

Patni Computer Systems LTD
Form 20-F/A
March 05, 2008

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 20-F/A

Amendment No. 2

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2006

OR

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

OR

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

Edgar Filing: Patni Computer Systems LTD - Form 20-F/A

(Jurisdiction of incorporation or organization)

Akruti Softech Park, MIDC Cross Road No. 21

Andheri (E), Mumbai 400 093, India

+91 22 6693 0500

Edgar Filing: Patni Computer Systems LTD - Form 20-F/A

(Address of principal executive offices)

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

Edgar Filing: Patni Computer Systems LTD - Form 20-F/A

| 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, 2006 was:

Equity shares: 138,281,853

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 NO

Edgar Filing: Patni Computer Systems LTD - Form 20-F/A

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 NO

Edgar Filing: Patni Computer Systems LTD - Form 20-F/A

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 No

Edgar Filing: Patni Computer Systems LTD - Form 20-F/A

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):

Edgar Filing: Patni Computer Systems LTD - Form 20-F/A

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Item 17 Item 18

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 NO

Explanatory Note

This Amendment No. 2 on Form 20-F/A to our Annual Report on Form 20-F for the fiscal year ended December 31, 2006 is being filed for the purposes of supplementing or amending Note 10 of our consolidated financial statements and including the signed accountants' report, as set forth below.

PART III

ITEM 17. FINANCIAL STATEMENTS

See Item 18.

ITEM 18. FINANCIAL STATEMENTS

The following financial statement and auditors report for fiscal 2006 are incorporated herein by reference and are included in this Item 18 of this report on Form 20-F:

- Report of Independent Registered Public Accounting Firm.

- Consolidated Balance Sheets as of December 31, 2005 and 2006.

- Consolidated Statements of Income for the years ended December 31, 2004, 2005 and 2006.

- Consolidated Statements of Stockholders Equity and Comprehensive Income for the years ended December 31, 2004, 2005 and 2006.

- Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2005 and 2006.

- Notes to the Consolidated Financial Statements.

ITEM 19. EXHIBITS

Edgar Filing: Patni Computer Systems LTD - Form 20-F/A

- *1.1 Articles of Association of Patni Computer Systems Limited, as amended
- *1.2 Memorandum of Association of Patni Computer Systems Limited, as amended
- *1.3 Certificate of Incorporation of Patni Computer Systems Limited, as amended
- *2.1 Form of Deposit Agreement
- *2.2 Patni s specimen certificate for equity shares
- *2.3 Form of American Depositary Receipt
- *2.4 Patni ESOP 2003-Revised 2006 #
- *4.2 Registration Rights Agreement
- *4.3 Purchase Agreement between Patni Computer Systems Limited and Cymbal Corporation dated November 3, 2004
- *4.4 Lease Deed entered into between the Company and State Industrial Promotion Corporation of Tamil Nadu Limited (SIPCOT), dated September 30, 2004
- *4.5 Service Agreement between Patni Computer Systems Inc. and Mr. Narendra K. Patni dated December 1, 2000, as amended
- *4.6 Consultancy Agreement between Patni Computer Systems Limited and Patni Computer Systems Inc. (f/t/a Data Conversion Inc.) dated October 27, 2000
- *4.7 Terms of employment for Mr. Gajendra K. Patni and Mr. Ashok K. Patni
- *4.8 Information Technology Services Agreement between General Electric International Inc. and Patni Computer Systems Inc. dated November 12, 2003
- 4.9 Amendment to Information Technology Services Agreement between General Electric International Inc. and Patni Computer Systems Inc. dated August 03, 2006
- ##8.1 List of subsidiaries of the Registrant, see Item 4. Information on the Company Organizational Structure
- 12.1 Certification of Chief Executive Officer under Section 302 of the Sarbanes Oxley Act
- 12.2 Certification of Chief Financial Officer under Section 302 of the Sarbanes Oxley Act
- 13.1 Certification of Chief Executive Officer under Section 906 of the Sarbanes Oxley Act
- 13.2 Certification of Chief Financial Officer under Section 906 of the Sarbanes Oxley Act

* Previously filed on November 17, 2005 with the SEC on Form F-1 (File Number 333-129771)

Incorporated by reference from Form S - 8 (file number 33-137306)

Previously filed on June 29, 2007 with the SEC on Form 20F (File Number 001-32692 07948644)

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F/A and that it has duly caused and authorized the undersigned to sign this Amendment No. 2 on Form 20-F/A on its behalf.

For Patni Computer Systems Limited

By: /s/ NARENDRA K. PATNI
Narendra K. Patni
Chief Executive Officer

For Patni Computer Systems Limited

By: /s/ SURJEET SINGH
Surjeet Singh
Chief Financial Officer

Mumbai, India
Date: March 04, 2008

Patni Computer Systems Limited and subsidiaries

Consolidated financial statements

Contents

| | |
|--|-------------|
| <u>Report of Independent Registered Public Accounting Firm</u> | F-2 |
| <u>Consolidated Balance Sheets as of December 31, 2005 and 2006</u> | F-3 |
| <u>Consolidated Statements of Income for the years ended December 31, 2004, 2005 and 2006</u> | F-4 |
| <u>Consolidated Statements of Shareholders' Equity and Comprehensive Income for the years ended December 31, 2004, 2005 and 2006</u> | F-5 to F-6 |
| <u>Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2005 and 2006</u> | F-7 to F-8 |
| <u>Notes to the Consolidated Financial Statements</u> | F-9 to F-36 |

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Patni Computer Systems Limited

We have audited the accompanying consolidated balance sheets of Patni Computer Systems Limited and subsidiaries (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Patni Computer Systems Limited and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2.1.27 to the consolidated financial statements, effective January 1, 2006, the Company adopted the fair value method of accounting for stock-based compensation as required by Statement of Financial Accounting Standards No. 123(R), Share- Based Payment.

21 February 2007

/s/ KPMG
KPMG
Mumbai, India

Patni Computer Systems Limited and subsidiaries

Consolidated Balance Sheets

Edgar Filing: Patni Computer Systems LTD - Form 20-F/A

| As of | December 31, 2005 | December 31, 2006 |
|---|-----------------------|-----------------------|
| Assets | | |
| <i>Current assets</i> | | |
| Cash and cash equivalents | \$ 148,819,600 | \$ 46,510,010 |
| Investments | 141,775,935 | 242,968,048 |
| Accounts receivable, net | 58,747,671 | 101,893,834 |
| Accounts receivable from a significant shareholder, net | 15,673,490 | 13,724,670 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 26,094,094 | 22,834,345 |
| Deferred income taxes | 13,722,884 | 10,240,528 |
| Prepaid Expenses | 2,051,035 | 2,155,676 |
| Other current assets | 7,498,001 | 9,860,763 |
| Total current assets | 414,382,710 | 450,187,874 |
| Deferred income taxes | 3,401,766 | 370,529 |
| Investments | | 3,048,092 |
| Other assets | 9,711,827 | 11,457,225 |
| Property, plant and equipment, net | 88,244,547 | 125,757,824 |
| Intangible assets, net | 10,158,065 | 9,687,443 |
| Goodwill | 27,987,198 | 39,831,664 |
| Total assets | \$ 553,886,113 | \$ 640,340,651 |
| Liabilities and shareholders equity | | |
| <i>Current liabilities</i> | | |
| Capital lease obligation | 289,520 | 301,138 |
| Trade accounts payable | 5,488,043 | 11,010,564 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 2,350,346 | 3,324,581 |
| Income taxes payable | 17,994,936 | 23,213,916 |
| Deferred income taxes | 193,807 | 108,637 |
| Accrued expenses | 26,231,532 | 43,307,501 |
| Other current liabilities | 50,765,012 | 38,221,746 |
| Total current liabilities | 103,313,196 | 119,488,083 |
| Capital lease obligations excluding current instalments | 416,342 | 390,653 |
| Other liabilities | 6,368,544 | 8,124,060 |
| Deferred income taxes | 4,758,961 | 3,744,639 |
| Total liabilities | \$ 114,857,043 | \$ 131,747,435 |
| Commitments and contingencies | | |
| Shareholders Equity | | |
| Common shares Rs. 2 par value; Authorized 250,000,000 shares (Issued and outstanding; 137,798,399 shares and 138,281,853 shares as of December 31, 2005 and 2006 respectively). | 6,101,600 | 6,122,960 |
| Additional paid-in capital | 299,220,619 | 305,030,981 |
| Retained earnings | 132,511,943 | 183,197,559 |
| Accumulated other comprehensive income | 1,194,908 | 14,241,716 |
| Total shareholders equity | \$ 439,029,070 | \$ 508,593,216 |
| Total liabilities and shareholders equity | \$ 553,886,113 | \$ 640,340,651 |

See accompanying notes to the consolidated financial statements

Patni Computer Systems Limited and subsidiaries

Consolidated Statements of Income

Edgar Filing: Patni Computer Systems LTD - Form 20-F/A

| Year ended December 31, | 2004 | 2005 | 2006 |
|--|----------------------|----------------------|----------------------|
| Revenues | \$ 223,141,113 | \$ 350,972,760 | \$ 494,447,726 |
| Revenue from a significant shareholder | 103,440,511 | 99,359,172 | 84,403,156 |
| | 326,581,624 | 450,331,932 | 578,850,882 |
| Cost of revenues | 202,461,490 | 288,480,678 | 370,172,936 |
| Gross profit | 124,120,134 | 161,851,254 | 208,677,946 |
| Selling, general and administrative expenses | 60,699,901 | 89,880,905 | 110,264,979 |
| Provision for doubtful debts and advances | 495,618 | (151,954) | 1,191,017 |
| Foreign exchange (gain)/loss, net | 2,081,800 | 1,693,145 | 2,747,926 |
| Operating income | 60,842,815 | 70,429,158 | 94,474,024 |
| Other income/(expense) | | | |
| Interest and dividend income | 4,222,853 | 4,189,776 | 10,087,916 |
| Interest expense | (2,083,285) | (2,044,366) | (2,839,930) |
| Gain on sale of investments, net | 144,482 | 1,128,071 | 1,679,097 |
| Other (expense)/income, net | (3,692,704) | 966,620 | 3,541,426 |
| Income before income taxes | 59,434,161 | 74,669,259 | 106,942,533 |
| Income taxes | 12,886,362 | 13,802,583 | 47,691,763 |
| Net income | \$ 46,547,799 | \$ 60,866,676 | \$ 59,250,770 |
| Earnings per share | | | |
| Basic | \$ 0.38 | \$ 0.48 | \$ 0.43 |
| Diluted | \$ 0.38 | \$ 0.48 | \$ 0.43 |
| Weighted average number of common shares used in computing earnings per share | | | |
| Basic | 123,066,042 | 125,736,592 | 137,957,477 |
| Diluted | 124,084,992 | 127,457,632 | 138,904,860 |

See accompanying notes to the consolidated financial statements

Patni Computer Systems Limited and subsidiaries

Consolidated Statements of Shareholders Equity and Comprehensive Income for the years ended December 31, 2004, 2005 and 2006

| | Common shares | | Additional | Retained | Comprehensive | (in \$ except share data) | |
|---|--------------------|---------------------|-----------------------|-----------------------|---------------|--|-----------------------|
| | Shares | Par value | Paid-In-Capital | Earnings | Income | Accumulated Other Comprehensive Income | Shareholders Equity |
| Balance as of January 1, 2004 | 111,420,849 | 4,942,505 | 116,722,000 | 34,692,917 | | \$ (1,525,344) | \$ 154,832,078 |
| Common shares issued through an Initial Public Offering, net of direct expenses | 13,415,200 | 592,675 | 63,675,676 | | | | 64,268,351 |
| Issuance of equity shares on exercise of options | 160,960 | 7,121 | 509,183 | | | | 516,304 |
| Cash dividend on common shares | | | | (3,061,551) | | | (3,061,551) |
| Comprehensive income | | | | | | | |
| Net income | | | | 46,547,799 | 46,547,799 | | 46,547,799 |
| Other comprehensive income: | | | | | | | |
| Translation adjustment | | | | | 9,549,971 | | 9,549,971 |
| Unrealised gain on investments, net of tax of \$142,362 | | | | | 241,535 | | 241,535 |
| Minimum pension liability, net of tax of \$153,253 | | | | | 332,292 | | 332,292 |
| Comprehensive income | | | | | 56,671,597 | 10,123,798 | |
| Balance as of December 31, 2004 | 124,997,009 | \$ 5,542,301 | \$ 180,906,859 | \$ 78,179,165 | | \$ 8,598,454 | \$ 273,226,779 |
| Common shares issued, net of direct expenses | 12,312,500 | 537,304 | 116,484,548 | | | | 117,021,852 |
| Issuance of equity shares on exercise of options | 488,890 | 21,995 | 1,692,396 | | | | 1,714,391 |
| Tax benefit arising on exercise of stock options | | | 136,816 | | | | 136,816 |
| Cash dividend on common shares | | | | (6,533,898) | | | (6,533,898) |
| Comprehensive income | | | | | | | |
| Net income | | | | 60,866,676 | 60,866,676 | | 60,866,676 |
| Other comprehensive income: | | | | | | | |
| Translation adjustment | | | | | (7,278,016) | | (7,278,016) |
| Unrealised gain on investments, net of tax of \$261,520 | | | | | 560,447 | | 560,447 |
| Unrealised loss on cash flow hedging derivatives, net of tax of \$Nil | | | | | (1,026,624) | | (1,026,624) |
| Minimum pension liability, net of tax of \$194,848 | | | | | 340,647 | | 340,647 |
| Comprehensive income | | | | | 53,463,130 | (7,403,546) | |
| Balance as of December 31, 2005 | 137,798,399 | \$ 6,101,600 | \$ 299,220,619 | \$ 132,511,943 | | \$ 1,194,908 | \$ 439,029,070 |

See accompanying notes to the consolidated financial statements

Edgar Filing: Patni Computer Systems LTD - Form 20-F/A

| | Common shares | | Additional Paid-In- Capital | Retained Earnings | Comprehensive Income | (in \$ except share data) | |
|--|--------------------|---------------------|-----------------------------------|-----------------------|-------------------------|---|------------------------|
| | Shares | Par value | | | | Accumulated Other Comprehensive Income | Shareholders Equity |
| Balance as of December 31, 2005 | 137,798,399 | 6,101,600 | 299,220,619 | 132,511,943 | | \$ 1,194,908 | \$ 439,029,070 |
| Issuance of equity shares on exercise of options | 483,454 | 21,360 | 1,802,953 | | | | 1,824,313 |
| Tax benefit arising on exercise of stock options | | | 23,338 | | | | 23,338 |
| Compensation cost related to employee stock option plan | | | 3,984,071 | | | | 3,984,071 |
| Cash dividend on common shares | | | | (8,565,154) | | | (8,565,154) |
| Comprehensive income | | | | | | | |
| Net income | | | | 59,250,770 | 59,250,770 | | 59,250,770 |
| Other comprehensive income: | | | | | | | |
| Translation adjustment | | | | | 9,256,054 | | 9,256,054 |
| Unrealised gain on investments, net of tax of \$1,076,106 | | | | | 2,102,200 | | 2,102,200 |
| Unrealised gain on cash flow hedging derivatives, net of tax of \$ Nil | | | | | 2,531,633 | | 2,531,633 |
| Comprehensive income | | | | | 73,140,657 | 13,889,887 | |
| Adjustment to initially apply FASB Statement No. 158, net of tax of \$323,655 | | | | | | (843,079) | (843,079) |
| Balance as of December 31, 2006 | 138,281,853 | \$ 6,122,960 | \$ 305,030,981 | \$ 183,197,559 | | \$ 14,241,716 | \$ 508,593,216 |

See accompanying notes to the consolidated financial statements

Patni Computer Systems Limited and subsidiaries

Consolidated Statements of Cash Flows

| Year ended December 31, | 2004 | 2005 | 2006 |
|--|------------------------|-------------------------|-------------------------|
| Operating activities | | | |
| Net income | \$ 46,547,799 | \$ 60,866,676 | \$ 59,250,770 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | |
| Depreciation and amortization | 11,543,775 | 15,960,705 | 19,573,548 |
| Deferred taxes | (1,937,708) | (1,889,293) | 4,344,470 |
| Provision/(recovery) for doubtful debts and advances | 495,618 | (151,954) | 1,191,017 |
| (Gain)/loss on sale of property, plant and equipment, net | 597,678 | (3,176,152) | (21,977) |
| (Gain) / loss on sale of investments | (144,482) | (1,128,071) | (1,679,097) |
| Compensation cost related to employee stock option plan | | | 3,984,071 |
| Changes in assets and liabilities | | | |
| Accounts receivable | (10,400,590) | (3,531,903) | (40,234,185) |
| Costs and estimated earnings in excess of billings on uncompleted contracts | (5,032,911) | (11,162,155) | 3,955,003 |
| Other current assets | (3,445,375) | 3,431,844 | (735,650) |
| Other assets | (2,714,988) | (142,962) | (579,720) |
| Trade accounts payable - others | (780,814) | 1,428,007 | 4,025,950 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 634,645 | (456,143) | 859,218 |
| Tax benefit arising on exercise of stock options | | 136,816 | |
| Taxes payable | 2,377,631 | (463,113) | 4,956,360 |
| Accrued expenses | (569,178) | 6,069,364 | 16,246,514 |
| Other current liabilities | 9,803,420 | 14,815,277 | (17,063,525) |
| Other liabilities | 817,726 | (7,548,512) | 1,018,325 |
| Net cash provided by operating activities | \$ 47,792,246 | \$ 73,058,431 | \$ 59,091,092 |
| Investing activities | | | |
| Purchase of property, plant and equipment | (21,590,640) | (53,282,451) | (48,620,365) |
| Proceeds from sales of property, plant and equipment | 509,570 | 4,336,910 | 83,097 |
| Purchase of investments | (255,601,922) | (542,994,281) | (781,204,843) |
| Proceeds from sale of investments | 223,648,957 | 485,768,961 | 686,658,104 |
| Payments for acquisition, net of cash acquired | (32,450,060) | (5,578,772) | (12,184,832) |
| Payments for acquisition of technology related intangibles | | | (497,879) |
| Tax benefit on incentive stock option of Patni Telecom | | | 340,366 |
| Net cash used in investing activities | \$ (85,484,095) | \$ (111,749,633) | \$ (155,426,352) |

Edgar Filing: Patni Computer Systems LTD - Form 20-F/A

See accompanying notes to the consolidated financial statements

Edgar Filing: Patni Computer Systems LTD - Form 20-F/A

| Year ended December 31, | 2004 | 2005 | 2006 |
|--|----------------------|-----------------------|-----------------------|
| Financing activities: | | | |
| Payment of capital lease obligations | (301,474) | (329,168) | (390,886) |
| Dividend on common shares | (3,059,633) | (6,531,628) | (8,562,666) |
| Proceeds from common shares issued, net of expenses | 64,784,655 | 118,736,243 | 1,824,313 |
| Tax benefit arising on exercise of stock options | | | 23,338 |
| Net cash provided by/(used in) financing activities | \$ 61,423,548 | \$ 111,875,447 | \$ (7,105,901) |
| Effect of exchange rates changes on cash and cash equivalents | 5,472,249 | (1,508,142) | 1,131,571 |
| Net increase in cash and cash equivalents | 23,731,699 | 73,184,245 | (103,441,161) |
| Cash and cash equivalents at the beginning of the year | 47,939,550 | 77,143,498 | 148,819,600 |
| Cash and cash equivalents at end of the year | \$ 77,143,498 | \$ 148,819,600 | \$ 46,510,010 |
| Supplemental disclosure of cash flow information: | | | |
| Interest paid | \$ 35,152 | \$ 673,158 | \$ 4,905,069 |
| Income taxes paid | \$ 12,536,145 | \$ 15,294,446 | \$ 39,945,075 |
| Non cash investing and financing activities: | | | |
| Additions to property, plant and equipment, represented by capital lease obligations | \$ 393,184 | \$ 471,644 | \$ 361,133 |
| Property, plant and equipment acquired on credit | \$ 870,073 | \$ 2,104,773 | \$ 4,814,076 |

Edgar Filing: Patni Computer Systems LTD - Form 20-F/A

See accompanying notes to the consolidated financial statements

F-8

Patni Computer Systems Limited and subsidiaries

Notes to the consolidated financial statements

1 Organization and nature of business

- 1.1.1 Patni Computer Systems Limited (Patni) is a company incorporated in India under the Indian Companies Act, 1956. On September 18, 2003, Patni converted itself from a private limited company into a public limited company and changed its name from Patni Computer Systems (P) Limited to Patni Computer Systems Limited. In February 2004, Patni completed initial public offering of its equity shares in India and in December 2005, the Company completed initial public offering of American depository shares in the US.
- 1.1.2 Patni Computers Systems (UK) Limited (Patni UK), a company incorporated in UK, Patni Computer Systems GmbH (Patni GmbH), a company incorporated in Germany and Patni Computer Systems, Inc. (Patni USA), a company incorporated in Massachusetts, USA are 100% subsidiaries of Patni. On November 3, 2004, Patni USA, acquired 100% equity in Patni Telecom (formerly known as Cymbal Corporation), a company incorporated in California, USA, together with its subsidiaries in India, UK & Thailand, for consideration in cash. Further, Patni also has foreign branch offices in USA, Japan, Sweden, Australia, Korea, Netherlands, Finland, Dubai and Canada.

Cymbal Information Services (Thailand) Ltd., subsidiary of Patni Telecom has been dissolved and the liquidation has been completed in May, 2006.

- 1.1.3 Patni together with its subsidiaries (collectively, Patni Group or the Company) is engaged in IT consulting, software development and Business Process Outsourcing (BPO). The Company provides multiple service offerings to its clients across various industries comprising financial services, insurance services, manufacturing, telecommunications services and technology services (comprising independent software vendors and product engineering) and other industries such as energy and utilities, retail, logistics and transportation, and media and entertainment. The various service offerings comprise application development, application maintenance and support, packaged software implementation, infrastructure management services, product engineering services, quality assurance services and BPO services.
- 1.1.4 These financial statements are prepared on a consolidated basis for all the years presented.

2 Summary of significant accounting policies

Basis of preparation of financial statements

- 2.1.1 The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).

Principles of consolidation

- 2.1.2 The consolidated financial statements include the financial statements of Patni and all of its subsidiaries, which are more than 50% owned and controlled. In addition, the Company consolidates any Variable Interest Entity (VIE) if it is determined to be a primary beneficiary in accordance with FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities . The Company accounts for investments by the equity method where its investment in the voting stock gives it the ability to exercise significant influence over the investee. However, as of December 31, 2005 and 2006, the Company does not have any interest in any VIE, or any equity method investment. All inter-company accounts and transactions are eliminated on consolidation.

Accounting estimates

- 2.1.3

Edgar Filing: Patni Computer Systems LTD - Form 20-F/A

The preparation of financial statements in conformity with US GAAP requires that management makes estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management believes that the estimates used in the preparation of the consolidated financial statements are prudent and reasonable. The actual results could differ from these estimates.

F-9

Patni Computer Systems Limited and subsidiaries

Notes to the consolidated financial statements (Continued)

Revenue and cost recognition

- 2.1.4 The Company derives its revenues primarily from software services and to a lesser extent from BPO services. Revenue is recognized when there is persuasive evidence of a contractual arrangement with customers, delivery has occurred, the sales price is fixed or determinable and collectibility is probable. Software services are provided either on a fixed price, fixed time frame or on a time and material basis. The Company's fixed price contracts include application maintenance and support services, on which revenue is recognized on a straight line basis over the term of maintenance. Revenue with respect to other fixed price contracts is recognized on a percentage of completion basis. Revenue with respect to time-and-material contracts is recognized as related services are performed. 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 (cost expended) 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.
- 2.1.5 The asset, Cost and estimated earnings in excess of billings on uncompleted contracts , represents revenues recognized in excess of amounts billed. These amounts are billed after the milestones specified in the agreement are achieved and the customer acceptance for the same is received. The liability, Billings in excess of costs and estimated earnings on uncompleted contracts , represents billings in excess of revenues recognized.
- 2.1.6 Direct and incremental contract origination and set up costs incurred in connection with support/maintenance service arrangements are charged to expense as incurred. These costs are deferred only in situations where there is a contractual arrangement establishing a customer relationship for a specified period. The costs to be deferred are limited to the extent of future contractual revenues. Further, revenue attributable to set up activities is deferred and recognised systematically over the periods that the related fees are earned, as services performed during such period do not result in the culmination of a separate earnings process.
- Costs that are incurred for a specific anticipated contract and that will result in no future benefits unless the contract is obtained, are not included in contract costs before the receipt of the contract. However, such costs are deferred, subject to the evaluation of their probable recoverability.
- 2.1.7 Warranty costs on sale of services are accrued based on managements estimates and historical data at the time related revenues are recorded.
- 2.1.8 The Company grants 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, as per the terms of the contract. These discounts are earned only after the customer has provided a specified cumulative level of revenues in the specified period. The discounts can be utilized by the customer in the form of free services.

The Company estimates 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. The amount of revenue to be allocated to the free services is based on the relative fair value of the free services.

Edgar Filing: Patni Computer Systems LTD - Form 20-F/A

The Company reports revenues net of discounts offered to customers. In accounting for the above volume discounts, guidance has been obtained from *Emerging Issues Task Force (EITF) 00-22 Accounting for Points and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future* and *EITF 01-09, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)* . Accordingly, these volume discounts have been recorded based on estimate of the total number of customers that will ultimately earn these discounts as it is believed that, based on historical experience, reliable estimates can be made of the estimated amount of revenues from a particular customer in the specified period.

Reimbursement of out of pocket expenses received from customers have been included as part of revenues in accordance with *EITF 01-14 Income Statement Characterization of Reimbursements Received for Out of Pocket Expenses Incurred* .

Patni Computer Systems Limited and subsidiaries

Notes to the consolidated financial statements (Continued)

2.1.9 Revenue from BPO is recognised on proportionate performance method.

Advertising cost

2.1.10 Advertising costs incurred during the year have been expensed. The total amount of advertising costs expensed was \$1 million, \$1.5 million and \$1.6 million for the years ended December, 31, 2004, 2005 and 2006 .

Cash and cash equivalents

2.1.11 The Company considers investments in highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents comprise cash and cash on deposit with banks.

Investments

2.1.12 Management determines the appropriate classification of investment securities at the time of purchase and re-evaluates such designation at each balance sheet date. At December 31, 2005 and 2006, investment securities were classified as available-for-sale or held to maturity. The investment securities classified as available-for-sale consisted of units of mutual funds. Held to maturity securities consist of investment in Government bonds made by the Company pursuant to tax exemption scheme under the Indian Income Tax Act, 1961. These bonds are carried at cost in the absence of market value and mature in three years.

2.1.13 Available-for-sale securities are carried at fair market value with unrealized gains and losses, net of deferred income taxes, reported as a separate component of other comprehensive income in the statement of shareholders' equity and comprehensive income. Realized gains and losses, and decline in value judged to be other than temporary on available-for-sale securities are included in the consolidated statements of income. The cost of securities sold or disposed is determined on average cost basis.

Business combinations, goodwill and intangible assets

2.1.14 *Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations* requires that the purchase method of accounting be used for all business combinations. SFAS No. 141 specifies criteria that intangible assets acquired in a business combination must be recognized and reported separately from goodwill. In accordance with *SFAS No. 142, Goodwill and Other Intangible Assets* all assets and liabilities of the acquired businesses including goodwill are assigned to reporting units.

2.1.15 Goodwill represents the cost of the acquired businesses in excess of the fair value of identifiable tangible and intangible net assets purchased. Goodwill is not amortized but is tested for impairment at least on an annual basis, relying 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. If the carrying amount of the reporting unit exceeds its fair value, the second step of the process involves a comparison of the fair value and carrying value of the goodwill of that reporting unit. 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.

Patni Computer Systems Limited and subsidiaries

Notes to the consolidated financial statements (Continued)

- 2.1.16 Intangible assets are amortized over their respective individual estimated useful lives in proportion to the economic benefits consumed in each period. Intangible assets comprise customer and technology related intangibles and are being amortized over a period of 5-10 years. The estimated useful life of an identifiable intangible asset is 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.
- 2.1.17 Intangible assets are evaluated 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.

Property, plant and equipment

- 2.1.18 Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Gains and losses on disposals are included in the consolidated statements of income at amounts equal to the difference between the net book value of the disposed assets and the net proceeds received upon disposal. Expenditures for replacements and improvements are capitalized, whereas the cost of maintenance and repairs is charged to income when incurred.
- 2.1.19 Property, plant and equipment are depreciated over the estimated useful life of the asset using the straight-line method, once the asset is put to its intended use. The cost of software obtained for internal use is capitalized and amortized over the estimated useful life of the software. The estimated useful lives of assets are as follows:

| | |
|---|---|
| Buildings | 40 years |
| Leasehold premises and improvements | Over the lease period or the useful lives of the assets, whichever is shorter |
| Computer Hardware and software and other service equipments | 3 years |
| Furniture and fixtures | 3-8 years |
| Other equipment | 3-8 years |
| Vehicles | 4-5 years |

Impairment of long-lived assets and long-lived assets to be disposed

- 2.1.20 Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever an event or changes in circumstances indicate that the carrying amount of such assets 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 net undiscounted 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 amount of the assets exceeds the fair value of assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

Functional and Foreign currency translation

- 2.1.21 The functional currency of Patni and its branches in the US, Japan, Sweden, Australia, Korea and Netherland is the Indian Rupee. The functional currencies of Patni's subsidiaries are the applicable local currencies.
- 2.1.22 The accompanying consolidated financial statements are reported in US Dollars. The translation is performed for balance sheet accounts using the exchange rate in effect at the balance sheet date and for statements of income accounts using an appropriate

Edgar Filing: Patni Computer Systems LTD - Form 20-F/A

monthly weighted average exchange rate for the respective periods. In respect of subsidiaries, the respective functional currencies are first translated into Indian Rupees and then into US Dollars. The gains or losses resulting from such translation are reported in other comprehensive income in the statement of shareholders' equity and comprehensive income.

F-12

Patni Computer Systems Limited and subsidiaries

Notes to the consolidated financial statements (Continued)

Foreign currency transactions

- 2.1.23 Transactions in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the date of the transaction. Resulting gains or losses from settlement of such foreign currency transactions are included in the consolidated statements of income. Unsettled monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the balance sheet date. Transaction gain or loss arising from change in exchange rates between the date of transaction and period end exchange rates are included in the consolidated statements of income.

Income taxes

- 2.1.24 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. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance if it is more likely than not that some portion or all of the assets will not be realized.

Concentration of credit risk

- 2.1.25 Financial instruments that potentially subject the Company to concentration of credit risks consist principally of cash, cash equivalents, investments and accounts receivables. Cash and cash equivalents are invested with corporations, financial institutions and banks with investment grade credit ratings. To reduce credit risk, investments are made in a diversified portfolio of mutual funds, government bonds, which are periodically reviewed. To reduce its credit risk on accounts receivables, the Company performs ongoing credit evaluations of customers.

Retirement benefits to employees

- 2.1.26 Contributions to defined contribution plans are charged to income in the period in which they accrue. Current services costs for defined benefit plans are accrued in the period to which they relate, based on actuarial valuation performed by an independent actuary in accordance with *SFAS No. 87, Employers Accounting for Pensions*, *SFAS No. 132R Employers Disclosures about Pensions and Other Postretirement Benefits*, both as amended by *SFAS No. 158 Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans*. The Company adopted SFAS No. 158 as of December 31, 2006 which requires the net funded position of the plans to be recognized as an asset or liability in the employers' balance sheet. The net effect of adopting this new standard was a reduction in the stockholders' equity of \$0.8 million. Refer note 18.1.18 for computation of the net effect.

Stock-based compensation

- 2.1.27 The Company adopted *SFAS No. 123R, Share-Based Payment (SFAS No. 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. The Company elected the modified prospective method as prescribed in SFAS No. 123R and therefore, prior periods were not restated. Under the modified prospective method, this statement 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. The Company granted stock options under the Patni ESOP 2003 plan (the plan). See Note 16 for further discussion.

Patni Computer Systems Limited and subsidiaries

Notes to the consolidated financial statements (Continued)

Share-based compensation expense in 2006 reduced the Company's results of operations as follows:

| | 2006 |
|----------------------------|--------------|
| Income before income taxes | \$ 3,984,071 |
| Net Income | 3,299,530 |
| Basic earnings per share | \$ 0.02 |

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

| Year ended | 2006 |
|--------------------|---------------|
| Dividend yield | 0.59% - 0.63% |
| Expected life | 3.5-6.5 years |
| Risk free interest | 6.45% - 7.85% |
| Volatility | 30.22% - 55% |

2.1.28 Prior to January 1, 2006, the company accounted for share-based employee compensation under the provisions of SFAS No. 123 using the intrinsic value method prescribed by APB No. 25 and related interpretations. Under the intrinsic value method, no compensation expense was recognized for stock options, as the exercise price of employee stock options equated the market value of the Company's stock on the date of grant. The following pro forma net income and earnings per share information had been determined as if the Company had accounted for its share-based compensation awards issued using the fair value method in 2004 and 2005.

| Year | 2004 | 2005 |
|--|---------------|---------------|
| Net income, as reported | \$ 46,547,799 | \$ 60,866,676 |
| Less: Stock based employee compensation expense determined under fair value based method, net of tax effects | (1,253,513) | (3,501,531) |
| Pro forma net income | \$ 45,294,286 | \$ 57,365,145 |
| Reported earnings per share | | |
| Basic | \$ 0.38 | \$ 0.48 |
| Diluted | \$ 0.38 | \$ 0.48 |
| Pro forma earnings per share | | |
| Basic | \$ 0.37 | \$ 0.46 |
| Diluted | \$ 0.37 | \$ 0.45 |

2.1.29 The pro forma amounts and fair value of each option grant were estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 2004 and 2005:

| Year ended December 31, | 2004 | 2005 |
|--------------------------------|---------------|---------------|
| Dividend yield | 0.34% - 0.72% | 0.53% - 0.54% |
| Expected life | 2-5 years | 2-5 years |

Edgar Filing: Patni Computer Systems LTD - Form 20-F/A

| | | |
|--------------------------|---------------|---------------|
| Risk free interest rates | 5.16% - 6.46% | 5.74% - 6.73% |
| Volatility | 43% - 65% | 28% - 50% |

The Black-Scholes model is a trading pricing model that does not reflect either the non-traded nature of employee stock options or the limited transferability of such options. This model also does not consider restrictions on trading for all employees, including certain restrictions imposed on senior management of the Company. Therefore, if the Company had used an option pricing model other than Black-Scholes, pro forma results different from those shown above may have been reported.

2.1.30 Prior to the adoption of SFAS 123R, the Company was 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. In the accompanying Consolidated Statements of Cash Flows for year ended December 31, 2006, tax benefit of \$23,338 has been classified as financing cash flows.

Patni Computer Systems Limited and subsidiaries

Notes to the consolidated financial statements (Continued)

Dividends

2.1.31 Dividends on common shares are recorded as a liability on the date of declaration by the shareholders at the Annual General Meeting.

Derivatives and hedge accounting

2.1.32 The Company evaluates its risk management program and hedging strategies in respect of forecasted transactions, and, upon completion of the formal documentation and testing for effectiveness, the Company designates certain forward contracts in respect of forecasted transactions, which meet the hedging criteria, as cash flow hedges. Changes in fair values of designated cash flow hedges are deferred and recorded as a component of accumulated other comprehensive income until the hedged transactions occur and are then recognised 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.

2.1.33 In respect of derivatives designated as hedges, the Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company 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, the Company will, prospectively, discontinue hedge accounting with respect to that derivative.

Earnings per share

2.1.34 In accordance with *SFAS No. 128, Earnings per Share*, basic earnings per share is computed using the weighted average number of common and redeemable common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common and redeemable common shares and dilutive common equivalent shares outstanding during the period using the treasury stock method for options except where the result would be anti-dilutive.

Reclassifications

2.1.35 Certain reclassifications have been made in the financial statements of prior years to conform to classifications used in the current year.

Commitments and Contingencies

2.1.36 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.

Recently Issued Accounting Standards

2.1.37 The Financial Accounting Standards Board (FASB) issued *FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes* (FIN 48) in June 2006. FIN 48 clarifies the accounting for uncertainty in income taxes recognised in an enterprise's financial statements in accordance with *FASB Statement No. 109 Accounting for Income Taxes*. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on recognition, classification, interest, penalties, accounting in interim periods, disclosure and transition. The Interpretation is effective for fiscal years beginning after December 15, 2006. The differences, if any between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts reported after adoption will be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. The Company is currently evaluating the impact of this Interpretation on its financial statements.

2.1.38

Edgar Filing: Patni Computer Systems LTD - Form 20-F/A

The Financial Accounting Standards Board (FASB) issued *SFAS No. 157 Fair Value Measurements* (SFAS No. 157) in September 2006. SFAS No. 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. The changes to current practice resulting from the application of this Statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. The Statement is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently evaluating the impact that is expected to result from the adoption of this standard

F-15

Patni Computer Systems Limited and subsidiaries**Notes to the consolidated financial statements (Continued)****3 Acquisition of Patni Telecom**

On November 3, 2004, Patni USA acquired 100% equity interest in Patni Telecom which is engaged in providing IT services to clients in the telecom sector. The primary purpose for the acquisition was to establish presence in the Telecom IT services sector. The consolidated financial statements include the operating results of Patni Telecom from the date of acquisition. The purchase price of \$25,093,065 (including direct expenses of \$1,311,150) was paid in cash. Additionally, in connection with the acquisition, the Company incurred \$10,968,029 of costs relating to certain contract terminations / settlements and acquisition costs of Patni Telecom. Such costs have been recognised by the Company as liabilities assumed at the acquisition date resulting in additional goodwill.

As per the Stock Purchase Agreement and amendments thereof, \$5,578,772 and \$12,184,832 was paid to the shareholders of Patni Telecom as contingent consideration based on achievement of certain revenue and margin targets for the years ended June 30, 2005 and 2006. This additional consideration has been recognised as Goodwill arising on acquisition of Patni Telecom. The terms of the purchase also provide for payment of contingent consideration to all 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 \$33,000,000, inclusive of payments under an incentive plan for certain employees as described below. The Company has followed the consensus reached in *EITF 95-8, Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination* and accordingly will record the contingent payments, other than payments to certain employees under the incentive plan, as goodwill in the periods in which the contingency is resolved.

Further, as a part of the acquisition, the Company initiated an incentive plan linked to revenues and margins, for certain specific employees of Patni Telecom. The incentive payments under this plan will not exceed \$3,400,000 till June 2007. Since, the incentive payments are linked to continuing employment, the payments under the plan are recognised as compensation for post acquisition services. Accordingly, \$664,709 and \$176,177 have been recorded as Cost of revenues and Selling, General and Administrative expenses in the year ended December 31, 2005 respectively and \$587,001 and \$756,841 have been recorded Cost of revenues and Selling, General and Administrative expenses in the year ended December 31, 2006 respectively. No such amounts were recorded for the year ended December 31, 2004.

4 Investments

4.1.1 Investment securities consist of the following:

| | As of December 31, 2005 | | | |
|--|-------------------------|--------------------------------|---------------------------------|----------------|
| | Carrying value | Gross unrealized holding gains | Gross unrealized holding losses | Fair value |
| Available for sale: | | | | |
| Mutual fund units and other securities | \$ 107,568,976 | \$ 774,895 | \$ (1,867) | \$ 108,342,004 |
| Other Investments | 2,909,577 | 524,354 | | 33,433,931 |
| Amount reported as investment current | | | | \$ 141,775,935 |

| | As of December 31, 2006 | | | |
|--|-------------------------|--------------------------------|---------------------------------|------------|
| | Carrying value | Gross unrealized holding gains | Gross unrealized holding losses | Fair value |

Edgar Filing: Patni Computer Systems LTD - Form 20-F/A

Available for sale:

| | | | | | | | |
|--|----|-------------|----|-----------|---------|----|-------------|
| Mutual fund units and other securities | \$ | 135,238,933 | \$ | 1,125,406 | (9,391) | \$ | 136,354,948 |
| Other Investments | | 103,262,905 | | 3,350,195 | | | 106,613,100 |

Amount reported as investments

| | | | | | | | |
|---------|--|--|--|--|--|----|--------------------|
| current | | | | | | \$ | 242,968,048 |
|---------|--|--|--|--|--|----|--------------------|

Held to maturity:

| | | | | | | | |
|-------|----|-----------|--|--|--|----|-----------|
| Bonds | \$ | 3,048,092 | | | | \$ | 3,048,092 |
|-------|----|-----------|--|--|--|----|-----------|

Amount reported as investments non

| | | | | | | | |
|---------|--|--|--|--|--|----|------------------|
| current | | | | | | \$ | 3,048,092 |
|---------|--|--|--|--|--|----|------------------|

Patni Computer Systems Limited and subsidiaries

Notes to the consolidated financial statements (Continued)

4 Investments (Continued)

4.1.2 Dividends from securities available for sale, during the year ended December 31, 2004, 2005 and 2006 were \$3,460,351, \$2,488,691 and \$5,941,888 respectively. Gross realized gains on sale of securities, available for sale was \$221,562, \$1,141,015 and \$1,963,728 and gross realized losses on sale of securities, available for sale was \$77,080, \$12,945 and \$284,631 for the year ended December 31, 2004, 2005 and 2006 respectively.

4.1.3 Investments held to maturity as of December 31, 2006 mature within five years

5 Accounts receivable

5.1.1 Accounts receivable consist of the following:

| As of December 31, | 2005 | | 2006 | |
|--|------|-------------------|------|--------------------|
| Receivables | \$ | 76,916,380 | \$ | 118,724,268 |
| Less: Allowances for doubtful accounts (including \$136,066 (2005 - \$80,000) for receivable due from a significant shareholder) | | (2,495,219) | | (3,105,764) |
| | \$ | 74,421,161 | \$ | 115,618,504 |

5.1.2 The activity in the allowance for doubtful accounts receivable for the years ended December 31, 2005 and 2006 is as follows:

| As of December 31, | 2004 | | 2005 | | 2006 | |
|---|------|------------------|------|------------------|------|------------------|
| Allowance for doubtful accounts as at beginning of the year | \$ | 3,224,494 | \$ | 3,435,320 | \$ | 2,495,219 |
| Additions charged (net of recoveries) to provision for doubtful debts during the year | | 496,804 | | (164,464) | | 1,147,109 |
| Write-downs charged against the allowance during the year | | | | | | |
| Allowance for doubtful accounts at end of the year | \$ | 3,435,320 | \$ | 2,495,219 | \$ | 3,105,764 |

6 Costs and estimated earnings in excess of billings and billings in excess of costs and estimated earnings on uncompleted contracts

| As of December 31, | 2005 | | 2006 | |
|---|------|-------------|------|-------------|
| Cost incurred on uncompleted contracts | \$ | 25,750,930 | \$ | 28,813,363 |
| Estimated earnings | | 24,028,742 | | 21,676,222 |
| Less: Billings till date | | 49,779,672 | | 50,489,585 |
| | \$ | 23,743,748 | \$ | 19,509,764 |
| Included in the accompanying balance sheet under the following captions: | | | | |
| Costs and estimated earnings in excess of billings on uncompleted contracts | | 26,094,094 | | 22,834,345 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | | (2,350,346) | | (3,324,581) |
| | | 23,743,748 | | 19,509,764 |

Patni Computer Systems Limited and subsidiaries**Notes to the consolidated financial statements (Continued)****7 Other assets**

Other assets consist of the following:

| As of December 31, | 2005 | 2006 |
|---|----------------------|----------------------|
| Advances to vendors | \$ 1,507,000 | \$ 1,340,596 |
| Prepaid gratuity costs | 1,442,528 | 918,045 |
| Deposits | 6,447,290 | 6,708,622 |
| Deferral of cost in respect of revenue arrangements | 1,574,252 | 902,063 |
| Due from employees | 1,309,344 | 2,695,126 |
| Derivative contracts | | 3,035,271 |
| Leasehold Land | 3,765,076 | 5,223,196 |
| Others | 1,164,338 | 495,069 |
| | \$ 17,209,828 | \$ 21,317,988 |
| Less: Current assets | | |
| Advances to vendors | (1,507,000) | (1,340,596) |
| Prepaid gratuity costs | (1,442,528) | |
| Deposits | (531,329) | (1,424,163) |
| Deferral of cost in respect of revenue arrangements | (1,574,252) | (902,063) |
| Due from employees | (1,278,554) | (2,663,601) |
| Derivative contracts | | (3,035,271) |
| Others | (1,164,338) | (495,069) |
| | (7,498,001) | (9,860,763) |
| Other assets | \$ 9,711,827 | \$ 11,457,225 |

8 Property, plant and equipment

8.1.1 Property, plant and equipment consists of the following:

| As of December 31, | 2005 | 2006 |
|---|----------------------|-----------------------|
| Land | \$ 24,053 | \$ 24,476 |
| Building | 22,645,127 | 31,944,802 |
| Leasehold improvements | 4,133,345 | 5,814,610 |
| Computer Hardware and other service equipment | 32,893,636 | 41,075,166 |
| Computer Software | 19,021,359 | 23,109,772 |
| Furniture and fixtures | 14,613,120 | 18,092,401 |
| Other equipment | 17,522,391 | 27,003,946 |
| Vehicles | 2,244,283 | 2,295,679 |
| Capital work-in-progress | 18,359,453 | 26,864,096 |
| Capital advances | 8,474,405 | 20,537,480 |
| | 139,931,172 | 196,762,428 |
| Less: Accumulated depreciation and amortization | (51,686,625) | (71,004,604) |
| | \$ 88,244,547 | \$ 125,757,824 |

Edgar Filing: Patni Computer Systems LTD - Form 20-F/A

8.1.2 Depreciation and amortization expense on property, plant and equipment was \$11,332,906, \$15,212,682 and \$18,605,047 for the years ended December 31, 2004, 2005 and 2006 respectively and include amortization for computer software of \$2,586,273, \$3,642,520 and \$4,437,291 respectively. Unamortized computer software cost as at December 31, 2005 and 2006 amounted to \$7,393,116 and \$7,399,398 respectively.

Patni Computer Systems Limited and subsidiaries**Notes to the consolidated financial statements (Continued)****9 Goodwill and intangible assets**

9.1.1 Intangible assets as at December 31, 2005 and 2006 consists of the following:

| As of December 31, | 2005 | 2006 |
|--------------------------------|----------------------|---------------------|
| Customer related intangibles | \$ 11,176,500 | \$ 11,176,500 |
| Technology related intangibles | | 497,879 |
| Less: Accumulated amortization | (1,018,435) | (1,986,936) |
| | \$ 10,158,065 | \$ 9,687,443 |

9.1.2 Amortization for the years ended December 31, 2004, 2005 and 2006 amounted to \$210,869, \$748,023 and \$968,501 respectively. The estimated amortization for the intangible assets, for the next five years would be as follows:

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|--------------|-----------|-----------|-----------|-----------|-----------|
| Amortization | 1,092,723 | 1,183,638 | 1,231,260 | 1,231,260 | 1,173,174 |

9.1.3 The movement in goodwill balance is given below:

| | 2005 | 2006 |
|---|----------------------|----------------------|
| Balance at beginning of the year | \$ 24,677,771 | \$ 27,987,198 |
| Add: Additional goodwill arising on account of contingent consideration for Patni Telecom | 5,578,772 | 12,184,832 |
| Add: Addition to goodwill as per final purchase price allocation of Patni Telecom | 649,022 | |
| Less: Reduction of valuation allowance on deferred tax assets recognised on Patni Telecom | (2,918,367) | |
| Less: Tax benefit on incentive stock option of Patni Telecom | | (340,366) |
| Balance at end of the year | \$ 27,987,198 | \$ 39,831,664 |

9.1.4 Goodwill as of December 31, 2005 and 2006 has been allocated to the following reportable segments:

| Segment | 2005 | 2006 |
|--------------------|----------------------|----------------------|
| Financial services | \$ 2,594,374 | \$ 2,594,374 |
| Telecom services | 25,392,824 | 37,237,290 |
| Total | \$ 27,987,198 | \$ 39,831,664 |

10. Change in estimate

Edgar Filing: Patni Computer Systems LTD - Form 20-F/A

During 2006, the Company reached a settlement with the Internal Revenue Service (the IRS) relating to its tax returns of its U.S. operations (Patni USA and its US branch) for fiscal years 2001 and 2002. The settlement addressed transfer pricing, branch tax matters and payroll taxes.

The Company was unable to substantiate to the IRS that returns pertaining to its U.S. branch for the years ended March 31, 2002 and 2003 were filed within 18 months from the respective due dates and hence were deemed as delinquent returns by the IRS. Accordingly, the IRS disallowed all of the deductions on the branch income tax returns and assessed additional income tax obligations of U.S. \$15.2 million. Delinquent tax returns were treated as errors in computation of income taxes for the years in which such tax returns were due for filing under the IRS rules and the Company restated its 2003 and 2004 financial statements for such errors.

The Company reviewed the adequacy of the previously established tax exposure reserves with respect to prior years in July 2006 in light of certain positions taken by the IRS during the settlement for 2001 and 2002 and based on such positions, the Company revised its estimate for tax exposure relating to various income tax matters along with related adjustments to accrued interest.

Patni Computer Systems Limited and subsidiaries**Notes to the consolidated financial statements (Continued)**

The IRS settlement for 2001 and 2002 also covered payroll tax matters for which a provision had previously been established. The settlement resulted in a liability that was less than the amount previously provided for, in part due to the liability being offset by an increase in income tax liability during settlement. As a result, the Company reduced its accrual for payroll taxes exposure during 2006 with a consequential reversal of the related deferred tax asset. These revisions to the established tax exposure reserves represented a revision to previous reserve estimates, and accordingly, such amounts have been recorded as part of the consolidated statement of income for the Company's fiscal year ended December 31, 2006 as a change in estimate as follows:

| | | |
|--|----|-------------------|
| Reduction of accrual for payroll taxes (1) | \$ | (9,041,958) |
| Increase in interest expense | | 2,600,608 |
| Increase in other expense (2) | | (3,743,032) |
| Increase in income taxes - current | | 26,928,920 |
| Increase in income taxes - deferred | | 3,421,312 |
| | \$ | 20,165,850 |

(1) Included under cost of revenues

(2) Included under other income/expense

The respective annual amounts with respect to the above amount are shown in the table provided below:

| | 2001 | | 2002 | | 2003 | | 2004 | | 2005 | | Total |
|----|-------------|----|-----------|----|-----------|----|------------|----|-----------|----|------------|
| \$ | (1,248,987) | \$ | (372,881) | \$ | 2,572,523 | \$ | 10,862,317 | \$ | 8,352,878 | \$ | 20,165,850 |

11 Accrued expenses

Accrued expenses consist of the following:

| As of December 31, | 2005 | | 2006 | |
|---------------------------|------|-------------------|------|-------------------|
| Employee costs | \$ | 14,105,923 | \$ | 21,427,493 |
| Subcontractor accruals | | 3,996,007 | | 5,029,497 |
| Professional fees payable | | 1,260,231 | | 1,512,893 |
| Others | | 6,869,371 | | 15,337,618 |
| | \$ | 26,231,532 | \$ | 43,307,501 |

Patni Computer Systems Limited and subsidiaries**Notes to the consolidated financial statements (Continued)****12 Other liabilities**

Other liabilities consist of the following:

| As of December 31, | 2005 | 2006 |
|--|----------------------|----------------------|
| Deferred revenue | \$ 2,027,444 | \$ 1,095,217 |
| Provision for leave encashment | 10,092,730 | 12,321,032 |
| Provision for retirement benefits | 6,284,868 | 8,073,273 |
| Capital expenditure payable | 1,778,355 | 5,524,966 |
| Payroll tax liability | 22,122,868 | 6,481,233 |
| Interest on corporate taxes and other related expenses | 6,783,211 | 5,744,001 |
| Advance from customers | 1,389,957 | 185,968 |
| Others | 6,654,123 | 6,920,116 |
| | \$ 57,133,556 | \$ 46,345,806 |
| Less : | | |
| Other Current liabilities | | |
| Deferred revenue | (2,027,444) | (1,095,217) |
| Provision for leave encashment | (10,092,730) | (12,321,032) |
| Capital expenditure payable | (1,778,355) | (5,524,966) |
| Payroll tax liability | (22,122,868) | (6,481,233) |
| Interest on corporate taxes and other related expenses | (6,783,211) | (5,744,001) |
| Advance from customers | (1,389,957) | (185,968) |
| Others | (6,570,447) | (6,869,329) |
| | (50,765,012) | (38,221,746) |
| Other liabilities | \$ 6,368,544 | \$ 8,124,060 |

13 Leases

- 13.1.1 Patni acquires certain vehicles under capital lease for a non-cancelable period of 4 years. The gross amount recorded under such capital lease was \$1,143,504 with accumulated depreciation of \$475,198 as at December 31, 2005. The gross amount recorded under such capital lease is \$1,255,948 with accumulated depreciation of \$556,251 as at December 31, 2006. The depreciation expense in respect of these assets aggregated \$254,201, \$321,127 and \$264,623 for the years ended December 31, 2004, 2005 and 2006 respectively.
- 13.1.2 Patni USA has operating lease agreements, primarily for leasing office space, that expire over the next 1-7 years. These leases generally require Patni USA to pay certain executory costs such as taxes, maintenance and insurance.
- 13.1.3 Patni has operating lease agreements, primarily for leasing office and residential premises. These agreements provide for cancellation by either party with a notice period ranging from 30 days to 120 days, after the initial lock-in period, if any. Some leases contain a clause for renewal of the lease agreements. Some leases provide for annual renewal of the lease payments.
- 13.1.4 Patni Telecom and its subsidiaries have operating leases for office space, that expire over the next 1-4 years. These agreements provide for cancellation by either party with a notice period ranging from 30 days to 120 days, after the initial lock-in period, if any.

Patni Computer Systems Limited and subsidiaries**Notes to the consolidated financial statements (Continued)**

13.1.5 Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) and future capital lease payments as of December 31, 2006 are as follows:

| | Capital leases | Operating leases |
|--|----------------|------------------|
| 2007 | \$ 320,593 | \$ 4,937,290 |
| 2008 | 237,356 | 3,094,703 |
| 2009 | 132,578 | 2,283,112 |
| 2010 | 34,119 | 1,223,826 |
| 2011 | | 280,632 |
| beyond 2011 | | |
| Total minimum lease payments | 724,646 | \$ 11,819,563 |
| Less: Amount representing interest | (32,855) | |
| Present value of net minimum capital lease payments | 691,791 | |
| Less: Current installments of obligations under capital leases | (301,138) | |
| Obligations under capital leases, excluding current installments | \$ 390,653 | |

The related assets for capital leases are included under vehicles in property, plant and equipment in the consolidated balance sheets.

13.1.6 Rental expense for all operating leases for the years ended December 31, 2004, 2005 and 2006 was \$6,801,506, \$10,228,316 and \$12,510,436 respectively.

13.1.7 Commencing 2005, Patni USA has sublease agreements that expire over the next 2 years. The total rental income from these offices during the year 2006 is \$113,152. The future sub lease income is as follows:

| | |
|------|------------|
| 2007 | \$ 106,606 |
| 2008 | 17,994 |

14 Derivatives financial instruments

14.1.1 The Company periodically enters into foreign currency forward exchange contracts to hedge inter company receivables, both anticipated and firm commitments, denominated in the United States dollar. These contracts reduce foreign currency risk caused by changes in exchange rates and are used to hedge these inter company receivables, generally for periods up to 12 months. At December 31, 2006, the Company's forward contracts have expiration dates which range from one to thirteen months.

Since there is a direct relationship between the forward contracts and the currency denomination of the underlying transaction, such forward contracts are highly effective in hedging the cash flows of the Company's inter company receivables related to transactions denominated in the United States dollar. These forward contracts meet the criteria for cash flow hedge accounting treatment and accordingly, gains or losses, are included in other comprehensive income (loss) and are recognized in the consolidated statement of income based on occurrence of the underlying third party transaction.

For forward contracts designated as a cash flow hedge, the hedge effectiveness is assessed based on changes in fair value attributable to changes in spot prices and accordingly, the changes in the fair value of the contract related to the changes in the difference between the spot price and the forward or futures price would be excluded from assessment of hedge effectiveness and recognised in

consolidated statements of income together with any ineffective portion of the hedge.

F-22

Patni Computer Systems Limited and subsidiaries**Notes to the consolidated financial statements (Continued)**

At December 31, 2006, the Company had \$1,505,009 of net gains related to cash flow hedges deferred in Accumulated Other Comprehensive Income. The Company has also entered into net written options, which do not qualify for hedge accounting and are accordingly recognised at fair value with gains or losses included in foreign exchange (gain)/loss in the consolidated statements of income.

14.1.2 The following table presents the aggregate contracted principal amounts of the Company's derivative contracts outstanding:

| | Currency | | 2005 | | 2006 |
|--|----------|----|------------|----|-------------|
| Forward contracts (sell) | USD | \$ | 77,000,000 | \$ | 182,564,103 |
| Foreign currency written options, net (sell) | USD | | | \$ | 19,500,000 |

15 Shareholders' equity*Common shares*

15.1.1 The Company has only one class of equity shares. For all matters submitted to vote in the shareholders' meeting, every holder of equity shares (except holders of American Depository Shares - ADSs), as reflected in the records of the Company on the date of the shareholders meeting shall have one vote in respect of each share held. In the event of liquidation of the affairs of the Company, all preferential amounts, if any, shall be discharged by the Company. The remaining assets of the Company after such discharge shall be distributed to the holders of equity shares in proportion to the number of shares held by them.

15.1.2 In February 2004, pursuant to an initial Public Offering in India (IPO), the Company has issued 13,415,200 common shares for a net proceeds of \$64,268,351 (after adjusting for direct expenses relating to IPO of \$3,889,281).

15.1.3 In December 2005, pursuant to an Initial Public Offering of American Depository Shares, the Company issued 6,156,250 ADSs (12,312,500 common shares) for a net proceeds of \$117,021,852 (after adjusting for direct expenses relating to ADSs of \$8,196,274). The common shares represented by the ADSs are similar to other common shares except for voting rights. Under the depository agreement, the depository of ADSs shall vote as directed by the Board of Directors of the Company.

Retained earnings and dividends

15.1.4 Retained earnings as of December 31, 2005 and 2006 include profits aggregating \$9,027,884, which are not distributable as dividends under Indian Companies Act, 1956 (Companies Act).

15.1.5 The ability of Patni to declare and pay dividend under the Companies Act, is determined by its distributable profits as shown by its statutory accounts prepared in accordance with Indian GAAP. When Patni wishes to declare dividends, it is required as per the Companies Act, to transfer up to 10% of its net income (after the deduction of any accumulated deficit) computed in accordance with local regulations to a general reserve before a dividend can be declared. Also, Indian law on foreign exchange governs the remittance of dividends outside India.

16 Employee stock compensation plans

16.1.1 On June 30 2003, Patni established the Patni ESOP 2003 plan (the plan). Under the plan, the Company is authorized to issue up to 11,142,085 equity shares to eligible employees. Employees covered by the Plan are granted an option to purchase shares of the Company subject to the requirements of vesting. The options vest in a graded manner over four years with 25% of the options vesting at the end of each year. The options can be exercised within five years from the date of vesting. A compensation committee constituted by the Board of Directors of the Company administers the plan.

16.1.2 The weighted average grant date fair values of options granted during the year ended December 31, 2004, 2005 and 2006 are \$2.67, \$3.10 and \$3.85 respectively.

Patni Computer Systems Limited and subsidiaries

Notes to the consolidated financial statements (Continued)

16.1.3 Stock options activity under the plan is as follows:

| | Year ended December 31, 2005 | | Weighted average remaining contractual life (months) |
|--|------------------------------|-------------------------------------|--|
| | Exercise price | Shares arising out of options | |
| Outstanding at the beginning of the year | \$3.16 | 2,352,015 | 75 |
| | \$5.51-\$7.35 | 2,850,632 | 87 |
| Granted during the year | \$8.71-\$10.25 | 860,710 | 90 |
| Forfeited during the year | \$3.16 | (159,400) | |
| | \$7.35 | (248,625) | |
| | \$8.71 | (9,000) | |
| Exercised during the year | \$3.16 | (433,065) | |
| | \$7.35 | (28,000) | |
| Outstanding at the end of the year | \$3.16 | 1,759,550 | 67 |
| | \$5.51-\$7.35 | 2,574,007 | 75 |
| | \$8.71-\$10.25 | 851,710 | 86 |
| Exercisable at the end of the year | \$3.16 | 663,243 | 53 |
| | \$5.51-\$7.35 | 622,502 | 57 |

Patni Computer Systems Limited and subsidiaries

Notes to the consolidated financial statements (Continued)

16 Employee stock compensation plans (Continued)

| | Year ended December 31, 2006 | | Weighted average remaining contractual life (months) |
|--|------------------------------|-------------------------------|--|
| | Exercise price | Shares arising out of options | |
| Outstanding at the beginning of the year | \$3.16 | 1,759,550 | 67 |
| | \$5.51-\$7.35 | 2,574,007 | 75 |
| | \$8.71-\$10.25 | 851,710 | 86 |
| Granted during the year | \$7.29-\$10.93 | 1,968,750 | 90 |
| Forfeited during the year | \$3.16 | (101,650) | |
| | \$7.35 | (254,560) | |
| | \$8.71-\$10.93 | (189,600) | |
| Exercised during the year | \$3.16 | (414,934) | |
| | \$5.51-\$7.35 | (68,520) | |
| Outstanding at the end of the year | \$3.16 | 1,242,966 | 56 |
| | \$5.51-\$7.35 | 2,420,927 | 65 |
| | \$8.37-\$10.93 | 2,460,860 | 81 |
| Exercisable at the end of the year | \$3.16 | 727,016 | 47 |
| | \$5.51-\$7.35 | 1,108,256 | 51 |
| | \$8.71-\$10.25 | 186,149 | 56 |

16.1.4 The exercise price and weighted average remaining contractual life of stock options outstanding at the end of the period are as follows:

| Year ended December 31, 2006 | | | Weighted average remaining contractual life (months) |
|-------------------------------|----------------|-------|--|
| Shares arising out of options | Exercise Price | | |
| 1,242,966 | \$ | 3.16 | 56 |
| 90,000 | \$ | 5.51 | 62 |
| 2,160,927 | \$ | 7.37 | 63 |
| 158,000 | \$ | 8.71 | 69 |
| 573,110 | \$ | 10.25 | 75 |
| 249,000 | \$ | 10.93 | 78 |
| 290,000 | \$ | 10.27 | 81 |
| 350,000 | \$ | 8.37 | 82 |
| 170,000 | \$ | 7.29 | 84 |
| 840,750 | \$ | 8.40 | 87 |
| 61,24,753 | | | |

17 Income Tax

17.1.1 Total income tax for the year ended December 2004, 2005 and 2006 were allocated as follows:

Edgar Filing: Patni Computer Systems LTD - Form 20-F/A

| For the years ended December 31, | 2004 | 2005 | 2006 |
|---|----------------------|----------------------|----------------------|
| Income from continuing operations | \$ 12,886,362 | \$ 13,802,583 | \$ 47,691,763 |
| Shareholders' equity, for | | | |
| - unrealized holding gain/loss on investment securities | 142,362 | 261,520 | 1,076,106 |
| - pension | 153,253 | 194,848 | (305,835) |
| - gratuity | | | (17,820) |
| - tax benefit arising on exercise of stock options | | (136,816) | 317,028 |
| Goodwill and intangible assets | | (3,351,045) | (340,366) |
| Total | \$ 13,181,977 | \$ 10,771,090 | \$ 48,420,876 |

F-25

Patni Computer Systems Limited and subsidiaries

Notes to the consolidated financial statements (Continued)

17 Income Tax (Continued)

17.1.2 Income tax expense attributable to income from continuing operations consists of the following:

| For the years ended December 31, | 2004 | 2005 | 2006 |
|----------------------------------|----------------------|----------------------|----------------------|
| Current taxes | | | |
| Domestic | \$ 148,501 | \$ 1,787,316 | \$ 1,655,461 |
| Foreign | 14,675,569 | 13,904,560 | 41,691,833 |
| | \$ 14,824,070 | 15,691,876 | 43,347,294 |
| Deferred taxes | | | |
| Domestic | (303,711) | (91,396) | (336,467) |
| Foreign | (1,633,997) | (1,797,897) | 4,680,936 |
| | (1,937,708) | (1,889,293) | 4,344,470 |
| Total | \$ 12,886,362 | \$ 13,802,583 | \$ 47,691,763 |

Pre-tax income from domestic and foreign operations is set out below:

| For the years ended December 31, | 2004 | 2005 | 2006 |
|----------------------------------|----------------------|----------------------|-----------------------|
| Pre-tax income | | | |
| Domestic | 55,377,936 | 58,644,162 | 71,188,552 |
| Foreign | 4,056,225 | 16,025,097 | 35,753,981 |
| Total | \$ 59,434,161 | \$ 74,669,259 | \$ 106,942,533 |

17.1.3 The tax effect of temporary differences that give rise to significant portion of deferred tax assets and liabilities are presented below:

| | 2005 | 2006 |
|---|---------------|---------------|
| Deferred tax assets: | | |
| Accrued expenses and provisions | \$ 6,812,271 | \$ 8,794,129 |
| Accounts receivable | 662,329 | 867,320 |
| Deferred revenue | 489,119 | 146,010 |
| Carry forward business losses | 2,797,346 | 501,719 |
| Payroll taxes and interest on payroll and corporate taxes | 9,843,043 | 4,394,379 |
| ESOP compensation costs | | 705,135 |
| Others | 57,104 | 1,015,345 |
| Gross deferred assets | 20,661,212 | 16,424,037 |
| Less: Valuation allowance | | (501,719) |
| Total deferred tax assets | \$ 20,661,212 | \$ 15,922,318 |
| Deferred tax liabilities: | | |
| Costs and estimated earnings in excess of billings on uncompleted contracts | (1,000,371) | (846,115) |
| Property, plant and equipment | (1,078,576) | (855,386) |

Edgar Filing: Patni Computer Systems LTD - Form 20-F/A

| | | |
|---|---------------|---------------|
| Undistributed earnings of US branch | (1,718,140) | (1,892,887) |
| Unrealised gain on available for sale securities | (436,730) | (1,520,939) |
| Intangible assets | (4,063,260) | (3,695,708) |
| Tax deduction available for notional interest deduction | | (321,119) |
| Others | (192,253) | (32,383) |
| Total deferred tax liabilities | (8,489,330) | (9,164,537) |
| Net Deferred tax assets | \$ 12,171,882 | \$ 6,757,781 |
| Classified as | | |
| Deferred tax assets | | |
| Current | \$ 13,722,884 | \$ 10,240,528 |
| Non current | 3,401,766 | 370,529 |
| Deferred tax liabilities | | |
| Current | 193,807 | 108,637 |
| Non current | 4,758,961 | 3,744,639 |
| Net Deferred tax assets | \$ 12,171,882 | \$ 6,757,781 |

F-26

Patni Computer Systems Limited and subsidiaries

Notes to the consolidated financial statements (Continued)

17 Income Tax (Continued)

- 17.1.4 In assessing the realisability of deferred tax assets, management considers whether it is more likely than not, that some portion, or all, of the deferred tax assets will not be realised. The ultimate realisation of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences and loss carryforwards are deductible. Management considers the reversal of taxable temporary differences, the projected future taxable income, tax planning strategies and impact of tax exemptions currently available to the company, in making this assessment. Based on the level of historical taxable incomes over the periods in which the deferred tax assets are deductible, management believes that it is more likely than not, the Company will realise the benefits of those deductible differences, net of existing valuation allowances. Taxable income for the years 2004, 2005 and 2006 aggregated \$8,031,173, \$16,336,603 and \$29,143,691 respectively.
- 17.1.5 Deferred tax liability in respect of undistributed earnings of Patni's foreign subsidiaries as of 2005 and 2006 aggregating \$4,236,903 and \$4,688,485 respectively has not been recognised in the financial statements, as such earnings are considered to be indefinitely re-invested. As of December 31, 2006, the undistributed earnings of these subsidiaries were approximately \$23,442,425.
- 17.1.6 The net change in the year 2004 is attributable to valuation allowance on carry forward losses of Patni Telecom (which was acquired during the year 2004) aggregating \$2,924,898. This has been partly offset by tax benefits of losses utilised during the year aggregating \$81,765. The net change in the year 2005 is attributable to reversal of valuation allowance on carry forward losses of Patni Telecom (which was acquired during the year 2004) aggregating \$2,918,367 and reversal of valuation allowance of \$67,623 on impairment of leasehold land. The net change in valuation allowance in the year 2006 is mainly on account of deferred tax created on business loss of Japan branch for the year 2006 aggregating to \$501,719.
- 17.1.7 The reported income tax expense attributable to income from continuing operations differed from amounts computed by applying the enacted tax rate to income from continuing operations before income-taxes as a result of the following:

| | 2004 | 2005 | 2006 |
|--|----------------------|----------------------|----------------------|
| Income before income taxes | \$ 59,434,161 | \$ 74,669,259 | 106,942,533 |
| Weighted average enacted tax rate in India | 36.41% | 34.39% | 33.66% |
| Computed expected income tax expense | \$ 21,639,978 | \$ 25,680,625 | \$ 35,996,857 |
| Effect of: | | | |
| Income exempt from tax | (21,826,422) | (21,756,426) | (29,673,705) |
| Changes in valuation allowance | (81,765) | (67,623) | 501,719 |
| Non deductible expenses | 1,187,196 | 1,866,968 | 5,767,090 |
| US State taxes, net of federal tax benefit | (302,726) | 787,336 | 1,698,868 |
| Branch taxes | 12,083,807 | 6,461,722 | 5,928,986 |
| Foreign income taxed at different rates | (78,857) | (105,635) | (12,403) |
| Change in statutory tax rate on deferred taxes | 2,057 | (16,432) | |
| Profit on sale of investments taxed at other than statutory rate | | (261,606) | (571,740) |
| Change to prior year estimates | | | 27,401,735 |
| Others | 263,094 | 1,213,654 | 654,356 |
| Reported income tax expenses | \$ 12,886,362 | \$ 13,802,583 | \$ 47,691,763 |

As discussed in Note 10, during 2006, the Company reached a settlement with the Internal Revenue Service (the "IRS") relating to its tax returns of its US operations (Patni USA and its US Branch) for fiscal years 2001 and 2002. The settlement addressed transfer pricing and branch tax matters. Following the settlement, the Company revised its tax contingency reserves for open tax years and recorded additional income tax expense of \$26,928,920.

Patni Computer Systems Limited and subsidiaries

Notes to the consolidated financial statements (Continued)

17 Income Tax (*Continued*)

- 17.1.8 Upon acquisition of Patni Telecom, the Company was entitled to utilize tax benefits on carry forward business losses of Patni Telecom. Based on preliminary projections of future taxable income and tax planning strategies, management believed that there existed sufficient uncertainty regarding realization of tax benefits on the carry forward losses. Consequently, the Company recorded a valuation allowance for the carry forward business losses of Patni Telecom. In 2005, the Company evaluated the expected realisation of such carry forward losses and available tax planning strategies and believed that the Company 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.
- 17.1.9 A substantial portion of profits of the group's India operations is exempt from Indian income tax, being profit from undertakings situated at Software Technology Parks. Under the tax holiday, the tax payer can utilize exemption of profits from income taxes for a period of ten consecutive years. The Company has opted for this exemption for undertakings situated in Software Technology Parks and these exemptions expire on various dates between years 2006 and 2009. The Company also avails benefit for Income tax for their export operations. This exemption relating to export operations expires in a phased manner over a period of five financial years commencing from April 1, 2000. The aggregate effect on net income of the tax holiday and export incentive scheme were \$20,572,502, \$18,957,774 and \$25,304,980 for 2004, 2005 and 2006 respectively. Further, the per share effect was \$0.17, \$0.15 and \$0.18 for 2004, 2005 and 2006 respectively.
- 17.1.10 During the year 2005, the Company has sold leasehold land for a consideration of \$3,768,186 and recognised a gain on sale of \$3,285,169. As required by the Indian Income Tax law, the Company has reinvested \$3,048,092 out of such proceeds from this sale in prescribed securities for a period of three years so as to realize the gain on sale in a tax free manner.

18 Retirement benefits to employees

Gratuity benefits

- 18.1.1 In accordance with the Payment of Gratuity Act, 1972, Patni provides for gratuity, a defined retirement plan covering all employees. The plan provides a lump sum payment to vested employees at retirement or termination of employment based on the respective employee's defined portion of last salary and the years of employment with the Company.
- 18.1.2 Patni contributes each year to a gratuity fund based upon actuarial valuations performed by an actuary. The fund is administered by Patni through a trust set up for the purpose. All assets of the plan are owned by the trust and comprise of approved debt and other securities and deposits with banks. By statute, the trust is required to invest a minimum of 25% of its corpus in Central Government securities, 15% in State Government securities and 30% in Public Sector / Financial Institutions / Bank bonds. The trust can invest the remaining 30% of its corpus in any of the above specified categories. Further, 10% of its corpus can be invested in private sector / bond securities which are rated investment grade from at least two rating agencies.

Patni Computer Systems Limited and subsidiaries

Notes to the consolidated financial statements (Continued)

18 Retirement benefits to employees (Continued)

18.1.3 With regard to Patni India and Patni Telecom India s (formerly known as Cymbal Information Services Pvt. Ltd.) Gratuity Plan, the following table sets forth the plan s funded status and amounts recognized in the Company s consolidated balance sheets. Measurement dates used to measure fair value of plan assets and benefit obligation is December 31.

| At December 31, | 2005 | 2006 |
|--|----------------|--------------|
| Change in benefit obligation | | |
| Projected benefit obligation (PBO) at January 1, | \$ 4,240,028 | \$ 4,307,971 |
| Service cost | 919,286 | 982,652 |
| Interest cost | 302,722 | 329,613 |
| Translation loss/(gain) | (164,522) | 178,931 |
| Actuarial loss | 612,287 | (583,370) |
| Benefits paid | (377,256) | (732,815) |
| PBO at December 31, | 4,307,971 | 4,482,982 |
| Fair value of plan assets as at January 1, | 3,629,830 | 4,790,090 |
| Actual return on plan assets | 257,210 | 273,829 |
| Employer contributions | 1,428,962 | 873,430 |
| Benefits paid | 77,256 | (732,815) |
| Translation gain | (148,656) | 104,277 |
| Plan assets at December 31, | 4,790,090 | 5,308,811 |
| Funded status | 482,119 | 825,829 |
| Unrecognized actuarial loss | 960,409 | |
| Net amount recognized | 1,442,528 | 825,829 |
| Accumulated benefit obligation | 2,259,265 | 2,353,522 |
| Amounts recognized in the consolidated balance sheets consists of: | | |
| Prepaid benefit cost (included in other assets) | \$ (1,442,528) | \$ (918,045) |
| Provision for Gratuity (included in other current liabilities) | | 1,513 |
| Provision for Gratuity (included in other liabilities) | | 90,703 |
| | \$ (1,442,528) | \$ (825,829) |

18.1.4 Key weighted average assumptions used to determine the benefit obligation were as follows:

| | 2005 | 2006 |
|---------------|------|-------|
| Discount rate | 8.0% | 8.85% |

For the actuarial valuation at December 31, 2006, compensation levels have been assumed to increase at 15% per annum for the first year, 12.5% per annum for the next 3 years and 7% per annum thereafter. For the actuarial valuation at December 31, 2005, compensation levels have been assumed to increase at 15% per annum for the first year, 12.5% per annum for the next year, 10% per annum for next five years and 7% per annum thereafter.

The expected rate of return on assets in future is considered to be 7.5%. This is based on the expectation of the average long-term rate of return to prevail over the next 15 to 20 years on the type of investments prescribed as per the statutory pattern of investments.

Edgar Filing: Patni Computer Systems LTD - Form 20-F/A

18.1.5 The composition of plan assets is detailed below:

| As of December 31, | 2005 | % | 2006 | % |
|--|---------------------|------------|------------------|------------|
| Central Government Securities | 148,186 | 3.1 | 133,800 | 2.5 |
| Investment in Government Securities based funds | 3,478,625 | 72.6 | 4,201,692 | 79.1 |
| State Government Securities | 42,325 | 0.9 | 55,271 | 1.0 |
| Public Sector / Financials Institutions / Bank bonds | 971,670 | 20.3 | 868,676 | 16.4 |
| Others | 149,284 | 3.1 | 49,372 | 0.9 |
| Total | \$ 4,790,090 | 100 | 5,308,811 | 100 |

F-29

Patni Computer Systems Limited and subsidiaries

Notes to the consolidated financial statements (Continued)

18 Retirement benefits to employees (Continued)

18.1.6 Net periodic gratuity cost included the following components:

| Year ended December 31, | 2004 | 2005 | 2006 |
|---------------------------|-------------------|---------------------|-------------------|
| Service cost | \$ 633,771 | \$ 919,286 | \$ 982,652 |
| Interest cost | 190,714 | 302,722 | 329,613 |
| Expected return on assets | (179,505) | (276,826) | (378,065) |
| Amortization | 49,607 | 99,371 | 41,284 |
| Net gratuity cost | \$ 694,587 | \$ 1,044,553 | \$ 975,484 |

18.1.7 Key weighted average assumptions used to determine the net periodic gratuity cost were as follows:

| | 2004 | 2005 | 2006 |
|---------------------------|------|------|-------|
| Discount rate | 7.0% | 7.5% | 8.00% |
| Expected return on assets | 6.5% | 7.5% | 7.50% |

For the actuarial valuation at December 31, 2006, compensation levels have been assumed to increase at 15% per annum for the first year, 12.5% per annum for the next 3 years and 7% per annum thereafter. For determining the net periodic cost for the year ended December 31, 2005, compensation levels have been assumed to increase at 15% per annum for the first year, 12.5% per annum for the next year, 10% per annum for next five years and 7% per annum thereafter. For the year ended December 2004, compensation levels have been assumed to increase at 15% per annum for the first two years, 10% per annum for next 3 years and 7% per annum thereafter.

18.1.8 Patni's expected contribution to gratuity fund for the calendar year 2007 is \$ 227,297. The expected benefit payments for next ten years are as follows:

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012-2016 |
|---------------------------|------------|------------|------------|------------|--------------|--------------|
| Expected benefit payments | \$ 446,783 | \$ 512,531 | \$ 665,026 | \$ 893,046 | \$ 1,119,576 | \$ 5,451,321 |

Pension benefits

18.1.9 Certain directors of Patni in employment with Patni India and Patni USA are entitled to receive pension benefits upon retirement or on termination from employment at the rate of 50% of their last drawn monthly salary. The pension is payable from the time the eligible director reaches the age of sixty five and is payable to the directors or the surviving spouse. The liabilities for these pension plans are actuarially determined and periodically recognised. These plans are not funded.

18.1.10

Edgar Filing: Patni Computer Systems LTD - Form 20-F/A

With regard to Patni India pension plans, the following table sets forth the plan's funded status and amounts recognised in the Company's consolidated balance sheet. Measurement dates used to measure benefit obligation is December 31 for each fiscal year.

| At December 31, | 2005 | 2006 |
|--|--------------|--------------|
| Change in benefit obligation | | |
| PBO at January 1, | \$ 1,778,033 | \$ 1,868,072 |
| Service cost | 52,950 | 66,718 |
| Interest cost | 131,830 | 148,860 |
| Translation loss/(gain) | (61,504) | 37,573 |
| Actuarial loss/(gain) | (33,237) | (211,921) |
| PBO at December 31, | 1,868,072 | 1,909,302 |
| Funded status | (1,868,072) | (1,909,302) |
| Unrecognized actuarial loss | 137,098 | |
| Net amount recognized | (1,730,974) | (1,909,302) |
| Amount recognized in the consolidated balance sheets are as follows: | | |
| Accrued benefit liability (included in Other liabilities) | 1,730,974 | (1,909,302) |
| Net amount recognized | 1,730,974 | (1,909,302) |
| Accumulated benefit obligation | \$ 1,181,118 | \$ 1,327,907 |

Patni Computer Systems Limited and subsidiaries

Notes to the consolidated financial statements (Continued)

18 Retirement benefits to employees (Continued)

18.1.11 Key weighted average assumptions used to determine benefit obligation for Patni India pension plan were as follows:

| | 2005 | 2006 |
|---------------------------------|---------------|-----------------|
| Discount rate | 8% per annum | 8.85% per annum |
| Increase in compensation levels | 10% per annum | 10% per annum |

18.1.12 Net periodic pension cost of Patni India pension plan included the following components:

| Year ended December 31, | 2004 | 2005 | 2006 |
|-------------------------|------------|------------|------------|
| Service cost | \$ 63,594 | \$ 52,950 | \$ 66,718 |
| Interest cost | 115,255 | 131,830 | 148,860 |
| Amortization | 304,885 | 137,066 | |
| Net pension cost | \$ 483,734 | \$ 321,846 | \$ 215,578 |

18.1.13 Key weighted average assumptions used to determine net periodic pension cost for the Patni India pension plan were as follows:

| Year ended December 31, | 2004 | 2005 | 2006 |
|-------------------------------|----------------|----------------|---------------|
| Discount rate | 7.0% per annum | 7.5% per annum | 8% per annum |
| Rate of compensation increase | 10% per annum | 10% per annum | 10% per annum |

18.1.14 With regard to Patni USA pension plan, the following table sets forth the plan's funded status and amounts recognised in the Company's consolidated balance sheet. Measurement dates used to make up benefit obligation is December 31 for each fiscal year.

| At December 31, | 2005 | 2006 |
|--|--------------|--------------|
| Change in benefit obligation | | |
| PBO at January 1, | \$ 4,739,647 | \$ 5,716,530 |
| Service cost | 117,766 | 171,332 |
| Interest cost | 234,240 | 284,566 |
| Translation loss/(gain) | (187,253) | 110,751 |
| Actuarial loss/ (Gain) | 812,130 | (211,425) |
| PBO at December 31, | 5,716,530 | 6,071,754 |
| Funded status | (5,716,530) | (6,071,754) |
| Unrecognized actuarial loss | 1,162,636 | |
| Net amount recognized | (4,553,894) | (6,071,754) |
| Amount recognized in the consolidated balance sheets are as follows: | | |
| Accrued benefit liability (included in Other liabilities) | 4,553,894 | 6,071,754 |

Edgar Filing: Patni Computer Systems LTD - Form 20-F/A

| | | | | |
|--------------------------------|----|-----------|----|-----------|
| Net amount recognized | | 4,553,894 | | 6,071,754 |
| Accumulated benefit obligation | \$ | 4,294,919 | \$ | 4,147,099 |

18.1.15 Key weighted average assumptions used to determine benefit obligation for Patni USA pension plan were as follows:

| | 2005 | 2006 |
|---------------------------------|---------------|---------------|
| Discount rate | 5% per annum | 5% per annum |
| Increase in compensation levels | 10% per annum | 10% per annum |

F-31

Patni Computer Systems Limited and subsidiaries

Notes to the consolidated financial statements (Continued)

18 Retirement benefits to employees (Continued)

18.1.16 Net periodic pension cost of Patni USA pension plan included the following components:

| Year ended December 31, | 2004 | 2005 | 2006 |
|-------------------------|--------------|--------------|------------|
| Service cost | \$ 139,182 | \$ 117,766 | \$ 171,332 |
| Interest cost | 217,259 | 234,240 | 284,566 |
| Amortization | 948,731 | 713,714 | 196,139 |
| Net pension cost | \$ 1,305,172 | \$ 1,065,720 | \$ 652,037 |

18.1.17 Key weighted average assumptions used to determine net periodic pension cost for the Patni USA pension plan were as follows:

| Year ended December 31, | 2004 | 2005 | 2006 |
|-------------------------------|----------------|----------------|---------------|
| Discount rate | 5.0% per annum | 5.0% per annum | 5% per annum |
| Rate of compensation increase | 10% per annum | 10% per annum | 10% per annum |

18.1.18 As discussed in Note 2.1.26, effective December 31, 2006, the Company adopted the recognition and disclosure provisions of SFAS No. 158. The adoption of SFAS No. 158, had no effect on the Company's net income, however it was effected via a gross charge to accumulated other comprehensive income of \$1,166,734, net of related deferred income tax of \$323,655. The effect of applying this statement on individual line items presented in the December 31, 2006 Balance Sheet is as follows:

| | Before application of SFAS 158 | Adjustments | After application of SFAS 158 |
|--|--------------------------------|------------------|-------------------------------|
| Other assets | 11,944,215 | (486,990) | 11,457,225 |
| Deferred income taxes non current | 62,044 | 308,485 | 370,529 |
| Total assets | 640,519,156 | (178,505) | 640,340,651 |
| Other current liabilities | 38,222,059 | (313) | 38,221,746 |
| Total current liabilities | 119,488,396 | (313) | 119,488,083 |
| Deferred income taxes non current | 3,759,809 | (15,170) | 3,744,639 |
| Other liabilities | 7,444,003 | 680,057 | 8,124,060 |
| Total liabilities | 131,082,861 | 664,574 | 131,747,435 |
| Accumulated Other Comprehensive Income | 15,084,795 | (843,079) | 14,241,716 |
| Total Shareholders Equity | 509,436,295 | (843,079) | 508,593,216 |

The estimated net loss for the defined benefit gratuity and pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$41,002.

18.1.19

Edgar Filing: Patni Computer Systems LTD - Form 20-F/A

As the assumed rates for the above defined benefit plans have a significant effect on the amounts reported, the management has assessed these rates as comparable with prevalent industry standards and its projected long-term plans of growth.

Provident fund

- 18.1.20 All employees of Patni and Patni Telecom India receive provident fund benefits through a defined contribution plan in which both the employee and employer make monthly contributions to the plan at 12% each of the covered employee's defined portion of salary. The Company has no further obligations under the plan beyond monthly contribution. Patni contributes to the Provident Fund Plan maintained by the Government of India.
- 18.1.21 Patni contributed \$1,765,281, \$2,613,644 and \$3,895,116 to the Provident Fund Plan in 2004, 2005 and 2006 respectively.

Patni Computer Systems Limited and subsidiaries

Notes to the consolidated financial statements (Continued)

19 Segment Information

- 19.1.1 *SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information*, establishes standards for the way enterprises report information about operating segments and related disclosures about products and services, geographic areas and major customers. The Company's operations relate to providing IT services and solutions, delivered to customers operating in various industry segments. Accordingly, revenues represented along industry classes comprise the principal basis of segmental information set out in these consolidated financial statements. Secondary segmental reporting is performed on the basis of the geographical location of the customers. The accounting policies consistently used in the preparation of the consolidated financial statements are also consistently applied to individual segment information, and are set out in the summary of significant accounting policies.
- 19.1.2 Industry segments of the Company comprise financial services, insurance services, manufacturing companies, telecommunications, technology services (comprising independent software vendors and product engineering) and others such as energy and utilities, retail, logistics and transportation and media and entertainment. The Company evaluates segment performance and allocates resources based on revenue growth. Revenue in relation to segments is categorized based on items that are individually identifiable to that segment. Costs are not specifically allocable to individual segment as the underlying resources and services are used interchangeably. Fixed assets used in the Company's business or liabilities contracted have not been identified to any of the reportable segments, as the fixed assets and their services are used interchangeably between segments.
- 19.1.3 Patni's geographic segmentation is based on location of customers and comprises United States of America (USA), Europe, Japan, India and Others. Revenue in relation to geographic segments is categorized based on the location of the specific customer entity for which services are performed irrespective of the customer entity that is billed for the services and whether the services are delivered onsite or offshore. Categorization of customer related assets and liabilities in relation to geographic segments is based on the location of the specific customer entity which is billed for the services. Substantial portion of Patni's long lived assets are located in India.

Patni Computer Systems Limited and subsidiaries

Notes to the consolidated financial statements (Continued)

19.1.3 Industry segments

| Particulars | Financial services | Insurance | Manufacturing | Telecom | Independent | Product Engineering | Others | Total |
|--|--------------------|----------------|----------------|---------------|-----------------|---------------------|---------------|----------------|
| | | | | | Software Vendor | | | |
| December 31, 2004 | | | | | | | | |
| Revenues | \$ 62,707,961 | \$ 107,001,559 | \$ 92,417,807 | \$ 8,491,468 | \$ 19,344,147 | \$ 15,110,938 | \$ 21,507,744 | \$ 326,581,624 |
| Accounts receivables, net | 8,689,913 | 19,223,898 | 24,818,665 | 6,198,845 | 3,662,373 | 3,348,753 | 6,062,466 | 72,004,913 |
| Billings in excess of cost and estimated earnings on uncompleted contracts | (55,182) | (946,385) | (831,123) | (99,408) | (27,576) | (477,791) | (408,881) | (2,846,346) |
| Advance from customers | | (66,734) | (21,605) | | (47,130) | | (2,570) | (138,039) |
| Cost and estimated earnings in excess of billings on uncompleted contracts | 2,014,083 | 1,202,844 | 4,553,774 | 1,992,678 | 2,062,245 | 1,768,014 | 1,639,802 | 15,233,440 |
| December 31, 2005 | | | | | | | | |
| Revenues | \$ 72,185,157 | \$ 124,885,014 | \$ 98,655,217 | \$ 68,860,317 | \$ 22,514,511 | \$ 33,923,596 | \$ 29,308,120 | \$ 450,331,932 |
| Accounts receivables, net | 13,627,715 | 16,468,689 | 17,230,008 | 9,089,355 | 3,739,578 | 7,606,416 | 6,659,400 | 74,421,161 |
| Billings in excess of cost and estimated earnings on uncompleted contracts | (188,409) | (383,407) | (758,503) | (451,553) | (69,075) | (208,069) | (291,330) | (2,350,346) |
| Advance from customers | (1,208,504) | (94,910) | (71,927) | | (1,688) | | (12,928) | (1,389,957) |
| Cost and estimated earnings in excess of billings on uncompleted contracts | 2,577,862 | 5,148,267 | 3,553,636 | 9,163,047 | 1,624,411 | 3,007,721 | 1,019,150 | 26,094,094 |
| December 31, 2006 | | | | | | | | |
| Revenues | \$ 88,360,525 | \$ 134,513,555 | \$ 125,395,979 | \$ 109,204,32 | \$ 23,828,82 | \$ 58,628,980 | \$ 38,918,599 | \$ 578,850,882 |
| Accounts receivables, net | 16,469,861 | 21,301,154 | 26,507,789 | 22,694,977 | 4,463,335 | 12,464,424 | 11,716,964 | 115,618,504 |
| Billings in excess of cost and estimated earnings on uncompleted contracts | (207,662) | (211,665) | (727,686) | (489,852) | (12,209) | (806,075) | (869,432) | (3,324,581) |

Edgar Filing: Patni Computer Systems LTD - Form 20-F/A

| | | | | | | | | |
|--|-----------|-----------|-----------|------------|----------|----------|-----------|-------------------|
| Advance from customers | (4,833) | (18,172) | (121,713) | | (27,354) | (11,367) | (2,529) | (185,968) |
| Cost and estimated earnings in excess of billings on uncompleted contracts | 2,425,124 | 1,017,735 | 4,756,834 | 10,414,219 | 989,333 | 456,626 | 1,774,474 | 22,834,345 |

F-34

Patni Computer Systems Limited and subsidiaries

Notes to the consolidated financial statements (Continued)

19 Segment Information (Continued)

19.1.3 Geographic segments

| Particulars | USA | Europe | Japan | India | Others | Total |
|--|----------------|---------------|---------------|--------------|--------------|----------------|
| December 31, 2004 | | | | | | |
| Revenues | \$ 286,720,168 | \$ 25,690,385 | \$ 11,029,442 | \$ 726,011 | \$ 2,415,618 | \$ 326,581,624 |
| Accounts receivables, net | 62,053,958 | 8,433,786 | 366,978 | 132,587 | 1,017,604 | 72,004,913 |
| Billings in excess of cost and estimated earnings on uncompleted contracts | (2,806,346) | (28,339) | (2,813) | (8,848) | | (2,846,346) |
| Advance from customers | | (132,431) | | (5,608) | | (138,039) |
| Cost and estimated earnings in excess of billings on uncompleted contracts | 10,463,077 | 2,245,047 | 2,205,617 | 84,647 | 235,052 | 15,233,440 |
| December 31, 2005 | | | | | | |
| Revenues | \$ 381,887,038 | \$ 41,055,863 | \$ 19,362,908 | \$ 1,442,292 | \$ 6,583,831 | \$ 450,331,932 |
| Accounts receivables, net | 59,329,356 | 11,315,359 | 2,204,954 | 167,705 | 1,403,787 | 74,421,161 |
| Billings in excess of cost and estimated earnings on uncompleted contracts | (1,456,655) | (731,554) | (162,137) | | | (2,350,346) |
| Advance from customers | (1,333,823) | | | (2,021) | (54,113) | (1,389,957) |
| Cost and estimated earnings in excess of billings on uncompleted contracts | 20,216,375 | 2,424,521 | 2,846,253 | 149,507 | 457,438 | 26,094,094 |
| December 31, 2006 | | | | | | |
| Revenues | \$ 467,907,248 | \$ 67,281,267 | \$ 21,827,569 | \$ 2,367,695 | 19,467,103 | \$ 578,850,882 |
| Accounts receivables, net | 84,143,450 | 24,949,728 | 3,441,415 | 1,562,956 | 1,520,955 | 115,618,504 |
| Billings in excess of cost and estimated earnings on uncompleted contracts | (1,658,212) | (914,024) | (675,485) | (60,767) | (16,093) | (3,324,581) |
| Advance from customers | (132,511) | (20,580) | (3,367) | (3,356) | (26,154) | (185,968) |
| Cost and estimated earnings in excess of billings on uncompleted contracts | 11,488,904 | 8,518,364 | 1,348,568 | 172,637 | 1,305,872 | 22,834,345 |

19.1.4 One customer accounted for 32%, 22% and 15% of the total revenues for the year ended December 31, 2004, 2005 and 2006 respectively. Net receivables from this customer as at December 31, 2005 and 2006 amounted to 21% and 12% of the total net receivables respectively. The revenues from this customer were across all the industry segments of the Company. Another customer in the Insurance industry segment accounted for 15%, 12% and 10% of the total revenues for the years ended December 31, 2004, 2005 and 2006 respectively. Net receivables for this customer as at December 31, 2005 and 2006 amounted to Nil and 4% of the total net receivables respectively.

20 Foreign exchange (gain)/loss

Aggregate foreign exchange (gain)/loss for the years ended December 31, 2004, 2005 and 2006 amounted to \$2,081,800, \$4,218,141 and \$3,456,706 respectively. Foreign exchange loss amounting to \$Nil, \$2,524,996 and \$708,780 for the years ended December 31, 2004, 2005 and 2006 respectively, have been included in Other (expense)/income, net in the consolidated statements of income.

F-35

Patni Computer Systems Limited and subsidiaries**Notes to the consolidated financial statements (Continued)****21 Earnings per share**

A reconciliation of the common shares used in the computation of basic and diluted earnings per share is set out below:

| Years ended December 31, | 2004 | 2005 | 2006 |
|---|-------------|-------------|-------------|
| Common shares | | | |
| Weighted average number of shares outstanding | 123,066,042 | 125,736,592 | 137,957,477 |
| Effect of dilutive equivalent shares-stock options outstanding | 1,018,950 | 1,721,040 | 947,383 |
| Weighted average number of equity shares and dilutive equivalent shares outstanding | 124,084,992 | 127,457,632 | 138,904,860 |

Options to purchase Nil, Nil and 2,630,860 equity shares were outstanding during the year ended December 31, 2004, 2005 and 2006, respectively, but were not included in the computation of diluted earnings per share because the exercise price of the options was greater than the average market price of the equity shares.

22 Related party transactions

22.1.1 Patni has various transactions with related parties, such as PCS Technology Ltd. (PCSTL), formerly known as PCS Industries Ltd., PCS Cullinet, PCS Finance, Ashoka Computers - all affiliates, various companies of the GE group (GE) which is a significant shareholder in Patni, directors of Patni and their relatives. Such transactions were consummated on terms equivalent to those that prevail in arm s-length transactions.

Revenues

22.1.2 Patni USA sells computer hardware to PCSTL. Such sales during the years ended December 31, 2004, 2005 and 2006 amounted to \$8,974, \$Nil and \$Nil respectively.

Expenses

22.1.3 Patni has taken certain residential properties under operating leases from certain affiliates and the Patni family. The rentals and other incidental charges incurred for the same were \$289,964, \$266,325 and \$ 127,748 for the years ended December 31, 2004, 2005 and 2006 respectively. Amounts payable with respect to these obligations as at December 31, 2005 and 2006 were \$18,150 and \$ 14,495 respectively. Outstanding security deposits under the operating leases placed by Patni with affiliates and the Patni family at December 31, 2005 and 2006 were \$251,569 and \$ 107,203 respectively.

22.1.4 Patni has given donations to a public charitable trusts, the trustees of which include a director of the Company and his relatives. The donations paid during the years ended 2004, 2005 and 2006 were \$55,199, \$56,699 and \$Nil respectively.

Due from employees

22.1.5 Patni grants personal loans to eligible employees, either for housing or personal purposes. Personal loans include loans for vehicle purchase and other individual employee needs. Such loans are repayable in equal installments over periods ranging from 6 60 months. Interest on these loans is charged at 7.5% 9%. Loans outstanding at December 31, 2005 and 2006 were 56,662 and \$ 267,328 respectively.

22.1.6 Patni USA, Patni UK, Patni GmbH, Patni Telecom and its subsidiaries grant personal loans to employees as well as advances to meet initial conveyance and living expenses. Such loans and advances are repayable over periods ranging up to 60 months and 6 months respectively. Interest charged on these loans and advances ranged from 0% to 10%. Balance outstanding of such loans and advances at December 31, 2005 and 2006 were \$1,252,682 and \$ 2,427,797 respectively.

Employees execute promissory notes for the amount advanced along with a guarantor s agreement as collateral. In the case of long term housing loan, the original house deed is sought to be deposited with the Company as collateral, in addition to the guarantor s

agreement.

F-36

Patni Computer Systems Limited and subsidiaries

Notes to the consolidated financial statements (Continued)

22 Related party transactions (*Continued*)

Transactions with General Electric (GE)

22.1.7 Patni USA, Patni UK and Patni GmbH sell software services to various companies of the GE group. Sales to GE during the years ended December 31, 2004, 2005 and 2006 amounted to \$103,440,511, \$99,359,172 and \$84,403,156 respectively. This amounts to 32%, 22% and 15% of the total revenue for the years ended December 31, 2004, 2005 and 2006 respectively. Net receivables from various GE companies as at December 31, 2005 and 2006 amounted to \$15,673,490 and \$13,724,670 respectively. This amounted to 21% and 12% of the total net receivables as at December 31, 2005 and 2006 respectively.

22.1.8 GE charges Patni and Patni USA for data link connections. Data link charges for the years ended December 31, 2004, 2005 and 2006 amounted to \$1,165,610, \$933,475 and \$991,277 respectively. Amount payable to GE at December 31, 2005 and 2006 on account of data link charges amounted to \$229,728 and \$116,873 respectively.

Transactions with secondary shareholders

22.1.9 During the year ended December 31, 2004, the Company incurred \$1,021,096 as IPO related expenses on behalf of the secondary shareholders. During the year ended December 31, 2005, the Company paid \$491,965 for IPO related expenses on behalf of the secondary shareholders. The secondary shareholders have reimbursed the Company for such amount in 2006.

23 Line of Credit

The Company has a Line of Credit of Rs.140,000,000 (\$3,160,984) as of December 31, 2006 from its bankers for export credit requirements such as Packing Credit, Export Bill Discounting or Post Shipment Loan which have a maximum tenor of 180 days which can be rolled forward. This includes an inner limit of Rs.40,000,000 (\$903,138) for working capital requirements such as Overdraft or Working Capital Demand Loan, which has a repayment period of 365 days for loans and 1 day for Overdraft. The Company also has a limit for issuance of Bonds and Guarantees of Rs.70,000,000 (\$1,580,492) for financial guarantees favoring the Government of India and other authorities which have a repayment period of 36 months (including claim period). This limit is interchangeable with Letters of Credit, which have a repayment period of 365 days. The line of credit bears interest as negotiated with the bank from time to time. The facilities are secured by accounts receivables of the company and contain financial covenants and restrictions on indebtedness. The Company has not availed these facilities as of December 31, 2006.

24 Commitments and Contingencies

24.1.1 The Company is obliged under a number of contracts relating to capital expenditure. Estimated amounts remaining to be executed on such contracts (net of advances), aggregated \$22,427,362 and \$31,907,505 at December 31, 2005 and 2006 respectively.

24.1.2 Guarantees given by a bank on behalf of Patni amounted \$399,630 and \$1,204,985 as at December 31, 2005 and 2006 respectively and letter of credit issued by bank was \$547,414 and \$Nil as at December 31, 2005 and 2006 respectively.

Patni Computer Systems Limited and subsidiaries**Notes to the consolidated financial statements (Continued)****24 Commitments and Contingencies (Continued)**

24.1.3 In December 2006, the Company received a demand from the Indian Income Tax department of approximately \$14,228,042 including interest demand of approximately \$4,218,785 for the assessment year 2004-05. The tax demand is mainly on account of disallowance of deduction claimed by the Company under Section 10A of the Income Tax Act, 1961, in respect of profits earned by its various eligible undertakings. In January 2007, the management of the Company has filed an appeal, within the time available under the Income Tax Act, challenging the disallowance. Considering the facts and nature of disallowances and based on the advice given by the Company's legal counsel, the management believes that the disallowance is not tenable, is confident of a favourable outcome in appeal proceedings and hence no provision for such income tax demand is considered necessary.

Certain other income tax related legal proceedings are pending against the Company. Potential liabilities, if any, have been adequately provided for, and the Company does not currently estimate any incremental liability in respect of these proceedings. Additionally, the Company is also involved in lawsuits and claims which arise in ordinary course of business. There are no such matters pending that Patni expects to be material in relation to its business.

24.1.4 The Company is currently under review by the US Department of Labor with respect to compliance matters on past and present international labor practices. The Company has estimated and provided the liability \$1,962,362 during the year ended December 31, 2006 for the years 2004 and 2005.

25 Fair value of financial instruments

The fair value of Patni's current assets and current liabilities approximate their carrying values because of their short-term maturity. Such financial instruments are classified as current and are expected to be liquidated within the next twelve months. The fair value of capital lease obligations has been estimated by discounting cash flows based on current rate available to the Company for similar types of borrowing arrangements. The fair value and carrying value of capital lease obligations is set out below:

| Capital lease obligations | Fair Value | Carrying value |
|---------------------------|------------|----------------|
| At December 31, 2005 | \$ 668,283 | \$ 705,863 |
| At December 31, 2006 | \$ 655,088 | \$ 691,791 |