judgment that depends on the relevant facts and circumstances. If the substance of the contingent consideration is to provide compensation for services, use of property, or profit sharing, we account for the additional consideration as an expense of the appropriate period. Otherwise, the additional consideration paid is recorded as an additional cost of the acquired business.

Goodwill represents the cost of the acquired businesses in excess of the fair value of identifiable tangible and intangible net assets purchased. We generally seek the assistance of independent valuation experts in determining the fair value of the identifiable tangible and intangible net assets of the acquired business. We assign all the assets and liabilities of the acquired business, including goodwill, to reporting units in accordance with SFAS 142, *Goodwill and Other Intangible Assets*.

We test goodwill for impairment at least on an annual basis. In this process, we rely on a number of factors including operating results, business plans and future cash flows. Recoverability of goodwill is evaluated using a two-step process. The first step involves a comparison of the fair value of a reporting unit with its carrying value. The fair value of a reporting unit is determined using the income approach. If the carrying value of the reporting unit exceeds its fair value, the second step of the process involves a comparison of the implied fair value and carrying value of the goodwill of that reporting unit. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognised in a business combination. If the carrying value of the goodwill of a reporting unit exceeds the fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess. Goodwill of a reporting unit will be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

We amortize intangible assets over their respective individual estimated useful lives in proportion to the economic benefits consumed in each period. Our estimates of the useful lives of identified intangible assets are based on a number of factors including the effects of obsolescence, demand, competition, and other economic factors (such as the stability of the industry, and known technological advances), and the level of maintenance expenditures required to obtain the expected future cash flows from the asset.

We evaluate intangible assets for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of the assets.

In evaluating goodwill and intangible assets for impairment, we may seek the assistance of independent valuation experts, perform internal valuation analyses and consider other information that is publicly available. The results of our evaluation may be dependent on a number of factors including estimates of future market growth and trends, forecasted revenue and costs, discount rates and other variables. While we use assumptions which we believe are fair and reasonable, future results may differ from the estimates arrived at using the assumptions.

Income Taxes

As part of our financial reporting process, we are required to estimate our liability for income taxes in each of the tax jurisdictions in which we operate. This process requires us to estimate our actual current tax exposure together with an assessment of temporary differences resulting from differing treatment of items, such as depreciation on property, plant and equipment, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our balance sheet.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of changes in tax rates is recognized in results of operations in the period that includes the enactment date. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the statement of operations.

Our deferred tax liabilities mainly arise from taxable basis differences in intangible assets and undistributed earnings of branch, property, plant and equipment, unrecognized gain in available for sale securities and costs and estimated earnings in excess of billings on completed contracts. Our deferred tax assets comprise assets arising from our accrued expenses, provisions for doubtful accounts receivable and from ultimate realization of the tax asset that may be dependent on the availability of future capital gains. We assess the likelihood that our deferred tax assets will be recovered from future taxable income. This assessment takes into consideration tax planning strategies, including levels of historical taxable income and assumptions regarding the availability and character of future taxable income over the periods in which the deferred tax assets are deductible. We believe it is more likely than not that we will realize the benefits of those deductible differences in the future, net of the existing valuation allowance at December 31, 2007. The ultimate amount of deferred tax assets realized may be materially different from those recorded, as influenced by potential changes in income tax laws in the tax jurisdictions where we operate, or future changes in operating results.

To the extent we believe that realization of a deferred tax asset is not likely, we establish a valuation allowance or increase this allowance in an accounting period and include an expense within the tax provision in our statements of income. Upon our acquisition of Cymbal, we were entitled to utilize tax benefits on carry forward business losses of Cymbal. Based on preliminary projections of future taxable income and tax planning strategies, we believed that there existed significant uncertainty regarding realization of tax benefits on the carry forward losses. Consequently, we recorded a valuation allowance for the carry forward business losses of Cymbal. In 2005, we evaluated the expected realisation of such carry forward losses and available tax planning strategies and believed that the we would make sufficient profits in future years to set off the carry forward losses. Accordingly, the valuation allowance has been reversed and adjusted against goodwill. In the year 2007 and 2006, valuation allowance was recorded on the business loss of our Australia branch and Japan branch respectively.

We account for uncertainty in income taxes in the financial statements in accordance with FIN 48, Accounting for Uncertainty in IncomeTaxes - an interpretation of FASB Statement No. 109, Accounting for Income Taxes. The accounting and disclosures of tax positions taken or expected to be taken on a tax return are based on the recognition threshold and measurement attribute as prescribed by FIN 48. We recognize interest and penalties related to uncertain tax positions in other (expense) / income.

Stock-based compensation

We adopted SFAS 123R, Share-Based Payment (SFAS 123R) effective January 1, 2006. This statement requires compensation expense relating to share-based payments to be recognized in net income using a fair value measurement method. Under the fair value method, the estimated fair value of awards is charged to income on an accelerated basis over the requisite service period, which is generally the vesting period. We elected the modified prospective method as prescribed in SFAS 123R and, therefore, prior periods were not restated. Under the modified prospective method, SFAS 123R was applied to new awards granted after the time of adoption, as well as to the unvested portion of previously granted equity-based

awards for which the requisite service had not been rendered as of January 1, 2006. We granted stock options under the Patni ESOP 2003 -Revised 2006.

The fair value of each option is estimated on the date of grant using the Black-Scholes model.

Prior to the adoption of SFAS 123R, we were required to record benefits associated with the tax deductions in excess of recognized compensation cost as an operating cash flow. However SFAS 123R requires that such benefits be recorded as a financing cash inflow.

Effective April 1, 2007, an amendment has been made to Income Tax Act subjecting specified securities allotted or transferred by an employer to its employees to Fringe Benefit Tax (FBT). The liability to pay FBT by the employer arises at the time of allotment of the securities, consequent to exercise of option by the employees and is calculated on the difference between the fair value of the underlying share on the date of vesting and the exercise price paid by the employee based on the corporate tax rate. The FBT arising from such allotment of specified option is collectible from employees, which is considered as akin to a reset in the terms of the ESOP Plan as it would reduce the ultimate benefit to the employee, by way of increase in exercise price and hence is recognized as additional paid-in-capital.

Derivatives and Hedge Accounting

We enter into forward foreign exchange contracts/option contracts (derivatives) to mitigate the risk of changes in foreign exchange rates on inter company and end customer accounts receivable and forecasted sales transactons denominated in foreign currencies and, upon completion of the formal documentation and testing for effectiveness,we designate the forward and option contracts which meet the hedging criteria, as cash flows hedges. Changes in the derivative fair values that are designated, effective and qualify as cash flow hedges, are deferred and recorded as a component of accumulated other comprehensive income until the hedged transactions occur and are then recognized in the consolidated statements of income. Changes in fair value for derivatives not designated as hedging instruments and ineffective portion of the hedging instruments are recognized in consolidated statements of income in the current period.

In respect of derivatives designated as hedges, we formally document all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. We also formally assesses, both at the inception of the hedge and on an ongoing basis, whether each derivative is highly effective in offsetting changes in fair values or cash flows of the hedged item. If it is determined that a derivative is not highly effective as a hedge, or if a derivative ceases to be a highly effective hedge, we will, prospectively, discontinue hedge accounting with respect to that derivative. The derivatives, which do not qualify for hedge accounting, are accordingly, recognised at fair value with gains or losses included in foreign exchange (gain)/loss in the consolidated statements of income.

Hedge ineffectiveness could result from forecasted transactions not happening in the same amounts or in the same periods as forecasted or changes in the counterparty credit rating. Further, change in the basis of designating forward contracts as hedges of forecasted transactions could alter the proportion of forward contracts which are ineffective as hedges. Hedge ineffectiveness increases volatility of the consolidated statements of income since the changes in fair value of an ineffective portion of forward contracts is immediately recognized in the consolidated statements of income.

As of December 31, 2007, there were no gains or losses on derivative transactions or portions thereof that were either ineffective as hedges, excluded from the assessment of hedge effectiveness, or associated with an underlying exposure that did not occur.

Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigations, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.A. Directors and senior management

The following table sets forth details regarding our Board of Directors and executive officers:

Name	Age	Position
Mr. Narendra K. Patni(1)(4)(7)	66	Director (Chairman) and Chief Executive Officer
Mr. Louis T. van den Boog (5)(12)	54	Executive Director
Mr. Gajendra K. Patni(1)(8)(13)	67	Director
Mr. Ashok K. Patni(1)(9)(13)	56	Director
Dr. Michael A. Cusumano(3)(11)	53	Director
Mr. Arun Duggal(2)	61	Director
Mr. William O. Grabe(5)(6)(10)	70	Director
Mr. Arun Maira (3)(5)(11)	64	Director
Mr. Pradip Shah(2)	55	Director
Mr. Ramesh Venkateswaran(2)(3)(5)(11)	55	Director
Mr. Mrinal R. Sattawala (14)	53	Advisor
Mr. Surjeet Singh	40	Chief Financial Officer
Mr. Neeraj Gupta	39	Executive Vice President and Global Head of Sales and Marketing
Mr. Satish M. Joshi	52	Executive Vice President and Chief Technology Officer
Mr. Vijay P. Khare	50	Executive Vice President and Chief Delivery Officer and Chief Administrative Officer
Mr. Rajesh Padmanabhan	46	Executive Vice President and Global Head of Human Resources
Mr. Brian Stones	56	Executive Vice President
Mr. Russel Boekenkroeger	61	Executive Vice President

(1) Mr. Narendra K. Patni, Mr. Gajendra K. Patni and Mr. Ashok K. Patni are brothers.

(2) Member of the Audit committee.

(3) Member of the Compensation and Remuneration committee.

(4) Permanent invitee of the Compensation and Remuneration committee.

(5) Member of the Shareholder and Investor Grievances committee.

(6) Our Articles of Association provide that the board can appoint an alternate director pursuant to the provisions of the Indian Companies Act. Mr. Abhay Havaldar is presently the alternate director to Mr. William O. Grabe.

(7)	Mr. Narendra K. Patni is the nominee of the NKP Group.
(8)	Mr. Gajendra K. Patni is the nominee of the GKP Group.
(9)	Mr. Ashok K. Patni is the nominee of the AKP Group.
(10)	Mr. Grabe is the nominee for General Atlantic.
(11)	**Member of the Nomination and Corporate Governance committee.**

(12) Mr. Louis T. van den Boog was appointed as an executive director with effect from April 29, 2008. The appointment is further subject to the approval of Members at the Annual General Meeting and also subject to approvals of the statutory authorities including Central Government under Section 269 of the Indian Companies Act, and other applicable provisions.

(13) Mr. Gajendra K. Patni and Mr. Ashok K. Patni ceased to be executive directors with effect from October 2, 2007 however, they remain as directors on our Board of Directors.

(14) Mr. Mrinal Sattawala has taken the role of an advisor with effect from June 2008 and will no longer continue as our Chief Operating Officer of the company.

Board of Directors and Executive Officers

Mr. Narendra K. Patni, Chairman and CEO, is one of the founders of our company. Mr. Patni has a Master s degree in Electrical Engineering from the Massachusetts Institute of Technology, or MIT, and a Master s degree in Management from the Sloan School of Management at MIT. He also has a Bachelor s degree in Electrical Engineering from IIT, Roorkee. As an entrepreneur, he has played an integral role in the development of the Indian IT industry through his various ventures. Mr. Patni was instrumental in initiating the offshore outsourcing business model for the software industry. Prior to founding his first company, Data Conversion Inc. (now our U.S. subsidiary Patni Americas, Inc.) in 1972, he was President and Director of the Forrester Consulting Group and was previously with the U.S. Trust Company of New York and was a consultant to Arthur D. Little, Inc. Mr. Patni as a nominee of the NKP Group, is not required to retire by rotation.

Mr. Louis T. van den Boog, has been a director since March, 2005. Mr. van den Boog was appointed as an Executive Director with effect from April 29, 2008. The appointment is subject to the approval of our shareholders at the annual general meeting and also subject to approvals of the statutory authorities including the Central Government under Section 269 of the Indian Companies Act,and other applicable provisions. His duties and responsibilities will include full accountability for strategic, operational and financial results of the Company and such other duties as may be specified by the Board from time to time. He will be reporting directly to the Board. Mr. van den Boog has a Master s degree in Business Economics and in Public Accounting from the Free University in Amsterdam. Mr. van den Boog is an IT industry veteran with approximately 20 years experience in the software industry, as well as extensive experience in mergers and acquisitions, public offerings and private equity and venture capital fundings. Mr. van den Boog has supported a series of European and U.S. portfolio companies, in particular as a director of Global Collect B. V., Human inference B. V. and Purple Labs S. A. . Mr. van den Boog was previously with Oracle Corporation where he helped to build the European operations of the company. Mr. van den Boog is a former special advisor to General Atlantic. See Relationship with General Atlantic below. Mr. van den Boog will be an Executive Director of the Company until March 31, 2013 unless extended by the Board with the consent of Mr. van den Boog.

Mr. Gajendra K. Patni, Director, is one of the founders of our company. Mr. Patni has a Chemical Engineering background and has over 35 years of experience in finance, banking, legal and personnel functions. He has contributed significantly in the past to the growth of the computer rental business of our company, which led to the formation of PCS Data Products (PCSDP) in 1981, and PCS Data General (PCSDG) in 1987. These companies were merged to form what is now PCS Technology Limited in 1994. Mr. Patni is a Joint Managing Director of PCS Technology Limited. Previously he was the Managing Director of Industrial Oxygen Company Limited. Mr. Patni as a nominee of the GKP Group, is not required to retire by rotation.

Mr. Ashok K. Patni, Director, is one of the founders of our company. Mr. Patni is a Mechanical Engineer from IIT, Mumbai. Mr. Patni has over 22 years of experience in computer hardware and systems software. Mr. Patni has contributed significantly in the past to the growth of the hardware business of our company which led to the formation of PCSDP in 1981, and PCSDG in 1987. These companies were merged to form what is now PCS Technology Limited in 1994. He is a Joint Managing Director of PCS Technology Limited. Mr. Patni as a nominee of the AKP Group, is not required to retire by rotation.

Dr. Michael A. Cusumano has been a director since April, 2004. Dr. Cusumano has a B.A. degree from Princeton University and a PhD from Harvard University. Dr. Cusumano completed a postdoctoral fellowship in Production and Operations Management at the Harvard Business School. He has twice been a Fulbright Fellow as well as a Japan Foundation Fellow at the University of Tokyo, and is a recent recipient of the Clarendon Lectures in Management award at Oxford University. Dr. Cusumano is the Sloan Management Review Distinguished Professor at MIT s Sloan School of Management. He is also a director of Eliza Corporation, a specialist in speech recognition software applications, focused on healthcare. He serves on the advisory boards of FixStars Corp. , a Japanese developer of high-performance computing applications, and H-5 Technologies, a specialist in digital search technology. He has consulted for more than 50 major companies around the world and advises several other startup software companies. He is the author or co-author of eight books. Dr. Cusumano s term of office expires in 2010 but he is eligible for reappointment.

Mr. Arun Duggal has been a director since November, 2003. Mr. Duggal has a Bachelor s degree in Mechanical Engineering from IIT, Delhi, and a post graduate diploma in management from IIM, Ahmedabad. Mr. Duggal is an experienced international Banker advising Corporations on Financial Strategy, M&A and Capital Raising areas. He has been an International Advisor to a number of Corporations, major Financial Institutions and Private Equity firms.

He is Chairman of Board of Directors of Shriram Transport Finance Company, Shriram Properties Ltd, Shriram City Union Finance Ltd., and Shriram EPC Limited. He is a Chairman and CEO of Tanglewood Financial Advisors (P) Limited and Balckstone Investment Company (P) Limited. He is the Vice Chairman of International Asset Reconstruction Company.

He is on the Board of Directors of Jubilant Energy Limited, Fidelity Fund Management, Petronet LNG (Nominee Director of Asian Development Bank), Manipal Acunova Limited, Zuari Industries, Info Edge (India), Dish TV India Limited., Mundra Port & SEZ Limited, The Bellwether Microfinance Fund, and Hertz (India). In addition, Mr. Duggal is a former special advisor to General Atlantic. See Relationship with General Atlantic below. Mr. Duggal s term of office expires in 2008, but he is eligible for reappointment.

Mr. William O. Grabe has been a director since September, 2002. Mr. Grabe has a BS degree in Engineering from New York University and an MBA from the University of California, Los Angeles. Since 1992, Mr. Grabe has been a managing director at General Atlantic LLC, a worldwide private equity firm. Prior to that, he was a Vice President of IBM and held various positions, the last of which was head, North America Sales and Marketing. He is a Director of various companies including Compuware Corporation, Gartner, Infotech Enterprises Limited and Lenovo Group Company. General Atlantic is one of our principal shareholders, with a shareholding of 16.48%. See Item 7. Major Shareholders and Related Party Transactions and Relationship with General Atlantic below. Mr. Grabe s term of office expires in 2008, but he is eligible for reappointment.

Mr. Arun Maira has been a director since June, 2006. Mr. Maira received his bachelors and masters degrees in Physics from St. Stephen s College, Delhi University. He worked for 25 years in several senior positions in the Tata Group, India s premier industrial conglomerate. Prior to joining Boston Consulting Group in India, he worked in the USA with Arthur D. Little, the international consulting company, for 10 years where he served as Leader of its Global Organisation Practice and Managing Director of Innovation Associates, its subsidiary. Mr. Maira s term of office expires in 2009, but he is eligible for reappointment.

Mr. Pradip Shah has been a director since November, 2003. Mr. Shah is a Chartered Accountant, has an MBA from the Harvard Graduate School of Business and a degree from The Institute of Cost and Works Accountants of India. Mr. Shah was responsible for introducing credit ratings in India and is a founder of CRISIL Limited. Mr. Shah is currently the Chairman of the Board at IndAsia Fund Advisors Private Limited. His directorships in other companies include AMP IndAsia Fund Advisors (Mauritius) Limited, Asset Reconstruction Company (India) Limited, BASF

India Limited, Godrej & Boyce Mfg Limited, Hardy Oil & Gas Limited, IndAsia Fund Advisors Private Limited, Kansai Nerolac Paints Limited, Mukand Limited, Panasonic Battery India Limited Co. Limited, Pfizer Limited, Shah Foods Limited, Sonata Software Limited, Supra Advisors (BVI) Limited (British Virgin Islands), Wartsila India Limited, Grindwell Norton Limited and Vakrangee Softwares Limited, Wockhardt Hospitals Limited. Mr. Shah s term of office expires in 2009, but he is eligible for reappointment.

Mr. Ramesh Venkateswaran has been a director since November, 2003. Mr. Venkateswaran has a Bachelor s degree in Mechanical Engineering from IIT, Mumbai and a post graduate diploma in management from IIM, Bangalore. Mr. Venkateswaran is a Management Consultant and is currently the Managing Director of Almak Management Services Private Limited. He is a visiting professor of Marketing at the Indian Institute of

Management, Bangalore. He is also a founder member of a non profit organization, Vishwas. Mr. Venkateswaran s term of office expires in 2010, but he is eligible for reappointment.

For more information on our Board of Directors, please see Item 10.B. Additional Information Board of Directors.

Mr. Russell Boekenkroeger is our Executive Vice President and has been with Patni for four years. Mr. Boekenkroeger has a Bachelor s degree in Government from Franklin & Marshall College, a Master s degree in Urban and Regional Planning and a Master s degree in Civil Engineering from the University of Pittsburgh. He is responsible for the Regional Operations of the U.S. and for merger & acquisition activities. Additionally, he oversees the Product Engineering Services business unit besides the Engineering Services center of excellence. He has over 25 years of experience in managing large global product development organizations, shared services operations, international business and product marketing while serving in a variety of executive management positions at Computervision, Prime Computer and PTC. He has also served as an advisor to companies from a wide range of industries around the world, on business and technology matters.

Mr. Neeraj Gupta, is our Executive Vice-President and with effect from June 2008 has been appointed as Global Head of Sales and Marketing and has been with Patni since November 2004. Mr. Gupta has a Bachelor s degree in Electronics & Communications Engineering from Punjab Engineering College, India and a Master s degree in Electrical Engineering from the University of Alabama, USA. His responsibilities includes overseeing the Sales and Marketing operations ,Telecom and Growth Industry business units. Mr. Gupta has had over 15 years of proven leadership experience, including managing product management, professional services and engineering teams at various leading technology companies including Octel Communications, Lucent Technologies, Genesys Telecom, and Alcatel. Previously, he was Chief Executive Officer of Patni Telecom (formerly Cymbal), a US- based IT services Company, which he led from start-up to successful exit.

Mr. Satish M. Joshi is our Executive Vice President and Chief Technology Officer and he has been with Patni for 25 years. Mr. Joshi has a Bachelor s degree in Electrical Engineering and a Master s degree in Computer Science from IIT, Mumbai. His responsibilities include supervision of the Manufacturing business unit and all horizontal business units, namely BPO, Enterprise Application Solutions and Infrastructure Management Services. He also oversees several corporate shared services departments, namely Products and Technology Initiatives, Quality Processes & Delivery Innovation, and IT Infrastructure Management, besides the IT Governance center of excellence. Prior to Patni, Mr. Joshi worked with the Tata Institute of Fundamental Research in areas such as concurrent programming languages, storage techniques for large databases, compiler optimization and data communication networks.

Mr. Vijay P. Khare is our Executive Vice President and Patni s Chief Administrative Officer (CAO) and Chief Delivery Officer (CDO) and he has been employed with Patni for 27 years. Mr. Khare has a Bachelor s degree in Engineering from the Regional Engineering College, Nagpur and a Masters degree in Computer Science from IIT, Mumbai His responsibilities include top level control of key operation metrics across the organization and global delivery coordination. He additionally has responsibility for Centers of Excellence namely Verification & Validation, Business

Intelligence and Database Administration; besides that for Quality Assurance; Human Resources; CIO; Patni Academy for Competency Enhancement; and the Global Resource Pool. Mr. Khare began his career with Patni in 1980. During his initial years, he worked on several projects in areas like distribution, manufacturing, and office automation in technologies ranging from Data General to Unix and IBM. He was later involved in the customer relationship management of several accounts including Data General, Waterland BV, and RBS. He managed the General Electric relationship from 1995 to 2000.

Mr. Mrinal R. Sattawala is our Advisor with effect from June 2008. Prior to this, he was designated as our Chief Operating Officer and Global Sales and Marketing Coordinator and has been with Patni for 20 years. As the Chief Operating Officer, he was directly responsible for the Sales and Operations of the Europe and APAC regions, besides overseeing Global Sales & Marketing, and the Insurance and Financial Services business units until May 2008 ..
Mr. Sattawala is an electrical engineer from IIT, Mumbai, and he also received his MBA in 1979 from MacMaster University, Canada. Mr. Sattawala has over 26 years of experience in

the IT industry. Prior to Patni, Mr. Sattawala worked with Computer Maintenance Corporation and the ICI group of companies in India.

Mr. Surjeet Singh is our Chief Financial Officer (CFO). Before his appointment as CFO in 2006, he headed the Mergers & Acquisitions function and prior to this, he was the CFO at Cymbal which he co-founded and which has since been acquired by Patni. His responsibilities include managing global financial operations, corporate finance, treasury, global reporting and international taxation, financial and business planning, and enterprise-wide risk management. Mr. Singh has around two decades of multi-industry global experience in senior management roles at leading finance, business planning and global supply chain functions. He has a successful track record of building finance as a key business enabler, fostering collaboration in large and mid-sized culturally diverse, global and matrixed organizations. Mr. Singh holds a B.S. in Finance and Accounting from the University of Pune and is a fellow of the Institute of Costs and Works Accountants, India and AICPA, USA.

Mr. Brian Stones is our Executive Vice President appointed during 2007. with responsibilities for Patni s operations in the European region. He has over 28 years international business experience and has held leadership positions in organizations in the United States and Europe. Prior to joining Patni, Mr. Stones was responsible for ACS Inc s business operation in Europe, and was formerly a Senior Partner at Ernst & Young, most notably as the Leader of the Global Client Consulting business in Europe. Mr. Stones has a very successful track record in direct and indirect sales, global account management and general business management in IT services, consulting and outsourcing. Mr. Stones has honours degrees in Economics and Business Science.

Mr. Rajesh Padmanabhan is our Executive Vice-President appointed during the year2007 with the responsibility of spearheading Patni s human capital initiatives globally including the strategic direction and focus for employee management. He has over 22 years of diverse industry experience in systems, finance, business and global human resources in IT, hospitality, financial services and manufacturing. He is well-versed with global HR operations and has managed multi-cultural work forces in a few countries. Prior to joining Patni, Mr. Padmanabhan was the Executive Vice-President with the Oberoi group responsible for group human resources and the Oberoi Centre for learning and development. He has also worked as Global Head of Human Capital for Essel Propack and with the ICICI group in different roles in systems, corporate banking, leasing and human resources. With his Master s degrees in management specializing in human resources and finance, he brings a fine mix of business and human resources background, which is critical and strategic in maximizing human capital output.

6.B. Compensation

During fiscal 2007, the aggregate annual compensation paid or payable by us and our subsidiaries to our executive directors and executive officers was approximately $ 7,005,659 ; including Mr. N. K. Patni $ 912,841; Mr. G. K. Patni Rs. 57,387,560. ($ 1,388,490); Mr. A. K. Patni Rs. 56,523,220 ($ 1,367,578); Mr. Russel Boekenkroeger $ 457,417 ; Mr. Neeraj Gupta $ 456,750 ; Mr. S. M. Joshi Rs.7,703,506 ($186,390); Mr. V. P. Khare Rs .8,767,102 ($212,124); Mr Brian Stones - $ 467,825 ; Mr. Mrinal Sattawala $ 715,760, Mr Rajesh Padmanabhan - Rs.5,653,162 ($ 136,781) and Mr. Surjeet Singh- $ 703,703. In addition to receiving annual base compensation, some members of our executive management, under Indian laws and regulations, are eligible for grants under the Employee Stock Option Plan (described below).

Our independent directors on the board are each entitled to $40,000 annually in addition to actual boarding and lodging expenses and sitting fees for attending board and committee meetings.

In addition to abovementioned commission, following are entitled for an annual commission as under:

a) The Chairman of the Audit Committee: $10,000 per annum

b) Members of the Audit Committee: $5,000 per annum

c) The Chairman of Compensation & remuneration Committee: $ 5,000 per annum

d) The Chairman of Shareholders and Investors Grievance Committee: $5,000 per annum.

Mr. van den Boog as an Executive Director with effect from April 29, 2008, subject to shareholders approval, is eligible for an annual consolidated salary in Indian Rupees equivalent to $1,250,000 per annum payable monthly. In addition, he will receive a sign-on-bonus of Indian Rupees equivalent to $150,000 within 14 days from the date of his effective appointment. He will also be entitled to a maximum of 96,000 Restricted Stock Units, or RSUs (options issued at par value at Rs 2/- per share), under Patni ESOP 2003 (Revised 2006) at a purchase price equal to the par value of per share of the company s common stock. The options shall vest annually over a period of four years in equal installments of 25% every year from the grant date. The Compensation and Remuneration Committee may, in its absolute discretion, vest in him all the unvested options after expiration of 12 months from the grant date and may allow him to exercise both vested and unvested options at any time after expiration of 12 months from the grant date.

Service Agreements

Mr. Narendra K. Patni is our Chairman and Chief Executive Officer (CEO). He is also the President and Chief Executive Officer of Patni Americas Inc. (formerly Patni Computer Systems, Inc.), our U.S. subsidiary, pursuant to an employment agreement with Patni Computer Systems, Inc. dated December 1, 2000, and as amended on August 29, 2003. The employment agreement has an initial term until December 31, 2008. Mr. Patni s annual base salary under the agreement is $500,000 for the first year of the initial term, after which time it is increased by 10% of the then current annual base salary per year. Mr. Patni does not receive a separate fee for attending board meetings. The agreement may be extended after the initial term at Mr. Patni s option, on terms and conditions at least as favorable or as are otherwise mutually agreed between Mr. Patni and the Board of Directors. The agreement can be terminated by the Board of Directors only after the initial term expires. In the event of termination, Mr. Patni is entitled to a lump sum severance payment equal to five times his then most recent annual base salary.

We had entered into a consultancy agreement with Patni Americas Inc (formerly Patni Computer Systems, Inc.) dated October 24, 2000, and as amended on August 19, 2003, pursuant to which Mr. Narendra K. Patni has been seconded to us to act as our Chairman and CEO. Our Articles provide that as long as our consultancy agreement with Patni Americas Inc. is in effect, Mr. Narendra K. Patni shall continue to be the CEO of the Company. In addition, our Articles of Association also provide that so long as Mr. Narendra K. Patni is the CEO, he has the right to appoint and remove all of our key senior personnel and senior management following consultation with General Atlantic. Our Board of Directors has approved the extension of the consultancy agreement to December 31, 2010.

We had entered into employment agreements with each of Mr. Gajendra K. Patni and Mr. Ashok K. Patni to be appointed as executive director on terms similar to those of Mr. Narendra K Patni. Each agreement had an initial term which expired on October 23, 2005. Our Board of Directors had resolved that, in accordance with our Articles and subject to the provisions of the Indian Companies Act and approval of our shareholders, to reappoint each of Mr. Gajendra K. Patni and Mr. Ashok K. Patni as our executive directors for a further period of five years commencing October 24, 2005. Our shareholders at the Annual General Meeting held on June 21, 2006 approved these re-appointments for a further period of five years beginning October 24, 2005. Under the terms of the extended agreements, the executive directors are entitled to an annual base compensation of Rs. 9,663,060 ($215,021) per annum from October 2005, which amount is subject to an upward adjustment of 10% of the previous year s salary. The executive directors are also entitled to medical insurance, allowances for housing, travel and leave and pension and retirement benefits. They do not receive any separate fees for attending board meetings. Subject to our Articles and the provisions of the Indian Companies Act, in the event of termination, each agreement provides that the executive director shall receive a lump sum severance payment equal to five times the annual salary plus house rent allowance.

During the year, our Board of Directors designated each of Mr.G. K. Patni and Mr.A K Patni as the Founder Director of the Company to act in a non-executive capacity with effect from October 2, 2007. Consequently, Mr. G. K. Patni & Mr. A. K. Patni ceased to be the executive directors of the Company with effect from October 2, 2007. Termination benefits payment as provided in the contract of employment, amounting to, $1,124,686 and $1,113,023, were paid to Mr. G. K. Patni and Mr. A. K. Patni, respectively

Mr. Louis T. van den Boog was appointed as an Executive Director with effect from April 29, 2008. The appointment is subject to the approval of our shareholders at the annual general meeting and also subject to approvals of the statutory authorities including the Central Government under Section 269 of the Indian Companies Act,and other applicable provisions.Mr. van den Boog will be an Executive Director of the Company until March 31, 2013 unless extended by the Board with the consent of Mr. van den Boog. See Item 6B Compensation .

Relationship with General Atlantic

Our largest shareholder is General Atlantic Mauritius Limited, a Mauritius company formed by General Atlantic LLC, or General Atlantic, for purposes of this section. General Atlantic is a private equity firm that focuses on the information technology, process outsourcing and communications industries.

One of our directors, Mr. William O. Grabe, has been a managing director of General Atlantic since 1992. In addition, Mr. Arun Duggal and Mr. Louis T. van den Boog were the former special advisors to General Atlantic. Special advisors are persons with industry and/or geographic expertise that provide, on a part-time basis, a range of advisory services to General Atlantic in different parts of the world. These services range from identifying new investment opportunities to assisting in the preparation of investment proposals, serving on the boards of portfolio companies and providing strategic advice to such portfolio companies. Special advisors are not directors, managing directors, general partners, executive officers or employees of General Atlantic or any of its affiliates, and do not have any other formal association with General Atlantic, except that they enter into consulting agreements with General Atlantic under which they receive a cash retainer and/or are granted the right to co-invest in one or more of the General Atlantic investment vehicles.

Mr. Arun Duggal served as a special advisor from October 2003 to December 2005. He received an annual cash retainer of $150,000 and had the right to invest as a limited partner in various General Atlantic investment vehicles.

Mr. Louis T. van den Boog served as a special advisor from 1996 to 2004. Pursuant to past co-investment rights, Mr Louis T. van den Boog invested in various General Atlantic investment vehicles, including one that is an investor in General Atlantic Mauritius Limited, as a result of which he has an approximate 0.2% ownership interest in General Atlantic Mauritius Limited. General Atlantic loaned certain amounts to Mr Louis T. van den Boog for purposes of such investments, of which the amount outstanding was repaid in 2007.

We have no financial or other obligations in respect of the status of Mr. Duggal or Mr. van den Boog, former special advisors, and General Atlantic has informed us that no compensation, loans or investment opportunities provided to these individuals are related in any way to our operating or financial performance or the value of our equity shares or ADSs.

Provident Fund

All of our eligible employees receive provident fund benefits through a defined contribution plan in which both the employee and employer make monthly contributions to the plan at the rate of 12% each of the covered employee s defined portion of salary. We have no further obligations under the plan beyond the monthly contribution. We contribute to the Provident Fund Plan maintained by the Government of India. We contributed $2,613,644 , $3,895,116 and $ 4,145,932 to the Provident Fund Plan in 2005, 2006 and 2007.

Benefits

In 2007, we provided approximately $0.8 million for pension, retirement or similar benefits to our directors and executive officers.

Options

Set forth below is information concerning options granted to directors and executive officers. The term of stock options granted to our directors and executive officers will expire on completion of five years from the date of vesting. As of March 31, 2008, our directors and executive officers as a group (directly and indirectly) were granted options under our Employee Stock Option Plan to exercise 1,535,600 equity linked options and 25,000 ADR linked options representing less than 1% of our share capital on the following terms:

Name	Exercise Price Per Share	Number of Shares under Option	Expiration Date
Dr. M. Cusumano	Rs. 254/381/458/455	20,000/5,000/5,000/5,000(1)	2010/2011/2012/2013(1)
Mr. A. Duggal	Rs. 254/381/458/455	20,000/5,000/5,000/5,000(1)	2010/2011/2012/2013(1)
Mr. P. Shah	Rs. 254/381/458/455	20,000/5,000/5,000/5,000(1)	2010/2011/2012/2013(1)
Mr. L. van den Boog	Rs. 381/ 458/455	20,000/5,000/5,000(2)	2011/2012/2013(1)
Mr. R. Venkateswaran	Rs. 254/381/458/455	20,000/5,000/5,000/5,000(1)	2010/2011/2012/2013(1)
Mr. S. Joshi	Rs. 145/338	62,000/100,000(3)	2009/2010(3)
Mr. V. Khare	Rs. 145/338	63,300/100,000(3)	2009/2010(3)
Mr. M. Sattawala	Rs. 145/338/376	58,300(3)/100,000(3)/350,000(4)	2009(3)/2010(3)/2012(4)
Mr. R. Boekenkroeger	Rs. 145/458	50,000/100,000(5)	2009/2012(5)
Mr. N. Gupta	Rs. 451/493/385	24,000/11,000/150,000(6)	2011/2012/2012(6)
Mr. S. Singh	Rs. 451/493/336	11,000/11,000/1,50,000(7)	2011/2012/2012(7)
Mr. Arun Maira	Rs. 336/455	20,000/5,000(7)	2011/2013(8)
Mr Brian Stones	$ 15.09	25,000	2013(9)

(1) Options will vest in four equal instalments, i.e. 25% each year, and expiry date in respect of the four grants will be from 2010 to 2013, 2011 to 2014, 2012 to 2015 and 2013 to 2016, respectively.

(2) Options will vest in four equal instalments, i.e. 25% each year, and expiry date in respect of two grants will be from 2011 to 2014, 2012 to 2015 and 2013 to 2016, respectively.

(3) Options will vest in four equal instalments, i.e. 25% each year, and expiry date in respect of the two grants will be from 2009 to 2012 and 2010 to 2013, respectively.

(4) Out of 350,000 options granted in May 2006, 150,000 options will vest in four equal installments i.e. 25% each year, and expiry date will be 2012 to 2015. The balance 200,000 options granted in May 2006 will vest in four years depending upon the performance. Out of these, 70,000 options have been vested as on May 31, 2008. These options will expire at the end of five years from the date of vesting.

(5) Options will vest in four equal instalments, i.e. 25% each year, and expiry date in respect of two grants will be from 2009 to 2012 and 2012 to 2015, respectively.

(6) Options will vest in four equal instalments, i.e. 25% each year, and expiry date in respect of the first grant will be from 2011 to 2014 and for the balance two grants expiry date will be from 2012 to 2015.

(7) Options will vest in four equal instalments, i.e. 25% each year, and expiry date in respect of the first grant will be from 2011 to 2014 and for the balance two grants will be from 2012 to 2015.

(8) Options will vest in four equal instalments, i.e. 25% each year, and expiry date in respect of two grants will be from 2012 to 2015 and 2013 to 2016, respectively.

(9) Options will vest in four equal instalments, i.e. 25% each year, and expiry date in respect of the grants will be from 2013 to 2016.

6.C. Board Practices

Board Composition

As per the provisions of the Articles of Association of the Company, our Board shall be comprised of not less than three directors and not more than ten directors. Accordingly, our current strength of the Board is ten directors. Further our Articles of Association also provides that Mr. Narendra K. Patni, Mr. Gajendra K. Patni and Mr. Ashok K. Patni, being nominees of the NKP Group, GKP Group and AKP Group respectively, are permanent directors of the Company.

Pursuant to the provisions of the Articles of Association, two third of our total Board of Directors of the Company will retire by rotation but they are eligible for reappointment. Out of this two-third, one-third will be retiring at every Annual General Meeting but being eligible for re-election can be reappointed at such AGM. Accordingly, Dr. Michael A. Cusumano s term of office expires in 2010, but he is eligible for reappointment. Mr. Arun Duggal s term of office expires in 2008, but he is eligible for reappointment. Mr. William O. Grabe s term of office expires in 2008, but he is eligible for reappointment. Mr. Pradip Shah s term of office expires in 2009, but he is eligible for reappointment. Mr. Ramesh Venkateswaran s term of office expires in 2010, but he is eligible for reappointment. Mr. Arun Maira s term of office expires in 2009, but he is eligible for reappointment. Mr. Louis T. van den Boog will be an Executive Director with us until March 31, 2013 unless extended by the Board with the consent of Mr. Louis T. van den Boog. For information regarding our board, see Item 6.B. Compensation - Service Agreements above and Item 10.B. Additional Information Board of Directors.

Board Committees

Audit Committee

The Audit committee comprises Mr. Arun Duggal (Chairman), Mr. Pradip Shah and Mr. Ramesh Venkateswaran. Mr. Louis T. van den Boog ceased to be Audit Committee Member with effect from April 29, 2008 and the Board appointed Mr. Ramesh Venkateswaran as a member of the Audit Committee. The primary objective of the Audit Committee is to monitor and provide effective supervision of our financial reporting process with a view towards ensuring accurate, timely and proper disclosures and the transparency, integrity and quality of financial reporting. Our Audit Committee oversees the work carried out in the financial reporting process by our management, including the internal auditors and reviews the processes and safeguards employed by each. In addition our Audit Committee has the responsibility of oversight and supervision over our system of internal control over financial reporting, audit process, and process for monitoring the compliance with related laws and regulations. The Audit Committee recommends to our Board of Directors the appointment, reappointment and if required the replacement or removal of our independent auditors and fixation of audit and non-audit fees.

Compensation and Remuneration Committee

The Compensation and Remuneration Committee comprises Mr. Ramesh Venkateswaran (Chairman), Dr. Michael Cusumano (Member), Mr. Arun Maira (Member) and Mr. Narendra K. Patni (Permanent invitee). The Committee has overall responsibility for approving and evaluating compensation plans, policies and programs of the CEO and senior management of the company. The committee shall make recommendations to the Board on Stock Option plans for all employees. The committee shall also facilitate the recommendation of compensation for Board members.

Shareholder and Investor Grievances Committee

The Shareholder and Investor Grievances Committee comprises Mr. Ramesh Venkateswaran (Chairman), Mr. Arun Maira, Mr. Louis T. van den Boog and Mr. William O. Grabe (Mr. Abhay Havaldar being the Alternate Director to him). The Shareholder and Investor Grievances

Committee looks into redressal of shareholder and investor complaints, issue of duplicate/split/consolidated share certificates, if any.

Nominating & Governance Committee

The Nominating & Governance Committee comprises Mr. Ramesh Venkateswaran, Dr. Michael Cusumano and Mr. Arun Maira. The Committee was constituted, inter alia, to develop and recommend to the Board a set of corporate governance guidelines applicable to the Company and to facilitate the evaluation of the Board and its committees..

6.D. Employees

For a description of our employees, see Item 4.B. Information on the Company Business Overview - Human Resources.

6.E. Share ownership

For the total number of equity shares, ADSs and options to purchase equity shares and ADSs for each director and executive officer as of May 9, 2008, see Item 7. Major Shareholders and Related Party Transactions and Item 6.B. Directors, Senior Management and Employess - Compensation Options .

Employee Stock Option Plan

On June 30, 2003, our shareholders approved an employee stock option plan, which was later ratified after our initial public offering in India by our shareholders at the annual general meeting on June 29, 2004. Under the plan, we may issue up to 11,142,085 equity shares of Rs.2 each to our eligible employees and directors and those of our subsidiaries. The plan is administered by the Compensation and Remuneration Committee of our Board of Directors. As of May 31, 2008, options to purchase 5,721,538 equity shares were outstanding.

Details regarding various grants to employees and directors are mentioned in the below table.

Description of Grant	No. of options granted (including ADR)	No. of options Vested	Shares allotted pursuant to exercise up to May 31 2008
Grant as on September 1, 2003 to employees	2,743,400	2,743,400	1,671,699
Grant as on July 1, 2004 to certain of our directors	100,000	75,000	10,000
Grant as on October 1, 2004 to employees	2,750,632	2,062,974	221,999
Grant as on April 1, 2005 to employees and directors	190,000	142,500	500
Grant as on October 1, 2005 to employees	670,710	335,355	2,942
Grant as on January 2, 2006 to employees	288,000	144,000	
Grant as on April 1, 2006 to employees and directors	345,000	172,500	
Grant as on May 5, 2006 to employee	350,000 (1)	145,000	
Grant as on Ju1y 1, 2006 to employees and directors	170,000	42,500	5,000
Grant as on October 3, 2006 to employees	840,750	210,188	
Grant as on April 2, 2007 to employees	356,000(2)	89,000	
Grant as on April 24, 2007 to directors	30,000	7,500	
Grant as on November 26, 2007 to employees	25,000(3)		
Grant as on January 3, 2008 to employees	686,400		
Grant as on January 3, 2008 to employees	181,550(3)		

(1) Includes 200,000 performance linked options granted to Mr. Mrinal Sattawala.70,000 performance linked options were vested as of December 31, 2007

(2) Includes 129,000 ADR Linked Options

(3) ADR Linked Options

On April 25, 2006, our Board, subject to the approval of our shareholders, recommended the amendment of our plan to provide an option to the Company to grant ADR-linked stock options to enable certain employees outside India to acquire ADSs upon exercise of the option. The shareholders of the Company at the annual general meeting held on June 21, 2006 have approved the said amendment to the Patni ESOP 2003 to enable the Company to issue up to 2,000,000 ADR linked options to the employees of the Company as well as its subsidiaries. Accordingly, the amended plan, i.e., Patni ESOP 2003- Revised 2006 has come into force with effect from June 21, 2006.

All options have been granted with an exercise price equal to the fair market value of the equity shares on the date of grant of the option. All of the options we have granted vest in four equal annual installments beginning one year from the date of grant. The options have a term of five years from the date of vesting during which they can be exercised.

As the abovementioned options were issued on market prices, the recent fall in the market prices in general and the information technology companies shares in particular, the options granted to the employees have become less beneficial to our employees. In order to motivate the employees of the company (including executive and non-executive directors of the company and its subsidiaries but excluding the promoter directors of the company and its subsidiaries) to perform better, it is proposed by our Board of Directors to modify the option terms by reducing the number of options granted and reducing the exercise price to Rs. 2/- per share. This proposal requires the approval of the shareholders through a special resolution in the ensuing Annual General Meeting to be held on June 26, 2008.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7.A. Major shareholders

The following table provides information relating to the beneficial ownership of our equity shares (directly or in the form of ADSs) as of May 31, 2008 by:

- each of our directors and executive officers;
- all of our directors and executive officers as a group; and
- each person or group of affiliated persons who is known by us to own beneficially 5% or more of our equity shares.

Beneficial ownership is determined in accordance with the rules of the U.S. Securities and Exchange Commission. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, equity shares subject to options or warrants held by that person that are currently exercisable, or will become exercisable within 60 days are deemed outstanding, while the shares are not deemed outstanding for purposed of computing percentage ownership of any other person. Unless otherwise indicated in the footnotes below, the persons and entities named in the table have sole voting or investment power with respect to all shares beneficially owned, subject to community property laws where applicable.

The number and percentage of shares beneficially owned are based on 139,060,689 equity shares outstanding as of May 31, 2008

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Directors and Executive Officers	Number of Equity Shares	% of outstanding equity shares
Mr. Narendra K. Patni(1)	20,364,198	14.64
Mr. Gajendra K. Patni(2)	19,994,302	14. 38
Mr. Ashok K. Patni(3)	20,614,302	14. 82
Mr. Louis T. van den Boog(5)	48,002	0.04
Mr. Mrinal R. Sattawala(6)	58,350	0.04
Mr Surjeet Singh (8)	10,000	0.01
Mr. Satish M. Joshi	17,800	0.01
All Directors and Executive Officers as a Group	**61,106,954**	**43.94**
5% Shareholders		
General Atlantic Mauritius Limited(4)	22,913,949	16.48
HSBC(7)	10,848,996	7.80
Total	**94,869,,899**	**68.22**

(1) Includes equity shares held by Mr. Narendra K. Patni and his relatives and entities controlled by them including iSolutions Inc., a Massachusetts corporation wholly-owned by Mrs. Poonam Patni, Mr. Narendra K. Patni s wife, and Mr. Anirudh Patni, Mr. Narendra K. Patni s son.

(2) Includes equity shares held by Mr. Gajendra K. Patni and his family members and entities controlled by them.

(3) Includes equity shares held by Mr. Ashok K. Patni and his family members and entities controlled by them.

(4) Includes 20,161,868 ADSs representing 20,161,868 equity shares held by The Bank of New York as depositary. General Atlantic Mauritius Limited, or General Atlantic, owns 2,752,081 our equity shares directly (after the ADS offering) and 20,161,868 ADSs, each one of which represents one equity share. General Atlantic GenPar (Mauritius) Limited, or GenPar, controls the management of General Atlantic by virtue of ownership of a majority of its voting shares. General Atlantic LLC owns all the shares of GenPar.

(5) Mr. van den Boog s shareholding was acquired through previous co-investment rights in which Mr. van den Boog invested in various General Atlantic LLC investment vehicles, including one that is an investor in General Atlantic Mauritius Limited, as a result of which he has an approximate 0.2% ownership interest in General Atlantic Mauritius Limited.

(6) Includes 58,300 underlying shares represented by 29,150 ADRs held by Mr. Mrinal Sattawala.

(7) Includes 8,288,428 equity shares held by HSBC Global Investment Fund A/c HSBC Global Investment Funds Mauritius Limited, 1,497,568 equity shares held by The Master Trust Bank of Japan, Ltd. A/c HSBC Indian Equity

Mother Fund, 1,063,000 equity shares held by HSBC Global Investment Funds A/c HSBC Global Investment Funds Bric Freestyle.

(8) Includes 10,000 underlying shares represented by 5,000 ADRs held by Mr. Surjeet Singh.

As otherwise stated above and to the best of our knowledge, we are not owned or controlled directly or indirectly by any government or by any other corporation or by any other natural or legal persons. We are not aware of any arrangement, the consummation of which may at a subsequent date, result in a change in our control.

As of May 31, 2008, approximately 99.73% of our equity shares were held in the names of 43,799 record holders with registered addresses in India. As of May 31, 2008, there were 10 U.S. holders of record with registered addresses in the U.S. who accounted for less than 0.02% of our equity shares.

7.B. Related party transactions

Patni Family Companies

We enter into various transactions from time to time in the ordinary course of our business with several companies in which certain of our directors, Mr. Narendra K. Patni, Mr. Gajendra K. Patni and Mr. Ashok K. Patni, are directors and in which they and members of their families have substantial shareholdings. Such transactions were consummated on terms we believe are equivalent to those that prevail in arm s-length transactions. Mr. Narendra K. Patni does not have any management responsibilities in any of these companies. These companies are:

- PCS Technology Limited, or PCSTL, which manufactures computer hardware products and also offers hardware maintenance services.

- PCS Cullinet Private Limited, which owns and manages listed and unlisted shares and units and real estate.

- PCS Finance Private Limited, which owns and manages listed and unlisted shares and units and real estate.

- Ashoka Computer Systems Private Limited, which owns and manages listed and unlisted shares and units and real estate.

These transactions have comprised the following:

- operating lease payments for residential and commercial property from these companies and the relatives of our founders, amounting to $266,325, $127,748 and $ 93,725 for the years ended December 31, 2005, 2006 and 2007; and

- security deposits paid by us for operating leases, with amounts outstanding totaling $251,569, $107,203 and $ 120,478 for the years ended December 31, 2005, 2006 and 2007.

We do not believe that any of these transactions, individually or in the aggregate, have a material effect on our business as a whole.

Pursuant to a resolution of our Board of Directors on August 26, 2005, we have determined that we will no longer enter into any transactions for the purchase and sale of hardware with any of Mr. Narendra K. Patni, Mr. Gajendra K. Patni, Mr. Ashok K. Patni or their respective relatives or any affiliate of any of Mr. Narendra K. Patni, Mr. Gajendra K. Patni, Mr. Ashok K. Patni or their respective relatives, who are together referred to as the Patni Family , or any company or entity owned or controlled by any member of the Patni Family.

In addition, our Audit Committee will, on an ongoing basis, review the terms of all operating leases entered into between us and any member of the Patni Family or with any company or entity owned or controlled by any member of the Patni Family, and will inform management whether or not all such operating leases and related arrangements, including payment of security deposits, are for bona fide business purposes and at prevailing market rates; and management will take all steps to ensure that such operating leases are for bona fide business purposes and at prevailing market rates.

Consultancy Agreement

We have entered into a consultancy agreement with Patni Americas Inc. (formerly known as Patni Computer Systems, Inc)., our U.S. subsidiary, for, among other things, the secondment of Mr. Narendra K. Patni. See Item 6. B. Directors, Senior Management and Employees Service Agreements.

Donations

We have given donations to the Ravindra Patni Charitable Trust, in which our director Mr. Gajendra K. Patni is one of the trustees, totaling $56,699 for the year ended December 31, 2005. However, pursuant to a resolution of our Board of Directors on August 26, 2005, we have determined that we will not make any future donations to the Ravindra Patni Charitable Trust or any other trust or similar entity owned or controlled by any member of the Patni Family or any trust or similar entity in which a member of the Patni Family is a trustee. The restriction will not apply to any trust set up by us, the majority of whose trustees are independent trustees, including independent of any member of the Patni Family, and the investments in, and activities of, any such trust are reviewed on an on-going basis by our Board of Directors.

Deposit Agreement

We have entered into a deposit agreement with The Bank of New York, or the depositary, and the owners of and beneficial owners of ADSs dated July 15, 2002, pursuant to which we have deposited 20,161,868 equity shares with the depositary. The depositary has executed and delivered to General Atlantic 20,161,868 ADSs representing such equity shares. The holders of ADSs can, at any time, convert their ADSs into equity shares. Under the deposit agreement, we have agreed to pay the fees, reasonable expenses and out-of-pocket charges of the depositary in accordance with agreements entered into in writing between us and the depositary from time to time. ADSs issued under this deposit agreement may, when General Atlantic wishes to sell ADSs, be exchanged, subject to applicable laws, for ADSs under the deposit agreement, which ADSs may be sold subject to applicable securities laws.

We have also entered into a deposit agreement with The Bank of New York, or the depositary, and the owners and holders of ADRs dated December 7, 2005 for deposit of equity shares of the Company from time to time with the depositary or with the Custodian as agent of the depositary for the purposes set forth in this Deposit Agreement, for the creation of ADSs representing the equity shares so deposited and for the execution and delivery of ADRs evidencing the ADSs. Each ADS represents two (2) equity shares.

Registration Rights Agreement

We have entered into a registration rights agreement with General Atlantic, certain General Electric entities, Mr. Ashok K. Patni, Mr. Gajendra K. Patni and certain of their relatives, Mr. Narendra K. Patni and iSolutions Inc. dated July 15, 2002. This agreement grants rights with respect to registration of our equity shares under the Securities Act, certain provisions of which are summarized below. Subject to limitations provided in the registration rights agreement and in lock-up agreements that certain of these shareholders have signed, these shareholders have demand registration rights and may also require us to file an unlimited number of registration statements on Form F-3 (or the equivalent) under the Securities Act when such form is available for our use.

If we propose to register our securities under the Securities Act, these shareholders will be entitled to notice of the registration and to include their shares in the registration provided that the underwriters of that offering will have the right to limit the number of their shares included in the registration. We are required to pay all expenses arising from or incident to our performance of, or compliance with, the registration rights agreement, other than any underwriters discounts and commissions. In addition, we are required to bear the fees, disbursements and other charges of one counsel to these shareholders in connection with any registration in an amount not exceeding $50,000 for the first such registration and $15,000 for any subsequent registration.

Loans

We grant personal loans to employees who are not executive officers. These loans are repayable in equal installments over periods ranging from six to 60 months. Interest on these loans is charged at 0% to 7.5%. Loans outstanding as of December 31, 2005, 2006 and 2007 were $56,662 ,$267,328 and $620,271. There are no outstanding loans to any of our directors or executive officers.

7.C. Interests of experts and counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

8.A. Consolidated Statements And Other Financial Information

The following financial statements and auditors report for fiscal 2007 appear under Item 18 in this Annual Report:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance sheets as of December 31, 2006 and 2007
- Consolidated Statements of Income for the years ended December 31, 2005, 2006 and 2007
- Consolidated Statements of Shareholders Equity and Comprehensive Income for the years ended December 31, 2005, 2006 and 2007
- Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2006 and 2007
- Notes to the Consolidated financial statements

Amount of Export Sales

For the year ended December 31, 2007, we generated $ 658.8 million, or 99.39% of our total revenues of $662.9 million, from the export of services out of India.

Legal Proceedings

Certain income tax related legal proceedings are pending against us. We are also involved in lawsuits and claims which arise in ordinary course of business. Please see the description of various tax proceedings in the U.S. and India under the section entitled Taxes under Item 5. of this Annual Report. Other than as disclosed herein, there are no such matters pending that we expect to be material in relation to our business.

Dividends

We do not have a stated dividend policy and determine the amount of dividends to be recommended for approval by the shareholders on a year-by-year basis by reference to our earnings, cash flow, financial condition and other factors prevailing at the time. We have paid dividends in the past. Although we have no current intention to discontinue dividend payments, we cannot assure you that any future dividends will be declared or paid or that the amount thereof will not be decreased.

Owners of ADSs will be entitled to receive dividend payable in respect of the equity shares represented by such ADSs. Cash dividends in respect of the equity shares represented by the ADSs will be paid to the depositary in rupees and, will generally be converted by the depositary into U.S. dollars and distributed, net of depositary fees and expenses, to the holders of such ADSs.

Our Board of Directors at its meeting held on February 7, 2008 recommended a dividend of 150% of par value, i.e. Rs. 3 per share (approximately $0.07) for fiscal 2007, subject to approval of our shareholders in the Annual General Meeting to be held on June 26, 2008.

ITEM 9. THE OFFER AND LISTING

9.A. Offer and listing details

Our equity shares have been listed and traded on the Bombay Stock Exchange Limited, or BSE, and the National Stock Exchange of India Limited, or NSE, since February 25, 2004. The prices for equity shares as quoted in the official list of each of the Indian Stock Exchanges are expressed in rupees. Our ADSs evidenced by American Depositary Receipts, or ADRs, are traded in the United States on the New York Stock Exchange, or NYSE. Our ADSs commenced trading on the NYSE on December 8, 2005. Each ADS represents two equity shares. The number of our outstanding equity shares (including the underlying shares for ADSs) as of May 31, 2008 was 139,060,689. As of May 31, 2008, there were 20,161,868 privately placed ADSs (representing 20,161,868 equity shares) and 7,284,232 ADSs outstanding (representing 14,568,464 equity shares).

The table below sets forth, for the periods indicated, the reported high and low quoted prices of our shares on the BSE, NSE and the NYSE: *(source* www.bseindia.com, www.nse-india.com www.ny.frb.org/markets/fxrates/noon/cfm, www.nyse.com)

	BSE		**NSE**		**NYSE**	
	High $	**Low $**	**High $**	**Low $**	**High $**	**Low $**
2007						
First Quarter	11.62	8.41	11.63	8.39	24.89	19.72
Second Quarter	13.96	9.07	14.59	8.87	28.30	22.33
Third Quarter.	13.52	8.72	13.62	8.75	26.47	18.40
Fourth Quarter.	12.85	7.62	12.83	7.55	25.94	14.59
Full Year	13.96	7.62	14.59	7.55	28.30	14.59
2006						
First Quarter	11.13	9.99	11.12	10.00	25.10	20.59
Second Quarter	10.00	6.39	9.95	6.36	20.87	13.94
Third Quarter.	9.24	5.92	9.22	5.90	19.31	11.81
Fourth Quarter.	10.24	8.66	10.23	8.69	22.15	18.61
Full Year	11.13	5.92	11.12	5.90	25.10	11.81
Month ended						
December 2007	8.82	7.74	9.06	7.69	18.50	15.62
January 2008	8.56	4.66	8.54	4.28	16.94	11.55
February 2008	7.55	6.05	7.19	6.02	12.80	12.62
March 2008	6.05	4.74	6.79	4.77	12.62	9.84
April 2008	7.26	5.61	7.25	5.63	14.12	11.0
May 2008	6.84	6.24	6.85	6.14	13.77	12.46
June 2008 (through June 23, 2008)	6.58	5.52	6.60	5.10	13.18	11.05

9.B. Plan of distribution

Not applicable.

9.C. Markets

Trading Practices and Procedures on the Indian Stock Exchanges

Stock Exchange Regulation

The stock exchanges in India are regulated by the Securities and Exchange Board of India, or SEBI, and the Ministry of Finance, Capital Markets Division, the Government of India under the Securities Contracts (Regulation) Act, 1956, as amended, or the SCRA, and the Securities Contracts (Regulation) Rules, 1957, as amended, or the SCRR. The SCRR, together with the rules, bye-laws and regulations of the respective stock exchanges, regulate the recognition of stock exchanges, the qualifications for membership thereof and the manner in which contracts are entered into and enforced between members of such stock exchanges.

The main objective of SEBI, pursuant to the Securities and Exchange Board of India Act, 1992, as amended, or the SEBI Act, is to promote the development of and regulate the Indian securities markets and protect the interests of investors. The SEBI Act granted SEBI the powers to regulate the business of the Indian securities markets, including stock exchanges and other financial intermediaries, promote and monitor self-regulatory organizations, prohibit fraudulent and unfair trade practices and insider trading, and regulate substantial acquisitions of shares and takeovers of companies. SEBI has also issued guidelines concerning minimum disclosure requirements by public companies, rules and regulations concerning investor protection, buybacks of securities, employee stock option schemes, stockbrokers, merchant bankers, underwriters, mutual funds, foreign institutional investors, credit rating agencies and other capital market participants.

The SCRA has been amended to include derivatives of securities and units or any other instruments issued by any collective investment scheme to the investors in such schemes, in the definition of securities . Trading in index-linked futures, index-linked options, options on individual securities and futures on individual securities takes place on the Indian Stock Exchanges. SEBI has also set up a committee for the review of Indian securities laws, which has proposed a draft Securities Bill. The draft Securities Bill, if enacted in its present form may result in a substantial revision in the laws relating to securities in India.

The Companies (Amendment) Act of 2000 amended the Indian Companies Act and incorporated significant provisions relating to securities, options in securities and equity shares with differential rights. Further, the Indian Companies Act, as amended, has empowered SEBI to administer provisions in so far as they relate to the issue and transfer of securities, non payment of dividends in the case of listed public companies and public companies proposing to get their securities listed and to conduct inspection of a company s records in respect of matters relating to the issue and transfer of securities. The power to prosecute the defaulting companies in compliance with the said matter has also been vested with SEBI. The Indian Companies Act has been amended to introduce significant changes such as allowing book building for public offerings of securities, buy back of securities, compulsory dematerialization of shares in an initial public offering of securities for a sum of Rs.100 million or more, issue of sweat equity shares, provisions relating to corporate governance, making accounting standards issued by the Institute of Chartered Accountants of India mandatory and relaxing restrictions on inter-corporate investment and loans.

Public Issue of Securities and Listing

Under the Indian Companies Act, a public offering of securities in India must be made by means of a prospectus, which must contain information specified in the Indian Companies Act and the SEBI (Disclosure and Investor Protection) Guidelines, 2000, as amended, or the SEBI Guidelines, and be filed with the Registrar of Companies having jurisdiction over the place where a company s registered office is situated. A company s directors and promoters are subject to civil and criminal liability for misstatements in a prospectus. The Indian Companies Act also sets forth procedures for the acceptance of subscriptions and the allotment of securities among subscribers and establishes maximum commission rates for the sale of securities.

SEBI has issued detailed guidelines concerning disclosures by public companies making a public offering of securities and investor protection. Previously, the Controller of Capital Issues of the Government of India regulated the prices at which companies could issue securities. The SEBI Guidelines now permit companies to freely price their issues of securities.

The listing of securities on recognized Indian stock exchanges is regulated by the Indian Companies Act, the SCRA, the SCRR, the SEBI Act and the listing agreements of the respective stock exchanges. Under the standard terms of stock exchange listing agreements, the governing body of each stock exchange is empowered to suspend trading of or dealing in a listed security for breach of an issuer s obligations under such agreement, subject to such issuer receiving prior notice of the intent of the exchange. A listed company can be delisted under the provisions of SEBI (Delisting of Securities) Guidelines, 2003, which govern voluntary and compulsory delistings of shares of Indian companies from the stock exchanges. SEBI has the power to amend listing agreements and bye-laws of stock exchanges in India.

Pursuant to recent amendments by SEBI to the listing agreements, with effect from May 1, 2006, listed Indian companies are required to ensure that the minimum level of public shareholding, on a continuous basis, is 25% of the total issued shares of a particular class, for every such class that is listed. However, companies which (i) have offered less than 25% (but at least 10%) of the total number of issued shares of a particular class to the public under Rule 19(2)(b) of the SCRR, or (ii) have at least 20 million shares of a particular class listed and a market capitalization of Rs.10,000 million, are permitted to maintain their minimum public shareholding at 10%. Where the public shareholding in a company is less than 25% or 10%, as the case may be, the company is only permitted to dilute its public shareholding pursuant to certain extraordinary events with the prior approval of the concerned stock exchanges. Public shareholding excludes shares held by promoters and the promoter group as well as shares held by custodians against which depository receipts have been issued overseas.

The standard listing agreements require an acquirer of a listed company s shares to comply with the disclosure and tender offer requirements under the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, as amended, or the Takeover Code. For a brief discussion on the disclosure and tender offer requirements under the Takeover Code, see Item 10. Additional Information-Takeover Code below.

In addition, a listed company is subject to continuing disclosure requirements pursuant to the terms of its listing agreement with the relevant stock exchange, including the requirement to publish unaudited financial statements on a quarterly basis and to inform stock exchanges immediately of any price sensitive information.

The shareholders of a listed company and the company itself are also subject to certain disclosure requirements pursuant to the terms of the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992, as amended. Pursuant to such requirements, any person holding more than 5% equity shares or voting rights in any listed company must disclose to the company the number of equity shares or voting rights held by such person, on becoming such a holder, within four working days of (a) the receipt of intimation of allotment of equity shares or (b) the acquisition or sale of equity shares or voting rights. Additionally, any change in such shareholding or voting rights in excess of 2% (even if such change results in the shareholding or voting rights falling below 5%) is required to be disclosed to the company within four working days of (a) the receipt of intimation of allotment of equity shares or (b) the acquisition or sale of equity shares or voting rights, as the case may be. The company is also required to disclose such information received from its shareholders within five days of the receipt of such information to the stock exchanges on which the company s equity shares are listed.

Indian Stock Exchanges

The major stock exchanges in India are the BSE and the NSE, which together account for a majority of trading volumes of securities in India. The BSE and NSE together dominate the stock exchanges in India in terms of the number of listed companies, market capitalization and trading volumes of securities.

Beginning April 1, 2003, the stock exchanges in India operate on a trading day plus two, or T+2, rolling settlement system. At the end of the T+2 period, obligations are settled with buyers of securities paying for and receiving securities, while sellers transfer and receive payment for securities. For example, trades executed on a Monday would typically be settled on a Wednesday. SEBI proposes to move to a T+1 settlement system. In order to contain the risk arising out of the transactions entered into by the members of various stock exchanges either on their own account or on behalf of their clients, the stock exchanges have designed risk management procedures, which include compulsory prescribed margins on the individual broker members, based on their outstanding exposure in the market, as well as stock-specific margins from the members.

To restrict abnormal price volatility, SEBI has instructed stock exchanges to apply the following price bands calculated at the previous day s closing price (there are no restrictions on price movements of index stocks):

Market Wide Circuit Breakers: Market wide circuit breakers are applied to the market for movement by 10%, 15% and 20% for two prescribed market indices, whichever is breached earlier: the BSE Sensex for the BSE, or the BSE Sensex, and the Nifty for the NSE, or the NSE Nifty. If any of these circuit breaker thresholds are reached, trading in all equity and equity derivatives markets nationwide is halted.

Price Bands: Price bands are circuit filters of up to 20% movements either up or down, and are applied to most securities traded in the markets, excluding securities included in the BSE Sensex and the NSE Nifty and derivatives products.

The National Stock Exchange of India Limited

The NSE was established by financial institutions and banks to provide nationwide on-line satellite linked screen-based trading facilities with market makers and electronic clearing and settlement for securities, including Government of India securities, debentures, public sector notes and units. Deliveries for trades executed on-market are exchanged through the National Securities Clearing Corporation Limited. The NSE commenced operations in the wholesale debt market and capital markets in 1994 and in derivatives in 2000. As of May 30, 2008, there were1,398 listed companies trading on the capital markets (equities) segment of the NSE. As of May 30, 2008, the market capitalization of the NSE was approximately Rs. 50,989 billion.

The Bombay Stock Exchange Limited

The BSE, established in 1875, is the oldest stock exchange in India and has evolved over the years into its present status as the premier stock exchange of India. The BSE switched over to an on-line trading network in May 1995 and has expanded this network to over 411 cities in India. Derivatives trading commenced on the BSE in 2000. Retail trading in government securities commenced in June 2003. As of April 30, 2008, the BSE had 982 members, comprising 176 individual members, 783Indian companies and 23 Foreign Institutional Investors, or FIIs. Pursuant to the BSE (Corporatization and Demutualization) Scheme 2005 of SEBI, on August 19, 2005 the BSE was incorporated as a company under the Indian Companies Act. Only a member of the BSE has the right to trade in the stocks listed on the BSE. As of April 30, 2008 there were 4,895 listed companies trading on the BSE with an estimated total market capitalization of Rs. 57,943 billion.

Trading on both the NSE and the BSE occurs Monday through Friday between 9:55 a.m. and 3:30 p.m.

Derivatives (Future and Options)

Trading in derivatives is governed by the SCRA and the SEBI Act. The SCRA was amended in February 2000 and derivative contracts were included within the term securities , as defined by the SCRA. Trading in derivatives in India takes place either on separate and independent derivatives exchanges or a separate segment of an existing stock exchange. The derivative exchange or a derivative segment of a stock exchange functions as a self regulatory organization under the supervision of SEBI. Derivatives products have been introduced in a phased manner in India, starting with futures contracts in June 2000 and index options, stock options and stock futures in June 2000, July 2001 and November 2001, respectively.

Depositories

The Depositories Act, 1996, as amended, provides the legal framework for the establishment of depositories to record ownership details and effectuate transfers in book-entry form. SEBI framed the Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996, which, among other things, provide for the formulation of such depositories and the regulation of participants, as well as the *inter se* rights and obligations of the depositories, participants, beneficial owners and issuers.

The National Securities Depository Limited and Central Depository Services (India) Limited are the two depositories that provide electronic depositories facilities for trading in equity and debt securities in India. SEBI mandates a company making a public or rights issue or an offer for sale to enter into an agreement with a depositary for dematerialization of securities already issued or proposed to be issued to the public or existing shareholders. SEBI has also provided that the issue and allotment of shares in initial public offerings, rights offerings or offers for sale shall only be in electronic form.

Securities Transaction Tax

The rates applicable on taxable securities transactions are specified below:

Taxable Securities Transaction	**Rate**	**Payable by**
Purchase of an equity share in a company or a unit of an equity oriented fund, where: (i) the transaction of such purchase is entered into on a recognized stock exchange; and (ii) the contract for the purchase of such share or unit is settled by the actual delivery or transfer of such share or unit	0.125%	Purchaser
Sale of an equity share in a company or a unit of an equity oriented fund, where: (i) the transaction of such sale is entered into on a recognized stock exchange; and (ii) the contract for the sale of such share or unit is settled by the actual delivery or transfer of such share or unit	0.125%	Seller
Sale of an equity share in a company or a unit of an equity oriented fund, where; (i) the transaction of such sale is entered into on a recognized stock exchange; and (ii) the contract for the sale of such share or unit is settled otherwise than by the actual delivery or transfer of such share or unit	0.025%	Seller

Taxable Securities Transaction	Rate	Payable by
Sale of derivatives where the transaction of such sale is entered into on a recognized stock exchange	0.017%	Seller
Sale of a unit of an equity oriented fund to the Mutual Fund	0.25%	