

Patni Computer Systems LTD
Form 6-K
June 08, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER

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

For June 7, 2006

PATNI COMPUTER SYSTEMS LIMITED

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

(Exact name of registrant and address of principal executive offices)

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

Form 20-F Form 40-F

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

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Yes No

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

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This Form 6-K contains our Annual Report for the fiscal year ended December 31, 2005, the Notice of the Annual General Meeting of the Shareholders dated 26th April 2006, and the Form of Voting Card, each of which has been mailed to holders of our Equity Shares. Also included in this Form 6-K is the Depositary's Notice of the Annual General Meeting of Shareholders and the Form of Proxy Card, each of which have been mailed to holders of American Depositary Shares. The information contained in this Form 6-K shall not be deemed filed for the purposes of section 18 of the Securities Exchange Act, 1934, as amended (the Exchange Act), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Only connect!

Live in fragments no longer.

Annual Report 2005

The *relationships* we form today will long outlast the *technology* we currently use.

Only connect!

Live in fragments no longer.

-E.M. Forster, *Howard's End*

Now more than ever before, the world is wired. Geography is irrelevant. Culture is no barrier. Information is cold, hard currency.

But as technology propels us into a new age, we find ourselves forced to acknowledge an old-fashioned truth. It is our relationships that make us strong. Relationships with our customers, our employees, our shareholders, and our business partners.

The relationships we form today will long outlast the technology we currently use.

At Patni, we take pride in this fact every day. Over the years, we have built long-standing and vibrant partnerships with over 200 companies across the globe.

Only connect. The Twenty-first Century will be powered first by a network of relationships. And only then by the web of technology. Those who understand this will grow exponentially. For they are part of a global network that is growing at the rate of a million connections a day.

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Subsidiary Information

Patni Computer Systems, Inc. and Subsidiary

Patni Computer Systems (U.K.) Limited

Patni Computer Systems GmbH

Patni Telecom Solutions, Inc.

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Risk Management

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Corporate Information

Highlights 2005

Revenues increased by 37.9%, from US\$ 326.6 million in 2004 to US\$ 450.3 million in 2005.

Net income increased by 11.3% from US\$ 54.7 million in 2004 to US\$ 60.9 million in 2005.

74 new clients added, taking the number of active client relationships to 199; number of million dollar relationships increased to 61.

2,141 people added to the Company in CY 2005, taking the total strength to 11,802 worldwide.

Infrastructure expansion of 430,000 sq. ft in progress, for development facilities across Navi Mumbai, Pune, Chennai and Hyderabad.

Appointed Louis Theodoor van den Boog as an independent director on the board.

Opened offices in Amsterdam and in Helsinki and Copenhagen, to address the Benelux and Scandinavian markets, respectively.

Successful ADR in December 2005 over-subscribed 22 times, and consequent listing on the New York Stock Exchange.

Was selected as a preferred partner to ABN AMRO, to provide global Application Development services.

Won The International Productivity and Quality Centre's Best Lean Six Sigma Project Award, and The Amity Global Corporate Excellence Award, among others.

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Listed 27th in the Deloitte Technology Fast 50 India 2005 ranking programme; also ranked in the Deloitte Technology Fast 500 Asia Pacific 2005 ranking programme.

Five - year Performance Highlights

CAGR 33.3%

Revenues US\$ (mn)

CAGR 28.9%

Earnings after Tax US\$ (mn)

CAGR 45.6%

Book Value per Share US\$

CAGR 26.8%

Operating Income US\$ (mn)

CAGR 23.7%

Basic & Diluted Earnings per Share (US\$)

CAGR 24.6%

Number of Employees

Letter to Shareholders

The company's landmark listing on the *NYSE* marked the start of a new era for *Patni*

Chairman's Review

Dear Shareholders

Our performance in CY 2005 once again underscored the Company's ability to deliver sustained growth by leveraging its unique and highly scalable business model. We have made significant progress in creating growth opportunities through the delivery of a comprehensive portfolio of high quality IT services. We have also expanded our existing offerings and invested in key areas to further increase the potential for growth.

Our most significant achievement of the year was the Company's momentous listing on the NYSE. This marked the start of a new era for Patni. Our listing on the NYSE will also provide further impetus to our organisational initiatives, both in terms of augmenting our capital resources and improving our visibility in the largest market for our services. With this milestone achievement, we have furthered the boundaries of our leadership and have taken a giant step towards achieving our vision.

During the year, we also:

Consolidated our existing verticals while creating growth opportunities in several emerging areas.

Ensured that our operating metrics, offshore leverage, and realised prices moved in the desired direction, and continued to invest in our market facing resources and delivery infrastructure.

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Established our capability as a best-of-breed vendor to large global customers, with the ABN AMRO win.

Successfully completed the integration of Cymbal, which is now one of our fastest growing business units.

Starting 2006, we have many reasons to feel optimistic. Global trends show a reaffirmed faith in India as an outsourcing centre. Driving off our BSE, NSE and NYSE listings, brand Patni has gained strength and momentum, and we are committed to developing long-term relationships with our investors.

However, we are now faced with the next set of challenges: we must continue to build a world-class global operation that will provide our

customers superior value at higher quality and lower cost. As a global company and a global brand, we now need to implement Global Delivery in its true sense from any country to any country. We also need to keep a close watch on our margins so as to grow profitably. Another significant challenge is to manage the currency fluctuation risk through active monitoring and appropriate use of hedging instruments. Driven by these challenges, we will look to continue to expand the business in the coming years.

Corporate Performance

The Company reported significant revenue growth of 37.9% from US\$ 326.58 million in 2004 to US\$ 450.33 million in 2005. Gross profit increased by 30.4%, to US\$ 161.85 million. Diluted EPS for the year was at US\$ 0.48 per share, up from US\$ 0.44 per share in CY 2004.

We made significant progress towards our objective of creating sustainable growth opportunities through the delivery of a comprehensive range of high quality IT services. We expanded our existing offerings and invested in the right areas to further growth potential. Our operations grew in line with our expectations and the guidance shared with investors. However, we re-assessed the payroll and related taxes in regard to our international operations and made some provision for the entire year.

In our efforts to improve our operational excellence, we launched PROPEL - a comprehensive program designed to reach best-in-class levels of efficiency, speed and quality. A dedicated Program Management Office was established to drive the implementation of these initiatives.

Following the ADS offering, the Company now has a larger cash reserve of US\$ 290 million that will be actively invested in augmenting growth. We enter the 2006 financial year with a much stronger run rate of business and a strong, well-diversified client base that offers opportunities for sustained growth in the coming year.

In 2005, Patni won some notable awards:

The International Productivity and Quality Centre s Best Lean Six Sigma Project award

The Amity Global Corporate Excellence Award

The Maharashtra Information Technology Award in the category of IT-Software.

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Industry Environment

According to the 2005 Nasscom-McKinsey Report, India's IT and IT-enabled services export revenues are forecast to touch US\$ 60 billion by 2010. The industry is expected to grow at 25 percent year-on-year to achieve this target. Deep and enduring innovation could generate an additional US\$ 15-20 billion in export revenues for Indian companies over the next five years. However, global IT firms could end up wresting away more than half of this US\$ 60 billion kitty.

As the second-generation IT outsourcing customers step up the momentum of sending work offshore, the fortunes of the Indian IT services industry are poised to get better. The country continues to remain the world's leading destination for global delivery of IT services, retaining the edge of higher quality at lower cost. Deals are getting bigger and more strategic. Clients are also actively looking beyond custom application development and maintenance to enterprise applications, infrastructure management and BPO.

Indian IT companies are preparing to step up to the challenge. For Indian vendors, growth in market share with more orientation towards business solutions is becoming a matter of importance. The focus is also on raising the bar on productivity and delivery efficiency.

While opportunities are plenty, Indian IT companies will have to make deliberate choices about target segments (where to compete) and the basis of distinctiveness (how to compete). The choice of target segments will depend on the addressable market in each segment, current penetration, competitive intensity and existing capabilities to serve the segment.

In such a challenging scenario, IT delivery will continue to see emphasis on domain expertise and experience. Building a multicultural workforce held together by strong unifying values will become essential. Verticalization will be the de facto growth model. Acquisitions and

alliances and partnerships with other IT solution providers will grow to strengthen the solution capabilities. With the pricing environment remaining flat, the emphasis will be on enterprise-wide operational excellence.

Verticalization Pays Off

Our verticalization initiative showed results. 2005 was the first full year of operation under seven verticals:

Insurance continued to remain our strongest vertical. During the year, we launched new domain-focused specialised services in 401(k) BPO and Health Claims BPO. We also extended new market opportunities through global alliances with Milliman, FileNet, Clear Technology and EMC.

In the **Financial Services** vertical, the landmark ABN AMRO win, against stiff competition, clearly indicated the Company's capability as a best-of-breed vendor to service large global customers.

In the **Manufacturing** vertical, we are set to generate a healthy pipeline for 2006 and beyond, with a focus on opening new sectors such as Pharma, Automotive and Oil & Gas.

The **Telecom** vertical, formed through an acquisition in 2004, completed a full year of operation last year and has integrated well within the organization. The telecom business unit recorded very strong growth during the year, acquiring several large customers.

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The **Product Engineering Services** (PES) vertical delivered outstanding growth in 2005. PES is now offering end-to-end solutions and has assumed a leadership position in key domains with its strong blend of domain- and skills-based expertise.

In the **Independent Software Vendors** vertical, we made good progress by winning several new accounts in its first year of operations.

In our **Growth Industry** verticals, after some big wins in the UK and the US, we have created a significant presence in the Retail industry. We are continuing to build our capabilities and track record in our other growth industries, namely Energy & Utilities, Media & Entertainment, and Logistics & Transportation.

In 2005, we continued to build and strengthen our horizontal service lines. We clinched our first million-dollar customer of **Managed Services** to be delivered out of our state-of-the-art Network Operations Centre. Delivering implementation projects in China and the Philippines, and opening up the India business through competitive wins, we achieved continued growth in the **Enterprise Applications Solutions** area. We also entered into an alliance with i2 Technologies to jointly market Master Data Management solutions.

We made encouraging progress in the **BPO** practice during the year. We added nine new clients and closed the year with active relationships with five Fortune 500 companies. Our win of the prestigious Global Outsourcing deal from a global leader in Human Resource Consulting against the best global companies has clearly established our credentials to service large global customers.

During the year, our **Verification & Validation** service witnessed significant growth and our offerings expanded to include Managed Test Centers, Test Process Consultancy and Test Automation to customers across industry verticals; many complex engagements we executed involved testing of our client's niche IT systems. Our Business Intelligence service launched new offerings, new customers, deeper penetration in verticals, new partnerships, and expanded delivery capabilities with 500+ consultants.

Regional Performance

In 2005, our **US** sales operations went through complete verticalization, organised under National Industry Service Groups within each vertical. This strategic reorganization helped in an impressive growth of 33%.

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Our **Asia Pacific** sales saw a growth of 63% in 2005. This growth was led by Japan, where revenues grew at 78% over 2004. We established a permanent presence in Korea and made a significant entry in the Middle East. In the Indian subcontinent, we have strengthened our partnership with SAP to expand our footprint in the ERP market.

Patni's **Europe** operations grew by 60% in 2005. The region added new customers and

grew strongly in Retail and Telecom. We also increased our presence in the Benelux region and in Scandinavia by opening offices in Amsterdam, and, Helsinki and Copenhagen, respectively.

Infrastructure Growth

During 2005, we enhanced our global delivery capability by setting up delivery centers in Boston and San Francisco in the US, and Honslow in the UK.

We consolidated our San Francisco, California area operations at a new building in Milpitas. We also moved into a new facility in Illinois to support our growth in the Midwest. Due to the expansion of our BPO business in the US, we have added a dedicated mailroom facility at a separate location in Cambridge, Massachusetts.

In India, in keeping with our growth plans, we expanded our offshore facilities by adding 430,000 sq. ft of office space across Navi Mumbai, Pune, Chennai and Hyderabad.

At the Airoli Knowledge Park, a total of five buildings for software development facilities and for training and employee care centres, are expected to be operational by end-2006. At our Chennai campus, a 1,200 seat software development facility was made operational in 2005; work is in progress on the second software development facility and the customer care, training, and employee care centres. Our software development facility in Hyderabad - the 8th city of Patni's geographical spread in India - became operational during 2005 and has since been expanded. The Andhra Pradesh government has recently allotted us 30 acres of land for a

campus. To meet our increasing requirements, we are also expanding in NOIDA. We have acquired 4 acres of land in a SEZ (Special Economic Zone) area, where a facility with 3,000 seats is being planned.

Quality, Research & Technology Initiatives

Patni's Quality and Delivery Innovations (QDI) and Six Sigma teams clocked significant savings in our internal operations. The Company is now represented on the Advisory Council of the NASSCOM Quality Forum.

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Our Products and Technology Initiatives group launched many new initiatives in 2005. After achieving significant leadership for Patni in the RFID space, the group has set up a CoE to develop expertise in Service Oriented Architecture, Model Driven Architecture, and Legacy Modernisation. Other initiatives include Enterprise Mobility and Business Process Management.

People Initiatives

We continue to build our management team and globalise our work force. Of the 14 persons hired in 2005 at Vice-President level and above, ten were of non-Indian origin. Patni added 2,141 employees during 2005 and closed the year with a head count of 11,802. Some significant HR initiatives in recruitment, performance appraisal, e-Care and onsite compensation were also set in place.

During 2005, Patni Academy for Competency Enhancement (PACE) delivered over 74,000 person days of technical training, 9,800 person

days of behavioural training, and 2,200 person days of leadership training. It also offered several certification programs, notably the Project Management Professional (PMP) certification program; we now have 50 certified PMPs within Patni.

On the continuing education front, in the BITS-Patni collaborative effort, the first batch of 35 employees successfully completed their Master's program.

Building Brand Patni

Our global efforts in building brand Patni has yielded considerable results, today the Patni brand is visible and strong. We now receive significant coverage by key global analyst firms such as Forrester, Gartner and IDC.

In addition, a number of initiatives taken in 2005 will further strengthen our brand: a comprehensive web-marketing program was initiated with the launch of a new company website; our second annual customer meet, PatniConnect 2005, drew more than 100 senior level customer attendees; we successfully launched a quarterly customer newsletter *Insight*, which has been very well received by customers.

We must extend our global delivery model to expand from India to everywhere to anywhere to anywhere .

2006 and Beyond

Patni has achieved significant success from a number of important initiatives in the past few years. However, going forward, we need to continue to explore and drive further growth opportunities to maintain our track record. We also need to step up our organizational improvements for helping us deliver the next level of growth.

In the coming years, we will also need to increasingly earn customer loyalty, not just satisfaction. We must extend our global delivery model to expand from India to everywhere to anywhere to anywhere . This will strengthen our capability to service our customers across the globe.

With strong new business visibility and our ability to expand existing relationships, we remain confident that we will continue to drive growth, achieve our strategic corporate objectives, and emerge stronger in our journey towards global leadership in the IT Services marketplace.

Regards,

Narendra K. Patni

Client Relationships

Only connect... or live your life in fragments

Deep relationships open a world of possibilities.

At Patni, we forge customer relationships that endure.

Our contentment comes not only from our robust performance and growth, but also from the fact that our success is built on the strong foundation of customer satisfaction. We are constantly alert to emerging market trends and stay close to our customers to understand their changing needs.

Over the years we have invested in new growth areas and simultaneously enhanced our existing growth engines. Our continued investment in strengthening our technology expertise, deepening our domain knowledge and expanding our service lines has enabled us to deliver value creating solutions for our customers.

Our customer-centric approach has helped us widen our customer portfolio to more than 199 active and concurrent relationships in 2005; 61 of these are million-dollar accounts. In addition to growth in scale, the portfolio of our services continues to expand into higher value, more complex solutions. This has further reinforced the maturity of our global delivery model.

Partnering client transformation through innovation

With the advent of true services globalization, Patni is geared up to address the global market shift from tactical offshoring to strategic outsourcing. Going forward, our focus will be on partnering our clients in transforming their organizations to make them more efficient, flexible, productive and better prepared to handle external market changes. To achieve this, we will continually strive to deepen our relationships with our clients by adopting innovation in the entire sphere of our operations.

We have always been at the forefront of ushering proactive change and will continue to do so in the future, as we embark on expanding

our global delivery model. Having specialized in providing services from India to anywhere , we will continue to expand our global delivery capability to service our global clientele from anywhere to anywhere .

In the Year 2006, we see our successes of the past year throw up newer and greater challenges. The foremost challenge will be to earn customer loyalty, not just satisfaction. We will continue to strengthen our client relationships by pushing all boundaries of excellence...For each new customer engagement, will open up more avenues for the future.

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We are into a three year relationship with Patni which is getting stronger as we work more closely with the teams. The Patni teams are seen as an extended team of Group IS who are keen to ensure that we all succeed in delivering the Carphone Warehouse vision.

Hitesh Patel, Director
Group Information Services
Carphone Warehouse

Working with the Patni team has been a tremendous benefit to our organization. The team, which is split across a number of activities, is flexible, continually produces a high level of work, and the manner in which tasks are completed indicates that processes are very well controlled.

The company's ability to integrate new team members into the fold as well as shift individual members from one technology to another has had a minimal impact on core Bottomline resources.

Jessica Kowalczyk, Director
Quality Assurance, Bottomline Technologies

Patni's Onsite and Offshore team has done an excellent job of supporting JDSU in the Oracle Applications Customization related bug fix and enhancement work... They stood out with their ability to manage client expectations, effectively balance demanding client time-lines while delivering quality results, even as they continue to expand their already robust applications and business process knowledge.

Biswajit Das, Director
Oracle Corporation

The initial project as well as the ongoing support activities by Patni did exceed all our expectations. Already in the very first time, the quality of the delivered service was much better than what has been in place before. The commitment of the involved Patni resources is great and the permanent attempt to improve adds additional value for Electrolux.

The very good experience did lead to the decision to hand over further topics for integration into this service from Patni.

Heidi Bauer, Service Delivery Manager
Middleware, Electrolux IT

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We have partnered together with Patni for the last four years, during which time we have successfully managed a large number of projects in the Value Chain function across each of our geographic regions. Patni's consultants and client managers have provided flexible, cost-efficient solutions, and importantly share our passion to deliver with quality exceeding our clients' expectations.

Through this period, we have enhanced and optimised our own organizational capabilities, which has enabled us to take full advantage of the range of services that Patni has to offer. This strong foundation will be used to guide our next quantum leap in Information Delivery Services.

Paul Butler, Assistant Director

IT@Gillette

Patni is an important and strategic partner in Visage mobile's ongoing growth and business success. The Patni team delivers outstanding value via onsite domain experts, a global delivery and support model, and an unparalleled commitment to the success of Visage Mobile and its clients.

Rashesh Jethi, CIO
Visage Mobile

Patni has provided Hannover Re with a balance of technology and insurance expertise to assist us in meeting a very unique and complex set of challenges in our new product offerings.

Curt Hagelman, Senior Vice President
Hannover Life Re

The Patni team has far exceeded my expectations for the QA work they are doing for InsureWorx. I'm very pleased with the quality of work they have provided in such a short time, and the test procedures/test cases written by the offshore team have been of high quality... I'm very excited that your team is providing us with the necessary and thorough test documentation of specified testing areas as we've needed to take shortcuts in the past due to lack of resource availability.

Maria Marlow, Director, Quality Assurance
InsureWorx

Having just been out to Mumbai, I have seen first-hand the dedication, hard work and creativity of the Patni team in bringing this huge project to where it is today. This program has enormous significance to St. Jude Medical and it is clearly visible that its success will not have been possible without the leadership and efforts of the Patni team.

We consider you as part of our team and look forward to celebrating our success together!

Eric Fain, Executive Vice-President
St. Jude Medical Inc.

Throughout 2005, the offshore Patni team was responsible for more than eleven projects. Many of these had aggressive schedules and each time the team performed very well. This is largely due to the leadership and skill in recognizing problems and coming up with good solutions in a timely manner.

The success of these efforts gave us the confidence to entrust Patni with larger projects.

Thomas M. Chalk, Manager
Offshore Development
Wabtec Railway Electronics

Employee Relationships

Few things are as *fulfilling* as a committed relationship between people who work *together*.

Few things are infinitely fulfilling as a committed relationship.

At Patni, we understand that enduring growth is a function of attracting, training, motivating, and retaining world-class employees.

Since its inception, Patni has benefited from the skills and commitment of exceptional people. The strength of our internal relationships has led to a team approach to problem solving, taking advantage of the synergies of the best minds.

Through the caring and nurturing culture that we have created over the years, we make sure our people evolve professionally and personally in a congenial and collaborative work environment. Our investments in world-class training and knowledge sharing forums enable every employee to imbibe the best knowledge and values of the industry.

A vibrant, stimulating and open environment makes our people deliver their best performance at all times. At Patni, empowerment is not a buzzword but represents a well-defined growth path. Through our Leadership Excellence At Patni (LEAP) programme we have built a strong leadership for the company.

Our ethos ensures that a strong team spirit bonds everyone, and that people are constantly motivated to go beyond their individual capacities. Achievement orientation is highly valued. We encourage employees to stretch self-goals as also team-goals. Attractive benefits and regular rewards are core to our people policies.

Driven by deep-rooted relationships, commitment and organizational pride, our people are ever ready to go that extra mile to make a difference to our clients.

I joined Patni more than two decades ago when it was a small company with about 100 employees. While the organization has grown to more than 10,000 employees, the environment remains the same - total transparency in the working environment and complete freedom at work.

R H Mahajan
Senior Manager (Accounts)
23 years with Patni

A few years ago, during the downturn in the industry, all the major software companies downsized their employee strength.

Patni was one of the few rare companies which had the confidence and determination to challenge the falling market and honour its commitment to its employees.

Ashish Kanak
Senior Engineer (Software)
3 years with Patni

I came to Patni via an acquisition. The key factors that have always kept me challenged and motivated at Patni is a business model relevant to market needs, deep service offerings and learning from experienced colleagues who have a diverse set of skills. This has contributed immensely to my growth both as a professional and an individual.

Vic D Alfonso, Sr. VP & Head
Financial Services Business Unit
3 years with Patni

Having joined the organization as a trainee, my role has evolved from an application developer to performing activities ranging from project management, pre-sales and special consulting assignments. The breadth of job responsibilities and the variety of functional roles at Patni has stimulated and enriched my overall career.

Prashant Kharche
Senior Consultant (Software)
12 years with Patni

Exposure to a variety of cultures and processes for different organizations from giant organizations like General Electric to small entrepreneurial companies has helped me evolve as a professional.

Ranjana Chitale
Senior Manager (Software)
17 years with Patni

Business Ethics

Business without relationships is mere *transaction*.

Transactions are fleeting. Value-based relationships endure for a *lifetime*.

Strong values produce strong bonds.

Business without relationships is just a transaction. Transactions are fleeting. Relationships last a lifetime.

And since relationships are worthless without values, we build our relationships with our clients, employees, business partners, investors and suppliers & vendors, based on our strong business values.

Our relentless *pursuit of excellence* has brought us success as a global IT consulting and services company. Our capabilities are best defined by the fact that we always seek *value-addition* in all our relationships. We ensure this through continuous improvement in quality, cost and speed.

We pride ourselves on being agile and nimble even as we grow; *responsive* enough to be able to meet the exacting demands in our relationships. Our corporate governance philosophy entails balancing shareholders' interests with corporate goals, through *efficient conduct of our business* .

Our relationships are based on *transparency and sharing of knowledge* . Our concerted R&D thrust and knowledge management practices ensure that when we harness knowledge everyone benefits. We leverage our domain knowledge to build strategic relationships with global technology solution providers, helping them strengthen and extend their footprint in targeted verticals and geographies.

Patni is committed to adopting the highest social and ethical standards in all spheres of our business. We lay high emphasis on a service management culture involving *speed & flexibility, trust & integrity* in all our relationships. This involves contributing to the well-being of our clients, employees, business partners, shareholders and society at large.

Our business values are pillars upon which our business model rests. Without them we would merely be servicing transactions. With them, every interaction is an opportunity to deepen a relationship. Relationships cement client loyalties the ultimate sign of a business success. We remain irrevocably bound by our business values. And why not? They have accelerated our own fortunes over the years.

Relationships through business values. The cornerstones of our existence.

Board of Directors

Narendra K Patni

Chairman & CEO

Gajendra K Patni

Executive Director

Ashok K Patni

Executive Director

William O Grabe

Director

Louis Theodoor van den Boog

Independent Director

Micheal A Cusumano

Independent Director

Arun Duggal

Independent Director

Arun Maira

Additional Director

w.e.f. 25 April 2006

Anupam P Puri

Independent Director

Up to 25 April 2006

Pradip Shah

Independent Director

Ramesh Venkateswaran

Independent Director

Abhay Havaladar

Alternate Director to Mr. William O Grabe

Key Managers

Narendra Patni, 64, Chairman and CEO, has a Master's degree In Electrical Engineering from the Massachusetts Institute of Technology (MIT) and a Master's degree in Management from the Sloan School of Management at MIT. He is the founder promoter of the Company and has over 35 years of experience in the software industry.

Mrinal Sattawala, 51, Chief Operating Officer and Global Sales & Marketing Coordinator, has a Bachelor's degree in Electrical Engineering from IIT, Mumbai, and a Master's degree in Business Administration from MacMaster University, Canada. He has been employed with Patni for 20 years.

Russell Boekenkroeger, 60, Executive Vice-President and Region Head, North America, 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 has over 25 years experience in managing software development teams and has been employed by Patni for 4 years.

Neeraj Gupta, 38, Executive Vice-President & Head, Telecom business unit, has a Bachelor's degree in Electronics & Communications Engineering from PEC, India, and a Master's degree in E.E. from the University of Alabama, USA. He was CEO of Cymbal Corporation prior to its acquisition by Patni and has 15 years of technology consulting, marketing, and product management experience.

Satish Joshi, 50, Executive Vice-President and Chief Technology Officer, has a Bachelor's degree in Electrical Engineering from IIT, Mumbai, and a Master's degree in Computer Science. He has been employed with Patni for 23 years.

Vijay Khare, 48, Executive Vice-President, Chief Administrative Officer and Chief Delivery Officer, has a Bachelor's degree in Engineering from the Regional Engineering College, Nagpur, and a Master's degree in Computer Science from IIT, Mumbai. He has been employed with Patni for 25 years.

Deepak Sogani, 40, Chief Financial Officer, has a Bachelor's degree in Electrical Engineering from IIT, Delhi, and a post graduate diploma in Management from IIM Ahmedabad. He is a CFA charter holder from AIMR, USA. He has been employed with Patni for eight years.

Lokesh Bhagwat, 47, Sr. Vice-President & Head, Growth Industries business unit, has a Postgraduate degree in Science from Pune University. He has 25 years of IT experience and has been employed with Patni for over four years.

Harish Bhat, 49, Sr. Vice-President & Head, Independent Software Vendors business unit, has a degree in Electronics Engineering from Mumbai University. He has over 24 years of IT experience and has been employed with Patni for over six years.

William Budde, 46, Sr. Vice-President & Head, Insurance business unit, has a Bachelor's degree in Political Science, Urban Studies and Geography from Northwestern University, Evanston, Illinois, and a Charter as a Property and Casualty Underwriter from the Insurance Institute, Malvern, Pennsylvania. He has over 20 years of insurance industry experience and has been with Patni for two years.

Ajay Chamania, 43, Sr. Vice-President & Head, Product Engineering Services, has a Bachelor's degree in Electronics and Telecommunications from REC, Bhopal. He has been employed with Patni for 20 years.

Sunil Chitale, 42, Sr. Vice-President & Head, Manufacturing business unit, has a Bachelor's degree in Electronics Engineering from the Institute of Technology, Benares Hindu University. He has been employed with Patni for 20 years.

Vic D Alfonso, 54, Sr. Vice President & Head, Financial Services business unit, has a Bachelor's degree in Management Science from the University of Rhode Island, US and an MBA from Bryant College, US. He has broad financial services and consulting experience working in the industry for the past 30 years and has been with Patni for three years.

Douglas Fallon, 42, Sr. Vice-President & Head, Infrastructure Management Services business unit, has a BS in Business Administration from Plymouth State University. Douglas has over 20 years' experience in IT Services & Infrastructure Services & Consulting.

Milind Jadhav, 47, Sr. Vice-President & Head, Human Resources, is a Postgraduate in Personnel Management and Industrial Relations from the Tata Institute of Social Sciences, Mumbai. He has been employed with Patni for over four years.

Sanjiv Kapur, 46, Vice-President & Head, Business Process Outsourcing, is a graduate from Mumbai University. Sanjiv has more than 21 years of experience in the IT, Telecom and BPO industries and has been with Patni for over four years.

Sukumar Namjoshi, 57, Sr. Vice-President (Sales) & Head, Europe and UK, has a Bachelor's degree in Computer

Science from IIT, Mumbai and post-graduate qualifications in Business, Industrial Management and International Marketing. His industry experience spans over three decades.

Milind Padalkar, 48, Sr. Vice-President & Head, Enterprise Applications Solutions business unit, has a Bachelor's degree in Engineering from IIT, Delhi, and a Postgraduate diploma in management from IIM, Ahmedabad. He has been employed with Patni for 17 years.

Kiran Patwardhan, 52, Sr. Vice-President (Sales) - Asia Pacific, has a Bachelor's degree in Chemical Engineering from IIT, Mumbai, and a postgraduate diploma in Management from IIM, Kolkata. He has been employed with Patni for over six years.

PATNI COMPUTER SYSTEMS LIMITED**Directors Report**

To,

The Members,

PATNI COMPUTER SYSTEMS LIMITED

Your Directors have pleasure in presenting their Twenty Eighth Annual Report together with Audited statements of Accounts for the year ended 31 December 2005:

Financial Results

	31 Dec 2005 (Rs. in Lakhs)	31 Dec 2004 (Rs. in Lakhs)
Sales	87,559.6	70,206.8
Resulting in Profit Before Tax	24,424.5	25,624.9
Profit After Tax	19,441.3	23,054.2
Profit available for appropriation after adding to it Previous Year's Brought Forward	86,382.8	72,073.5
Appropriated as under:		
Transfer to General Reserve	1,944.1	2,305.4
Final Proposed Dividend on Equity Shares @ 125% (Previous Year 100%)	3,446.9	2,499.9
Corporate Tax on above Dividend	507.3	326.7
Balance Carried to Balance Sheet	80,484.5	66,941.5
	86,382.8	72,073.5

Business Performance

The performance of your Company during the year under report has shown improvement over the previous year. Total revenue for the year ended 31 December 2005 amounted to Rs. 87,559.6 lakhs as against Rs. 70,206.8 lakhs for the corresponding period last year registering growth of 24.7 per cent. The Company has posted Net profits after tax of Rs. 19,441.3 lakhs for the year ended 31 December 2005 as against Rs. 23,054.2 lakhs for the corresponding period last year registering decline of 15.7 per cent. However, on consolidated basis, revenues increased in the current year 2005 by 37.9 per cent to US\$ 450.3 million and net income by 11.3 per cent to US\$ 60.9 million.

Dividend

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Your Directors are pleased to recommend the payment of dividend for the year ended 31 December 2005 at Rs. 2.50/- per share (125 per cent) on face value of Rs. 2/- (Previous year Rs. 2/- per share), subject to the approval of members at the ensuing Annual General Meeting. If approved, the dividend will be payable to all the eligible shareholders whose names appear on the Register of Members on 15 June 2006.

Business Overview

Your Company is a leading provider of information technology services. The Company delivers a comprehensive range of IT

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

Business Segments

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

Customer Relationships

Your Company has always demonstrated the ability to build and manage relationships with some of the world's largest and best known companies. Our strategy to diversify our revenue profile is on course. Your Company's client concentration reduced significantly with the top client GE contributing 22.1 per cent of revenues compared to 31.7 per cent in the previous year. Revenues from the top 10 clients were higher by 18.6 per cent during the year 2005. Revenues from clients outside the top 10 grew by 80.7 per cent during this year. While nurturing long-term relationships with existing customers, your Company has continued to expand its customer base. The Company added 74 new clients during 2005 and its active client base has increased to 199 clients as of 31 December 2005. Similarly, your Company's strategy to improve the geographical diversification of the Company's client base is on track with revenues from Europe, Japan and Asia-Pacific (excluding Japan) registering strong growth.

Your Company successfully concluded its second annual customer forum PatniConnect 2005 in the U.S. This was an opportunity for the Company's leadership team to interact with IT and business leaders representing its customer organizations, and with other pre-eminent industry analysts and professionals who presented their valuable perspectives.

Sales and Marketing Initiatives

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

Personnel and Performance

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

Your Company follows a structural recruitment program to select talent from India's premier engineering institutions. An adaptive business model and mature management structure allows aggressive scalability without compromising on flexibility, responsiveness and reliability of services.

During the year 2005, your Company added 2,141 employees taking the aggregate employee strength to 11,802.

Facility Expansion

With the growth in the business and expansion of the employee base, your Company is investing in new high-tech facilities which are referred as Knowledge Parks designed for expanding the Company's operations and training for employees. Development work has been initiated at two such Knowledge Parks located at Navi Mumbai and Chennai.

The Knowledge Park at Navi Mumbai, is expected to accommodate about 14,000 seats when fully completed. Phase I of this facility, having a capacity of about 4,500 seats, is at an advanced stage of construction and is expected to be operational in the last quarter of this year.

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The Chennai facility, spreading across 18.75 acres, will have a seating capacity of 10,000 employees when fully completed. Phase I of this facility having a capacity of 1200 seats is complete and under partial occupation.

Along with the acquisition of Cymbal, a Hyderabad-based development center has been added to the delivery resource base, the eighth city where your Company's offshore development facilities are now operational. Aggregate area for offshore development available to your Company as of 31 December 2005 is over 12,35,000 sq. ft.

All of your Company's development centers were assessed at SEI-CMMI Level 5 by KPMG, India.

Accolades

Your Company received the Maharashtra Information Technology Award (First Prize) for outstanding contribution to the IT-software during the year 2004-05, from the Government of Maharashtra.

Your Company was listed 27th in the Deloitte Technology Fast 50 India 2005 Ranking Program. The Company was also ranked in the Deloitte Technology Fast 500 Asia Pacific ranking program, which recognizes and profiles the Top 500 companies, public and private, based on percentage revenue growth over three years.

Patni ESOP 2003

Your Company had introduced the Employees Stock Option Plan known as Patni ESOP 2003. Under the Plan, the Company is authorised to issue 11,142,085 equity shares of Rs. 2/- each upon the exercise of options granted to employees and/or directors of the company and its subsidiaries. The Plan is being administered by the Compensation Committee of Directors constituted as per SEBI Regulations. Options granted under the Plan will vest over period of 48 months. The details of Options granted under the Plan are given in the Annexure to this Report.

Subsidiary Companies

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

Pursuant to the Section 4 of the Companies Act, 1956, The Reference Inc. and Patni Telecom Solutions, Inc. (formerly Cymbal Corporation) being wholly owned subsidiaries of Patni Computer Systems Inc. (wholly owned subsidiary of the Company), become subsidiaries of the Company. Patni Telecom Solutions Private Limited (formerly Cymbal Information Services (P) Limited) and Patni Telecom Solutions (UK) Limited (formerly Cymbal Corporation Limited) being wholly owned subsidiaries of Patni Telecom Solutions Inc. by virtue of Section 4 of the

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Companies Act, 1956, also become subsidiaries of the Company. Cymbal Information Services (Thailand) Limited being subsidiary of Patni Telecom Solutions Private Limited, also becomes subsidiary of the Company pursuant to the aforesaid Section.

The reports and accounts of the Subsidiary Companies (consolidated) along with the statement pursuant to Section 212 of the Companies Act, 1956 are annexed.

Directors

Mr. Anupam Puri has tendered his resignation as a director w.e.f. 25 April 2006. The Board placed on record its appreciation of the services rendered by Mr. Puri during his tenure on the Board of the Company.

Mr. Arun Maira, an independent director, was appointed as an Additional Director w.e.f. 25 April 2006 and he holds the office of the Director upto the date of The Annual General Meeting. It is proposed to reappoint him as director of the Company. Necessary resolution is proposed for his re-appointment at the Annual General Meeting. Your directors recommend the appointment of Mr. Arun Maira as director of the Company.

In accordance with the requirements of the Companies Act, 1956 and Articles of Association of the Company, Mr. Pradip Shah and Mr. Ramesh Venkateswaran are liable to retire and eligible for re-appointment in the forthcoming Annual General Meeting.

Mr. Gajendra K Patni and Mr. Ashok K Patni were re-appointed as Executive Directors w.e.f. 24 October 2005 for a further period of five years on recommendation of the Remuneration Committee and in accordance with the Articles of Association the Company. Necessary formalities in respect of the said re-appointments were duly complied with. Now, it is proposed to obtain necessary approval from the Members of the Company in the ensuing Annual General Meeting.

Corporate Governance

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

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

ADR Offering

Your Company proposes to expand its business activities both in India and abroad. It proposes to grow through acquisitions, mergers, joint ventures and strategic alliances, both in India and abroad, apart from expanding and upgrading its existing development facilities as well as creating new facilities and expanding its geographical reach by setting up subsidiaries/branches/marketing offices across the world.

In order to finance the above growth plans, the Company made a successful issue of American Depositary Receipts (ADRs) which received an overwhelming response from a large number of high quality investors. The ADR issue consisted of both primary and secondary portion and is listed on the New York Stock Exchange (NYSE). This will help in creating a brand value in the US market, from where substantial business is generated.

Accordingly, the Company had allotted 10,250,000 equity shares (represented by 5,125,000 ADSs) of Rs. 2/- each to the Bank of New York (BONY) as a depositary, at a price of \$20.34 per ADS.

Underwriters of ADS Offering had exercised the over allotment Option (greenshoe option) to purchase additional 1,031,250 ADSs representing 2,062,500 underlying equity shares of Rs.2/- each at the initial public offering price, less the underwriting discount. Accordingly, the Company allotted 2,062,500 equity shares.

In connection with the abovementioned Primary (including greenshoe) ADS offering, your Company received US\$ 117.0 million (net of underwriting discount and related expenses).

In addition, a sponsored ADS offering consisted of 1,750,000 ADSs represented by 3,500,000 underlying equity shares.

Particulars of Employees

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

Fixed Deposits

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

Auditors

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

Directors Responsibility Statement

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

- (a) in the preparation of the annual accounts, the accounting standards have been followed and that there are no material departures;
- (b) they, in selection of accounting policies, have consulted the Statutory Auditors and have applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31 December 2005 and the Profit of the Company for the period 1 January 2005 to 31 December 2005;
- (c) they have taken proper and sufficient care, to their best of knowledge and ability, for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (d) they have prepared the annual accounts on a going concern basis.

Conservation of Energy, Technology Absorption and Foreign Exchange Earnings / Outgo:

A) Conservation of Energy

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

B) Technology Absorption

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

C) Foreign Exchange Earnings/Outgo

	(Rs. in Lakhs)
Earnings in Foreign Currency on account of:	
Export Sale	87,116.5
Others	434.8
Total Earnings	87,551.3
Expenditure in Foreign Currency on account of:	
Stores & Spares	12.7
Capital Goods	3,208.3
Travelling Expenses	4,209.0
Overseas Employment Expenses	1,705.4
Professional Fees & Consultancy Charges	707.7
Subscription & Registration Fees	25.6
Other Matters	4,075.5
Total Expenditure	13,944.2
Net Earnings in Foreign Currency	73,607.1

Acknowledgements

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

For and on behalf of the Board of Directors

Narendra K Patni

Chairman & CEO

Date: 26 April 2006

Annexure to the Directors Report

Patni ESOP 2003

Description		Details
(a)	No. of options granted	6,454,742*
(b)	Pricing formula	As per market price as defined in SEBI Guidelines on ESOP
(c)	Options vested	1,850,664**
(d)	Options exercised	649,875
(e)	The total number of shares arising as a result of exercise of option	649,875
(f)	Options lapsed	594,450***
(g)	Variation of terms of options	Clause 5.6 amended****
(h)	Money realized by exercise of options	Rs. 99,635,875
(i)	Total number of options in force	5,210,417
(j)	Employee wise details of options granted to:	
	(I) senior managerial personnel;	Please refer to Table 1
	(II) any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year.	Nil
	(III) identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant	Nil

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

** Net of lapsed options.

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

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**** In accordance with the variation to the clause 5.6 of the Patni ESOP 2003, resigned employees are now been allowed 60 days from the last working day for exercising their vested options, as against 30 days from the last working day which was previously allowed.

Table 1

Employee	Number of Options granted
Mr. Neeraj Gupta#	24,000
Total	24,000

#Key managerial personnel of Subsidiaries.

- (k) Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with the Accounting Standard (AS) 20 15.25
- (l) Impact of Employee Compensation cost calculated as difference between intrinsic value and fair market value in accordance with SEBI Guidelines on ESOP

Profit for the year after taxation as reported	1,944,129
Add: Stock based employee compensation determined under the intrinsic value method	
Less: Stock based employee compensation determined under the fair value method	154,383
Pro-forma profit	1,789,746
Reported earnings per equity share of Rs 2 each	
Basic	15.46
Diluted	15.25
Pro-forma earnings per equity share of Rs 2 each	
Basic	14.23
Diluted	14.04

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- (m) Weighted-average exercise prices and weighted-average Fair values of options, separately for options whose exercise price either equals or exceeds or is less than the market price of the stock

Weighted average exercise price	Rs. 286.78
Weighted average fair value	Rs. 90.31

- (n) Assumptions used to estimate the fair Market value in accordance with SEBI Guidelines on ESOP.

Dividend yield	0.53% to 0.54%	
Expected life	2 to 5 years	
Risk free interest rates	5.74% to 6.73%	
Expected volatility	28% to 50%	
The price of the underlying share in market at the time of option grant	Grant Date	Price (Rs.)
	01/04/2005	381
	1/10/2005	451

Corporate Governance Report

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

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

Philosophy on Corporate Governance

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

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

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

A. Board of Directors

1. Composition of directors

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

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

Name of the director	Position / Category	Number of directorships in other companies*
Mr. Narendra K Patni(1)	Chairman & CEO	5
Mr. Gajendra K Patni(2)	Executive Director	2

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Mr. Ashok K Patni(2)	Executive Director	3
Mr. William O Grabe(3)	Non-Executive Director	6
Mr. Anupam P Puri(4)	Independent Director	5
Mr. Arun Duggal	Independent Director	6
Mr. Pradip Shah	Independent Director	16
Mr. Ramesh Venkateswaran	Independent Director	
Mr. Michael A Cusumano	Independent Director	1
Mr. Louis Theodoor van den Boog	Independent Director	1
Mr. Arun Maira(5)	Independent Director	

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

(1)Mr. Narendra K Patni is promoter and Executive Chairman (2)Promoter (3)Mr. Abhay Havaldar acts as an alternate director to Mr. William O Grabe (4)Resigned as Director w.e.f. 25 April 2006 (5)Appointed as an Additional Director w.e.f. 25 April 2006.

Changes in composition of the Board during the period ended 31 December 2005.

Mr. Louis Theodoor van den Boog was appointed as a Director of the Company, liable to retire by rotation, in the Annual General Meeting held on 14 June 2005.

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

Name of the director	Number of board committees on which Member	Number of board committees on which Chairman	Number of board committees of other companies on which Chairman	Number of board committees of other companies on which Member
Mr. Narendra K Patni	1	NIL	NIL	NIL
Mr. Gajendra K Patni	NIL	NIL	NIL	1
Mr. Ashok K Patni	NIL	NIL	NIL	1
Mr. William O Grabe*	2	NIL	NIL	NIL
Mr. Anupam P Puri	NIL	1	1	4
Mr. Arun Duggal	NIL	2	1	4
Mr. Pradip Shah	1	NIL	4	6
Mr. Ramesh Venkateswaran	1	NIL	NIL	NIL
Mr. Michael A Cusumano	NIL	NIL	NIL	NIL
Mr. Louis Theodoor van den Boog	1	NIL	NIL	NIL

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

Notes:

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

2. For the purpose of considering the limit on memberships of the committees, the Audit Committee, the Remuneration Committee and the Shareholders / Investors Grievance Committee are considered.

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

Five board meetings were held during the year ended 31 December 2005 with a time gap of not more than four months between any two meetings and the required information as stipulated under clause 49 of the Listing Agreement was made available to the members of the Board. The dates of such board meetings are 31 January 2005, 19 February 2005, 26 April 2005, 29 July 2005, and 25 October 2005.

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

Name of the director	Total board meetings held	Attended in person	Attended through video / tele conference	Annual general meeting on 14 June 2005
Mr. Narendra K Patni	5	5		ü
Mr. Gajendra K Patni	5	5		ü
Mr. Ashok K Patni	5	2		û
Mr. William O Grabe	5	2	3	û
Mr. Anupam P Puri	5	1	1	û
Mr. Arun Duggal	5	4		ü
Mr. Pradip Shah	5	5		ü
Mr. Michael A Cusumano	5	1	3	û
Mr. Ramesh Venkateswaran	5	4		ü
Mr. Louis Theodoor van den Boog	5	2	1	û
Mr. Abhay Havaldar (Alternate Director to Mr. William O Grabe)	5	3		ü

5. Compensation to Directors

Details of compensation paid to Directors for the year ended 31 December 2005 as below:

Director	Relationship with other directors	Business relationship with the Company	Loans & advances from the Company	Sitting Fees (Rs.)	Remuneration (Rs.)	Commission (US\$)
Mr. Narendra K Patni	Brother of Mr. Gajendra K Patni and Mr. Ashok K Patni	Promoter	NIL	NIL	Refer note 3	NIL
Mr. Gajendra K Patni	Brother of Mr. Narendra K Patni and Mr. Ashok K Patni	Promoter	NIL	NIL	19,987,836	NIL
Mr. Ashok K Patni	Brother of Mr. Gajendra K Patni and Mr. Narendra K Patni	Promoter	NIL	NIL	19,937,201	NIL
Mr. William O Grabe	No	Nominee of strategic investor	NIL	NIL	NIL	NIL
Mr. Anupam P Puri	No	None	NIL	20,000	NIL	33,334
Mr. Arun Duggal	No	None	NIL	160,000	NIL	33,334
Mr. Pradip Shah	No	None	NIL	180,000	NIL	33,334
Mr. Michael A Cusumano	No	None	NIL	40,000	NIL	33,334
Mr. Ramesh Venkateswaran	No	None	NIL	100,000	NIL	33,334
Mr. Louis Theodoor van den Boog	No	None	NIL	80,000	NIL	29,223

Note:

1. Sitting Fees: The Independent Directors are paid a sitting fee of Rs. 20,000 per meeting, being the maximum amount permissible under the present regulations, for attending the Board /Committee meetings.

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

	(Amounts in Rs.)			
	Salary, Allowances & Perquisites	PF contribution	Pension	Total
Mr. Gajendra K Patni	11,661,356	1,073,980	7,252,500	19,987,836
Mr. Ashok K Patni	11,610,721	1,073,980	7,252,500	19,937,201

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

Stock Options Grant

The Company had introduced PATNI ESOP 2003 for employees of the Company / subsidiaries including non-executive directors of the Company in terms of SEBI Guidelines on ESOP. In pursuance of PATNI ESOP 2003, the Company issued 20,000 Options to each Independent Director on 1 July 2004 as approved by the Compensation Committee at the exercise price of Rs. 254 per share.

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

25% of the options granted to Independent Directors in July 2004 as mentioned above had been vested in July 2005. However, none of the said directors have exercised their options yet.

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

Tenure

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

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

B. Audit Committee

1. Brief description of terms of reference

The Audit Committee was initially set up on 19 December 2001 and reconstituted on 12 November 2003 in line with corporate governance norms. Subsequently, the Audit Committee was reconstituted on 30 March 2005. The Audit Committee has three non-executive members with all being independent. The chairman of the Committee is an independent director.

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

- a) Overview of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- b) Recommending the appointment and removal of external auditor, fixation of audit fee and also approval of payment for any other services.
- c) Reviewing with management the annual financial statements before submission to the board, focusing primarily on:

Any changes in accounting policies and practices.

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Major accounting entries based on exercise of judgment by management.

Qualifications in draft audit report.

Significant adjustments arising out of audit.

The going concern assumption.

Compliance with accounting standards.

Compliance with stock exchange and legal requirements concerning financial statements.

Any related party transactions i.e. transactions of the company of material nature, with promoters or the management, their subsidiaries or relatives etc. that may have potential conflict with the interests of the company at large.

- d) Reviewing with the management, external and internal auditors, and the adequacy of internal control systems.
- e) Reviewing the adequacy of the internal audit function, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
- f) Discussion with internal auditors on any significant findings and follow up there on.
- g) Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
- h) Discussion with external auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.

- i) Reviewing the company's financial and risk management policies.

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

Powers assigned to the Audit Committee

The following powers are vested with the Audit Committee:

- a) To investigate any activity within its terms of reference.
- b) To seek information from any employee.
- c) To obtain outside or other professional advice.
- d) To secure attendance of outsiders with relevant expertise, if it considers necessary.

Review of information by the Audit Committee

The Audit Committee is responsible for reviewing the following information:

- a) Financial statements and draft audit report, including quarterly/half-yearly financial information.
- b) Management's discussion and analysis of financial condition and results of operation.
- c) Reports relating to compliance with laws and to risk management.
- d) Management's letters/letters of internal control weaknesses issued by statutory/internal auditors.
- e) Records of related party transactions; and

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

2. Composition, names of Members and Chairman

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

* Mr. Louis Theodoor van den Boog was inducted as a Member of the Audit Committee and Mr. William O Grabe resigned as a Member of Audit Committee w.e.f. 30 March 2005.

3. Meetings and attendance during the year

Four meetings were held during the year ended 31 December 2005

Name of the member	Total Audit Committee meetings held	Attended in person	Attended through video/tele conference
Mr. Arun Duggal	4	4	
Mr. Pradip Shah	4	4	
Mr. Louis Theodoor van den Boog*	4	2	1
Mr. William O Grabe*	4	1	

* Mr. Louis Theodoor van den Boog was inducted as a Member of the Audit Committee and Mr. William O Grabe resigned as a Member of Audit Committee w.e.f. 30 March 2005.

C. Remuneration Committee

1. Brief description of terms of reference

The Remuneration Committee was set up on 12 November 2003. The main function of the committee is to determine on behalf of the Board and the shareholders, the Company's policy on specific package for Executive Directors including pension rights and any compensation payment.

The committee has three non-executive members with the majority being independent and the chairman of the committee is an independent director.

2. Composition, names of Members and Chairman

Name of the member	Designation	Category
Mr. Anupam P Puri	Chairman	Independent Director
Mr. Ramesh Venkateswaran		