Seventeenth Annual Report 2006-2007

Growth creates
not only new possibilities
for the future, but also
new dimensions to success.

We...

PERSISTENT

Persistent Systems Private Limited

We are

PERSISTENT

- Focused on Outsourced Software Product Development
- Established in 1990
- Successful and profitable from the first year of operation
- The First Company set up at the Software Technology Park, Pune and the First Company to export software from the STP Scheme in India
- Excellent track record with customers and partner of choice for ISVs worldwide
- Excellent diversified customer base with low dependence on any one customer
- Deep technology expertise and domain expertise in specialised areas
- Excellent technical team with significant management depth
- Development centres in Pune, Nagpur, Goa and Bangalore, offices in Sunnyvale, CA, USA and in Japan, UK and Singapore
- Processes that are tuned for the product development lifecycle
- Owned state-of-the-art development centres for more than 3,700 employees, another 3,700 employee facility (owned) under construction

PERSISTENT

Chairman and Managing Director

- Dr. Anand Deshpande

Directors

- Mr. S. P. Deshpande - Executive Director
- Mr. Frederick W. W. Bolander
- Dr. Promod Haque
- Mr. Sandeep Johri
- Mr. P. B. Kulkarni
- Prof. Krithivasan Ramamritham

Company Secretary & Head - Legal

- Mr. Vivek Sadhale

Auditors

- M/s. S. R. Batliboi & Company
- M/s. Joshi Apte & Company

Bankers

- Bank of India
- Bank of Baroda
- Citibank N.A.
- State Bank of India
- Syndicate Bank
- Export Import Bank of India
- Bank of Tokyo Mitsubishi

Registered Office

'Bhageerath',
402, Senapati Bapat Road,
Pune 411 016, India.

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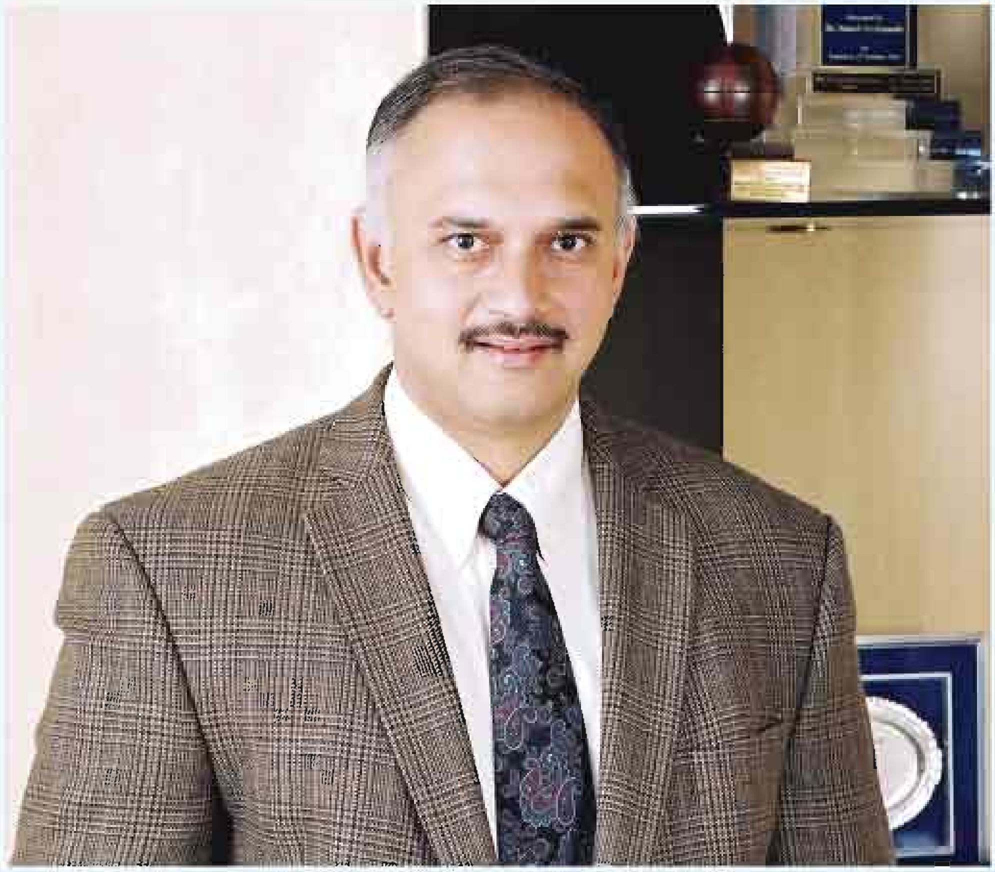
From the Chairman's Desk



Scaling will be our focus

About three years ago, we set out to be a small big Company from being a big small Company - we have achieved this goal now. For the next few years, scaling the business will be our focus.

About that time, we also set out to create Outsourced Software Product Development as being differentiated from other outsourcing. We have achieved that goal and are clear market leaders in this category. Both Forrester Research and NASSCOM have identified Outsourced Software Product Development as a separate category and have projected a market in excess of US$ 8-10 Billion in 2009. We will need to build scale to maintain leadership.

To help us scale, we have strengthened our management team. Dr. Srikanth Sundararajan joined us as the Chief of Operations and Raj Sirohi joined as President of Persistent Systems, Inc. and Head of Sales. Both have experience of leading organisations that were the size of Persistent's aspirations.

We have continued to maintain excellent growth year-on-year. Over previous financial year, our consolidated revenues grew by 43% and profits grew by 42% (in rupee terms).

Our focus on all aspects of the product development lifecycle helped us to grow our activities with existing customers. Our specialised offerings helped us to differentiate and win new customers. As proposed by Geoffrey Moore in his book, Dealing with Darwin, our customers are focusing on what is 'core' to them and outsourcing what is 'context'. By aligning our 'core' to meet the requirements of our customers' 'context', we have been able to add new service offerings that are fueling our growth.

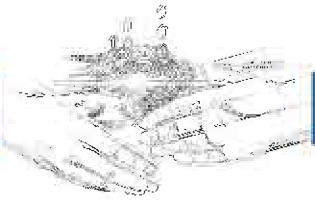
We continue to hire the best of talent. Our focus on product development has helped us to attract and to retain individuals who share our passion to build best-of-class products. It has been a team effort and I must acknowledge the contributions of Team Persistent for this splendid performance.

Financial year 2007-08 will be very important for Persistent Systems. It will be our eighteenth year - the year from when one gets to vote and be counted as a young adult !

It will be an exciting journey ahead as we scale to the next level.

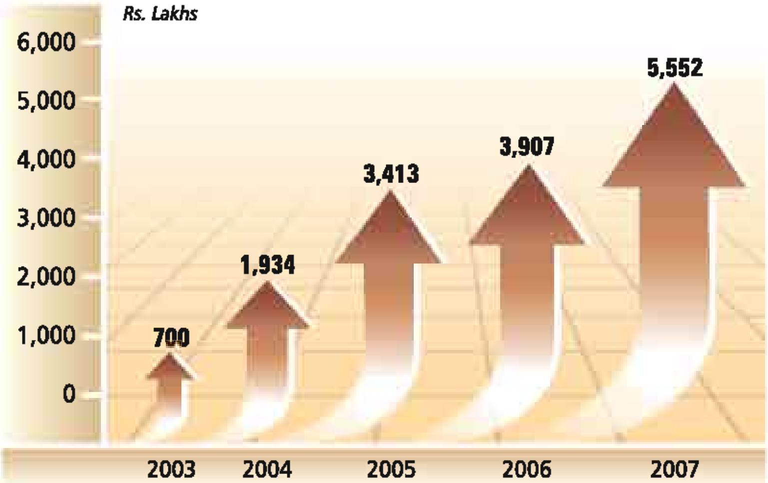
Best Regards,

Anand Deshpande
Founder, Chairman and Managing Director



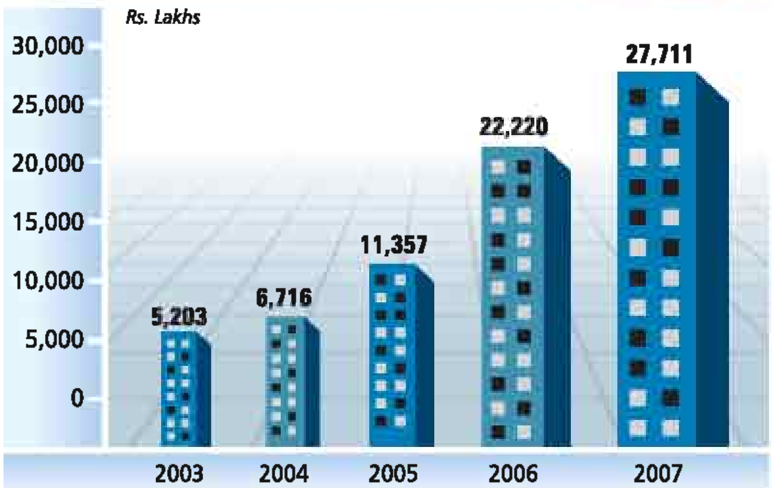
HIGHLIGHTS

Profit After Tax



Financial year ending March 31
(after extraordinary items)

Fixed Assets



Financial year ended March 31
(including Capital work-in-progress)

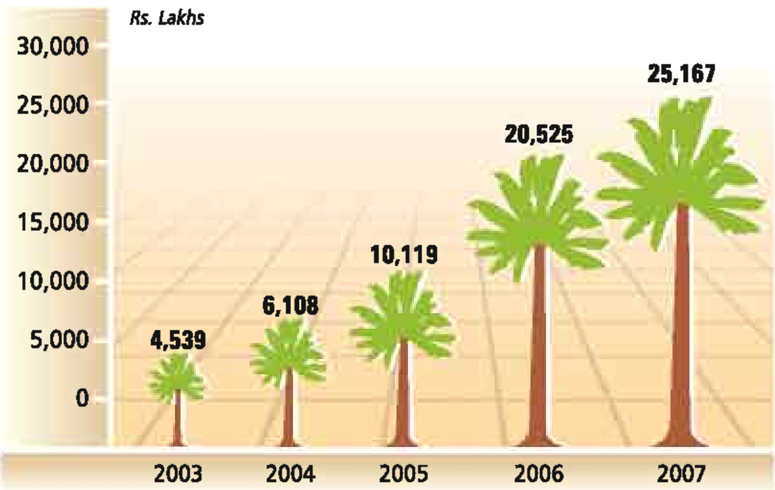
Book Value and Earning Per Equity Share (Diluted)

Financial year ending March 31

Total Revenue

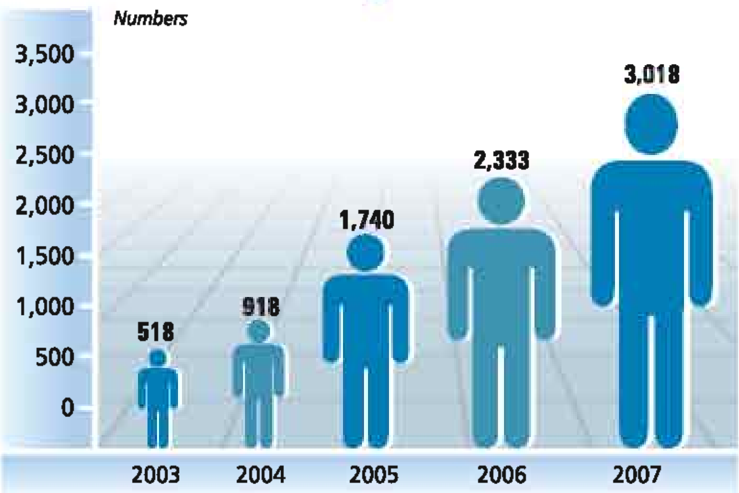
Financial year ending March 31

Net Worth



Financial year ended March 31

Human Resource Strength



Financial year ending March 31 (including trainees and associates)

** Based on consolidated figures.*

We...

are growing and ready to scale

- Consolidated Revenues of Rs. 31,440.53 Lakhs (USD 70 Million) in 2006-07
- In rupee terms, 43% growth on Revenues and 42% on Net Profit (after extraordinary items) over financial year 2005-06
- Revenue growth of 55.8% CAGR over the last three years
- Ranked among the 50 fastest growing Indian technology Companies by Deloitte Touché Asia Pacific 2006
- 1,000+ product releases

Persistent Owned State-of-the-Art Development Centres

PUNE

'Bhageerath'
Seating Capacity : 550

'Panini'
Seating Capacity : 100

'Kapilvastu' - First Floor
Seating Capacity : 25

'Pingala-Aryabhata'
Seating Capacity : 2500

GOA

Seating Capacity : 250

NAGPUR

Second & Third Floor
Seating Capacity : 350

UNDER CONSTRUCTION

At Rajiv Gandhi Infotech Park, Pune.
Seating Capacity : 2500

At M.I.D.C. Infotech Park, Nagpur.
Seating Capacity : 1200

OUR JOURNEY SINCE INCEPTION ...

1990-91

Incorporated : 30 May 1990.

Starts operations from Software Technology Park, Pune.

1991-92

First contract signed with GIP ALTAIR-02 Technology, France.

Microsoft becomes customer.

1992-93

Declares maiden dividend.

1993-94

Hewlett Packard becomes customer.

Annual turnover crosses Rs. 50 Lakhs.

1994-95

'Kapilvastu', the first owned development centre of the Company, becomes operational.

1995-96

Annual turnover crosses Rs. 100 Lakhs .

1996-97

Takes over Intrix Systems Pvt. Ltd., a 100% subsidiary of Intrix Systems Group, USA.

1997-98

Rated among 15 emerging IT companies in special issue of 'Dataquest'.

First Prize from Government of Maharashtra, Small Scale Division for Export Performance.

Developed first-ever product PS 'EnList ', followed by PS 'EnSure' and PS 'EnQuir'.

1998-99

Owned development centre 'Panini' becomes operational.

Dr. Anand Deshpande gets 'Software Professional of the Year' Award from Computer Society of India, Pune Chapter.

Human Resource strength crosses 100 mark.

1999-00

Employees Stock Option scheme introduced.

Annual turnover crosses Rs. 1,000 Lakhs.

2000-01

Investment from Intel IA-64 Fund, a venture capital firm.

Persistent eBusiness Solutions Pvt. Ltd., a virtually 100% Indian subsidiary formed.

Independent Directors appointed.

Starts operations at 'Bhageerath', new state-of-the-art owned development centre.

PERSISTENT

2001-02

Wholly owned subsidiary, Persistent Systems Inc., at Santa Clara, California, USA.

2002-03

Persistent product 'EnList Report Server' wins CSI-Infosys Award 2001 for best shrink-wrapped software product.

Annual turnover of the Group crosses Rs. 5,000 Lakhs.

Human Resource strength of the Group crosses 500 mark.

2003-04

Acquires land at Infotech Park, Pune.

Branch office at Edinburgh, Scotland, UK.

Nagpur development centre becomes operational.

2004-05

Ranked 11th fastest growing Indian company in 'The Technology Fast Asia Pacific 2004' report of Deloitte.

Joins Microsoft RFID Partners Council, the only Indian and non-US RFID company.

Branch office at Tokyo, Japan.

'Inventor' classification by Forrester Research.

Bangalore branch office becomes operational.

Annual turnover of the Group crosses Rs. 10,000 Lakhs.

Human Resource strength of the Group crosses 1,000 mark.

2005-06

Starts operations at 'Pingala-Aryabhata', new state-of-the-art owned development centre.

Acquires ControlNet (India) Pvt. Ltd. in Goa.

Norwest Venture Partners (NVP) and Gabriel Venture Partners (GVP) make joint investment.

Follow-up investment from Intel Capital Fund.

Annual turnover of the Group crosses Rs. 20,000 Lakhs.

Human resource strength of the Group crosses 2,000 mark.

2006-07

'Product Development Specialist' classification by Forrester Research.

Becomes Google's 'Search Appliance Partner'.

Ranked among the Top 50 fastest growing Indian technology companies by Deloitte Touche, Asia Pacific, 2006.

Annual turnover of the Group crosses Rs. 30,000 Lakhs.

Human Resource strength of the Group crosses 3,000 mark.

2007-08

Poised to Grow

We... are focused and unique

- Focused on Outsourced Software Product Development
- Service offerings : Goto Live, Data Management, Telecommunications, Business Intelligence, Life Sciences, VLSI, Identity Management, Connectors
- Technical depth : Out of total human resource strength of 3,018 - 17 PhDs, 25% post-graduates, 85% Computer Science graduates, 10% US-returned

What is Unique about Product Development?

PERSISTENT has built a strong Software Product Development culture

Product development is different from IT outsourcing as it has unique requirements.

To build products successfully, the team needs to understand what it takes to build products. The best way to illustrate this difference is to compare product development with IT projects.

Most IT projects start with well-defined requirements. Given these fixed requirements, vendors typically use time and money as variables to come up with a reasonable estimate for the project. After completion of the project, the project goes into a maintenance mode.

For product development, all the requirements are not clearly available upfront. Ship-dates for the product are usually the first to be frozen and are determined by external factors. Once the ship-dates are identified, the budgets for the product are determined. So, unlike a typical IT project where requirements are fixed, and time & money are variables, a product development project starts with ship-dates and a fixed budget but with flexibility for requirements. Therefore, the product development team's task is to come up with the best set of requirements that can be built within a fixed budget of time and money. An offshoot of this product development life cycle is that all requirements are never completely fulfilled in a particular version. Most product companies therefore plan multiple product versions for their product.

While product teams must focus on developing the best product for the current release, they must not lose sight of the fact that there will be more versions to come. Every team member on the product development team must not only have a clear idea of the product for the current release but also have an overall vision of the product direction. Every team member must contribute not only to building the features for the current release but must also contribute to enhancements and provide feedback for future releases of the product.

Persistent has shipped more than 1000 product releases and has built a strong software product development culture in the Company. Persistent lives the product development culture. This differentiation has helped Persistent to be successful in this competitive market.

PRODUCT LIFE CYCLE

At Persistent, we are passionate about delivering software products. As part of the product release, we contribute to all aspects of the software product lifecycle. This includes Research, Engineering Services such as Development, Testing, Quality Assurance, Performance Tuning, Usability Engineering, Porting, Documentation Services, Deployment Services including on-site professional services, Pre-Sales and After Sales services including support, maintenance, etc.

To deliver products that reduce time-to-market and ensure 'zero' risk of engineering failure, Persistent has an internal process framework called the Persistent Standard Software Process (PSSP). This process framework is customised for outsourced development and uses the best of agile software development methodology and Rational Unified Processes.

Persistent continuously invests in research and has partnerships with Universities and Research Institutions to track the latest technology. Persistent has made investments in Competency Centres that explore new technology and help in propagating new technology expertise and practices across the Company.

PERSISTENT continuously invests in research & innovation.

GOTO LIVE AND DESIGN FOR MANUFACTURING

Over the last couple of years, Persistent has studied outsourcing in other more mature areas such as automobile manufacturing, electronics manufacturing, semi-conductor manufacturing and other such industries. We have tracked four very clear phases through which outsourcing has moved. The changes in phases can be associated with improved efficiency in different aspects. Persistent identifies these phases and the efficiencies achieved as follows:

- Labour-cost Efficiency
- Process Efficiency
- Design Efficiency
- Innovation Efficiency

We have observed that in Phase 1 (labour-cost efficiency), product development moves to lower cost geographies, if qualified resources are available at a fraction of the cost. During this phase, though the companies move work to lower cost geographies, they continue to (micro) manage projects and resources from the headquarters. Factories are moved 'as is' and local resources are employed for product delivery. Tasks that require relatively lower skills and expertise are moved first.

The next phase of outsourcing typically focuses on process efficiency. These efficiencies are achieved by improving manufacturing processes. Outsourced Software Product Developers are in a position to provide better quality and price performance as compared to captives through better processes, volume efficiencies in manufacturing and raw material purchase. Contract manufacturers get set up to exploit these efficiencies.

A very natural extension to process efficiency is design efficiency. When manufacturing in large quantities, contract manufacturers are able to influence design decisions to improve the cost of effectiveness of manufacturing. For instance, the standardisation of parts and manufacturing processes. An Electronics contract manufacturer is in a position to influence design decisions because of his intimate knowledge of many different components.

In the fourth phase, contract manufacturers move over to become innovators and typically become responsible for the complete design of components. This has resulted in a class of ODM (Original Design and Manufacturing) companies.

While we have observed these trends for automobile manufacturing, electronics manufacturing and semi-conductor industry, we find that the software industry is currently in Phase 1 and Phase 2.

We realise that Phase 3 is inevitable and therefore decided to proactively set up a Goto Live practice to prepare the Company for this eventual turn in the industry.

PERSISTENT has been involved in more than 1,000 product releases.

GOTO LIVE OFFERING

Following the footsteps of the manufacturing industry, Persistent believes that the next generation of Outsourced Software Product Development will be about setting up a software factory that can help software product companies to outsource their product for improving the quality of the product while reducing the risk of failure during the engineering development process, at a significantly lower cost.

During the year, Persistent strengthened the partnership with Microsoft's Visual Studio group to set up a complete 'end-to-end' software factory. Persistent's Goto Live practice allows a start-up company not to hire experts for specialised tasks such as installation, configuration management, globalisation, integration with other products, testing, test automation, release management and many others. Persistent has been involved in more than 1000 product releases over the last 17 years and has rolled up its experience in shipping products into building a team of specialists who could take a product from concept through the entire product development lifecycle.

EMBEDDED SYSTEMS AND VLSI TECHNOLOGY

Market opportunities for embedded systems and systems on a chip are very large. The need for specialised skills creates a high entry barrier for new entrants in this area. Persistent acquired ControlNet (India) Pvt. Ltd. in 2005 to establish a presence in this area. Persistent's strength in Outsourced Software Product Development, complemented with expertise in embedded systems and systems on a chip, will allow Persistent to establish a new domain of expertise in the Outsourced Software Product Development.

PERSISTENT SYSTEMS' FASCINATING JOURNEY

Excerpts from a recent interview of Dr. Anand Deshpande, Founder, Chairman and Managing Director

■ ***2006-07 has been a good year for Persistent Systems - more than 3,000 employees, revenues crossed Rs. 300 Crores and Persistent has established leadership in Outsourced Software Product Development. It must indeed have been very satisfying for you. Looking back at 1990-91, when you started the Company, was this something you had planned?***

Yes, we have had a good year, this year. Reflecting back to 1990-91, I must admit we never thought that far, there were many more immediate issues to deal with.

■ ***Such as...***

You need to put this in the light of the situation prevalent at that time.

Software Technology Parks (STP) were set up by the Department of Electronics (DOE) in March 1990 with Pune as the first STP. Just to provide some perspective, Pune STP was set up by the Government by acquiring 7,000 square feet area in Bhosari of which only 4,000 square feet was usable. This was allocated to 13 companies in March 1990.

■ ***7,000 square feet divided among 13 companies... it doesn't sound right.***

Yes, you heard it right. The total area was only 7,000 square feet and each of the company was given between 300 and 600 square feet depending on its need. *Persistent* was not established as an entity at that time and hence we were not in the initial list of 13 companies. We were told that there was an extension planned and we would be granted space as soon as we were incorporated. The STP Scheme had promised to simplify import / export processes for the software industry and hence being there was important. Immediately thereafter, Mr. S. P. Deshpande, (Dada), Founder Director and my father, filed the papers to set up Persistent Systems and we got incorporated on May 30, 1990.

In early 90s, there was political uncertainty and the Indian economy was going through rather difficult times.

■ ***Yes, I remember those times. We had to use our gold reserves to borrow foreign exchange...***

While we were promised that we would get space in the STP as soon as we were incorporated as an entity, nothing really moved for the first 6 to 9 months. None of the companies, who were allotted space in the STP, started operations and no additional space was acquired. While *Persistent* had orders to execute, we had to wait till March 1991 to get space.

■ ***You were just back in India after having quit an excellent job in the US. It must have been frustrating to wait all that time.***

Definitely. Though, I must say, I used at least some of my time well... I got married soon after I got back.

Additionally, we had to spend significant time getting all the paper work to get started. We also prepared a proposal for the bank and applied for a bank loan. In mid 1991, all bank loan applications were placed on hold and it took us nearly six months to get the loan sanctioned. The story of how we got space in the STP is also very interesting.

■ ***Could you please share that?***

I was indeed getting very frustrated waiting for space allocation and as a final attempt, I wrote a letter to Mr. N. Vittal, the then Secretary of the Department of Electronics (DOE). I vividly remember the events of the week after I wrote to Mr. Vittal.

I wrote this letter on March 10, 1991, which was a Sunday, and speed posted the letter to him the next day. He must have received the letter on Tuesday and that evening, we heard from the Senior Director at DOE acknowledging the letter and requesting us for the details.

In the meantime, the Secretary, DOE invited the Director of STP, Pune to Delhi. On Thursday, the Director of STP Pune met the Secretary, DOE and was told by Mr. Vittal to vacate his own office in STP and keep moving until the last unit was occupied. He called me on Friday from Delhi to communicate this and invited me to Bhosari on Friday afternoon to collect the keys. So, on the 15th of March I got the keys to our office, a 300 square feet unit in the STP. Interestingly, we were the first to occupy the STP premises. But more importantly, this allowed us to get started.

Sunday, March 17, 1991 was *Gudhi Padwa* and we started operations on an auspicious day.

■ ***That must be the reason for the annual Gudhi Padwa celebrations.***

Yes. Incidentally, Dada had also filed the papers for the incorporation of the Company on *Gudhi Padwa* of the previous year. We have timed our other new initiatives around *Gudhi Padwa*.

It is said that getting your first customer is the most difficult task. Who were the early customers and how did you go about getting them?

Our first customer was a French company called O2 Technologies - they were building object databases. I had known the founder of O2, François Bancilhon professionally. When I was working at HP Labs, Francois was doing a short sabbatical there and sometimes we used to commute home from work together.

When I told him that I was planning to go back to India and would like O2 to be my customer, he laughed. He said, he knew many Indians who talked about going back to India but none of them did. So, in the first place, he did not believe that I would go back. However, in the off chance that I did go back, he promised to give me work. I must say he kept his promise.

Our other customer was Data Parallel Systems, Inc. (DPSI). This was a company formed by Tim Bridges, a fellow graduate student from Indiana University. While we were both graduate students, we had applied for a grant which had formed the basis of DPSI. DPSI was building a database system for a massively parallel computer.

With space in the STP, and two contracts signed, was it easy to execute these projects?

After I returned, I got a couple of my IIT classmates to join. Parikshit Bhaduri and Pradeep Sinha agreed to come. Unfortunately, Pradeep had filed for Australian immigration, which came through about that time. Parikshit helped execute these projects but returned back to the US in February 1992. Ashutosh Joshi joined the Company in December 1991 and has been with the Company since.

It was very difficult to do offshore software development at that time. Communication was very difficult and expensive. Every morning, we would connect to CompuServe to download mails and at the end of the day, we would send mails by uploading it on CompuServe. We had to keep a record of the number of bytes transferred. Speeds were very slow.

How slow?

We would get speeds of 2,400 bps to 9,600 bps. Effectively, we would chunk messages in 30 K byte chunks and it took about 5-6 minutes to upload each such 30 K byte file.

Just to give you a sense of the costs, it was actually cheaper to go to Mumbai and check mails. I had a second class Deccan Queen pass which cost Rs. 180 per month. I would go to Mumbai every Thursday, which was our weekly off, just to check mails.

Importing computers was also pretty difficult. The US Government had stringent export control laws and even the first 486 computer required us to get export clearance from the US before we could import. This process took almost three months.

In terms of customers in the early years, what was the turning point?

I must say that our contract with Microsoft in 1992 was the turning point for the Company. It was a fairly small project to migrate graphics libraries from 16 bit assembly to 32 bit, but this order proved very important to us. Thereafter, every time somebody asked about our offshore capability, we showed them a letter from Microsoft commending us on having delivered to their requirements.

When did you move from Bhosari to Senapati Bapat Road?

We operated from Bhosari until August 1994. At that time we were about 20 people. The Government had by that time made it feasible to set up private STP units and we decided to acquire a floor in a building 'Kapilvastu' near Ratna Hospital on Senapati Bapat Road.

Persistent definitely has beautiful buildings in excellent locations. What has been the Company philosophy about owning buildings?

After 'Kapilvastu', we built 'Panini' on Senapati Bapat Road in 1998-99. 'Panini' is good for about 100 employees. We started 'Bhageerath' in 2000-01. 'Bhageerath' has space for about 550 employees. The two-tower 'Pingala-Aryabhata' off Karve Road was completed in 2006 and can seat 2500 employees.

We also have a nice building for 250 employees with a beautiful garden in Goa. That facility came through our acquisition of ControlNet (India) Pvt. Ltd., in 2005. In Nagpur, we have bought two floors in the MIDC building with a capacity for 350 employees.

We are in this business for the long-term and believe that infrastructure will always be at a premium in good locations. Financially, we have never compromised on investments in the business. Additionally, immovable assets provide us the flexibility to finance other business deals through debt.

Any other construction projects in the pipeline?

We have a facility for 2500 employees coming up in Hinjewadi, Pune, and a 1200 employee facility coming up in Nagpur.

I like the names you have for your buildings ...

There is a story to it. I was visiting Alcatel facilities in Paris and they had several buildings and each one was named after a French scientist, philosopher, etc. That motivated us to name our buildings after Indian scientists and philosophers. So, Panini is known for defining Sanskrit grammar. His definition was very precise and is acknowledged as the first reference of the kinds of grammars used to define computer languages. Bhageerath is known for his persistent penance that brought Ganga to the earth. Pingala is a mathematician who first used the binary notation and also defined the Fibonacci series. Aryabhata is a well-known astronomer.

■ *Persistent has had very steep growth for the last five years. Has it always been like that?*

I wouldn't say that. We grew very slowly in the early years. We touched 100 employees for the first time in 1999. There were many reasons for the slow growth. The market conditions in the 90s were very different. Offshore development was not common and was difficult.

Body-shopping was the most common form of software export. We had decided not to get into the body-shopping business and we ran *Persistent* as a boutique firm and did only esoteric projects at that time. Moreover, I was very hands-on on technical projects at that time. You may find this hard to believe but we did our first H1-B in 2003.

After 1999, we grew rapidly for the next two years and the business slowed down again in the aftermath of 9/11. We touched 500 employees in 2003 and are 3000 in 2007.

■ *Has the growth been gradual or has it been discontinuous?*

Growth is always discontinuous. I don't believe that growth can be gradual. I would like to compare the Company to the state of electrons in an atom. Just like atoms, to take the Company to the next level, you have to inject new energy into the Company. You could call these points of inflection, to use Andy Grove's terminology.

At these points of inflection, new energy has to come in the form of one or more events such as a new business model, a new customer, a new senior executive, new funding, acquisitions, etc. These events will cause uncertainty and turbulence in the Company. But these are necessary to move to the next growth level in the Company.

■ *What were these points of discontinuities for Persistent?*

In my opinion, in 1992, Microsoft as a customer and Dr. Shridhar Shukla's joining the Company in 1996 was another such event, which gave boost to the growth.

There were several events that helped our growth in 1999-2000. Start-ups from the dotcom times were anxious to reduce time-to-market; the widening of our service offering to including QA; and the Intel funding helped us to grow from 100 to 500 employees.

What worked in the pre-9/11 times did not work after 9/11. We had to do things very differently after that.

■ *Persistent has done well after 9/11. What did you do to achieve this growth?*

In 2002, when the market slowed down after 9/11, it was a very difficult situation for most companies. Most of our start-up customers were struggling and we were not able to find new customers as there was uncertainty and there was no movement in the market. At that time, we went back to our existing customers and reassured them that we were willing to work with them in their difficult times. We renegotiated our contracts and payment terms to enable our customers to survive through these hard times. Most of our customers survived and those who did not, continue to be good friends and have helped the Company to find new customers.

When business for our customers started to move again after a couple of years of hibernation, we realised that there were no new development projects that were happening. The only growth for them was in QA, support and maintenance, something *Persistent* had not done before.

Our decision to add services that support the entire life-cycle of product development was an important turning point. We used the analogy of the Honda Motor Company to reassure ourselves that we were doing the right thing. Honda started out as a bicycle-engine manufacturing company and grew to build motor-cycle engines, then car engines and then to manufacture cars.

We parallel our transition of growing from a boutique shop, building core database technology components in 1991, to being responsible for the entire product to Honda's transition from an engine manufacturer to a car manufacturer. And while this transition took place, Honda continued to focus on its core expertise in building engines and continues to be the leader in the automobile engines market.

■ *What did the customers think of this change?*

Our customers were delighted. They were already happy with the quality of work we were doing for them and were more than happy to see us take responsibility for the entire product. This change allowed us to grow our teams with our customers.

■ *What makes Persistent different?*

Software development is all about team work. We are very selective about whom we recruit and we have the best technical team in the business. We have a very talented team that is passionate about product development. Over the last few years, we have significantly strengthened our management and sales teams as well. The combination of talent, team work, passion and hard work has helped *Persistent* get to where we are today. A lot of hard-work, sweat and sacrifices of employees and their families have gone into the making of the Company.

That must be the reason for such a large percentage of the Company being held by ESOPs...

Yes. This is our way of having employees own the Company and participate in the success of the Company. And you are right; our ESOP Pool is one of the largest in the industry.

Anand, Persistent is well respected for its Corporate Social Responsibility...

Yes, we have been following a policy of donating about 1% of our profits to social causes since 1993. Most of our contributions go towards healthcare, education and to support NGOs who do work in the vicinity where we are located. Most of the NGOs that we support have active support and participation from our employees and we encourage our employees to join activities organised by such NGOs.

In the recent past, we have supported some larger initiatives, like we supported the Science Exploratory at Bharatiya Vidya Bhavan in Pune. We were responsible in setting up the Pune Cyber Lab for Pune Police in collaboration with NASSCOM to provide training to the police force.

Persistent has some very interesting partnerships with research and educational institutions. Can you elaborate?

We work very closely with academic institutions, the IITs and also local engineering colleges. We have initiated a 'train the trainer' program in collaboration with Software Exporters Association of Pune (SEAP) and CSI Pune Chapter to train professors of local colleges and to help them teach more effectively.

We have been part of an exciting Industry-Academia program with IUCAA (Inter University Centre for Astronomy and Astrophysics) for the last four years. Jointly, we have established the Virtual Observatory India and are part of an international program that has allowed observatories to exchange data. This is of immense value to Indian astronomers who can observe from telescopes all across the world.

Recently, we have participated in a major grant with IIT Bombay and Chalmers University in Götteborg, Sweden. For the last five years, we have participated in the caBIG (cancer Biomedical Informatics Grid) initiative in partnership with Washington University at St. Louis. Several universities including the Broad Institute at Massachusetts Institute of Technology are *Persistent* customers.

You mentioned about CSI, SEAP and NASSCOM. How is Persistent involved?

We believe that collaboration and team work is essential not only within *Persistent* but across other institutions as well. Dada founded SEAP in 1998 to get all the local companies to come together and help each other in addressing common problems. He has been spearheading SEAP, which has had a significant role to play in the growth of Pune as a major software destination in India.

I believe I must do my bit to contribute to the community. I have been an active member of the database community and have been responsible for hosting VLDB 1996 in Mumbai and ICDE 2003 in Bangalore. Both are premier international database conferences. Currently, I am the Program Committee Chair for the Industrial Program at VLDB 2007 to be held in Vienna, Austria in September 2007.

I have been a past Chairman of the Computer Society of India, Pune Chapter. And presently, I am on the Executive Committee of NASSCOM and the Mahratta Chamber of Commerce, Industry and Agriculture.

Clearly, you are Persistence exemplified. Was that the reason for the name?

Actually, 'persistent systems' is a technical term used for systems that are 'persistent' on the computer's disk. Databases are typically 'persistent systems' and since we started by building database systems, Persistent Systems clearly denoted our focus. No doubt, it has a more colloquial meaning and we like to 'live' it.

...and what about the logo?

The logo is a combination of a 'P' and a 'S' for Persistent Systems. We have combined them into an infinity-like loop that signifies persistence as 'never ending'. We use the blue background to signify the ocean, which also has sense of permanence to it.

Thank you very much for sharing the fascinating journey of Persistent Systems. I wish you and the Company all the best in the years to come.

DIRECTORS' PROFILE

DR. ANAND DESHPANDE
Founder, Chairman and Managing Director

As the Founder, Chairman and Managing Director of Persistent Systems, Dr. Deshpande's vision created a unique business focused on Outsourced Product Development.

Starting out as a hands-on techie, Dr. Deshpande used his expertise in Data Management Systems to boot-strap a small boutique shop. Over the years, under his leadership, Persistent has grown to a 3,000 person team with more than 115 satisfied customers.

Dr. Deshpande did his B. Tech. (Hons.) in Computer Science and Engineering from IIT Kharagpur and a Ph.D. in Computer Science from Indiana University, Bloomington Indiana (USA). After his Ph.D. he worked at Hewlett-Packard Laboratories as a Member of Technical Staff in Palo Alto, California.

Dr. Deshpande is a member of ACM, IEEE, CSI and YPO and is on the Executive Committee of NASSCOM and MCCIA. He has been the President of SEAP for 2005-06 and 2006-07, Chairman of the Pune Chapter of Computer Society of India for 2003-04 and 2004-05.

He is an active member of the Database Community and has served as the Industrial Program Committee Chairman for VLDB 2007 in Vienna, ICDE 2005 in Tokyo, DASFAA 2008 in New Delhi. He was actively involved in organising VLDB 1996 in Mumbai and ICDE 2003 in Bangalore.

S. P. DESHPANDE
Founder, Executive Director

Mr. S. P. Deshpande is a Founder and Director of Persistent Systems Pvt. Ltd. At Persistent, Mr. Deshpande is responsible for the entire Administration functions, viz., General Administration, Purchase, Accounts and Finance, Secretarial and Facilities.

Mr. Deshpande joined Bharat Heavy Electrical Limited (BHEL), Bhopal, India, as a graduate apprentice in 1958 immediately after graduation and spent over 23 years with them. During that period, he worked in a number of product and service departments, specializing in Transportation Systems and Electronic Control Systems as applicable to Transportation, in particular.

In 1982, Mr. Deshpande joined Kirloskar Pneumatic Company Limited (KPC) as Associate Vice President and Head of the Materials Division. During his eight-and-a-half years with KPC, he worked in the Materials, QA, Manufacturing Services and R&D divisions. At KPC, Mr. Deshpande was credited for improvising systems to reduce inventories, increase turnover and improve processes in the QA, Manufacturing Services and Materials divisions. He retired from KPC as Vice President in October 1990.

Mr. Deshpande is an Electrical Engineer from Jabalpur Engineering College, India. Mr. Deshpande also founded the Software Exporters' Association of Pune (SEAP) in 1998 to foster better interaction among software export units in Pune, for their mutual benefit. SEAP aims to promote and safeguard the interests of its members by bringing together companies, having a common goal and providing a forum to share their resources and collectively address administrative issues.

FREDERICK W. W. BOLANDER
Investor Nominee Director

Mr. Frederick Bolander is a Managing Partner at Gabriel Venture Partners, with more than 12 years of experience in the venture capital industry. Having co-founded Gabriel Venture Partners in 1999, Mr. Bolander sought to create a firm with a specific organisational structure and core competencies, designed to achieve the goal of building the next generation of industry leaders, by identifying the best entrepreneurs and working side by side with them to win.

Mr. Bolander focuses on investments involving digital media infrastructure and applications, communications, information technology, and the Internet. He has led 12 investments at Gabriel and was an early investor in companies such as Exodus Communications (IPO that began the hosted applications and data revolution); Placeware (M&A by Microsoft to become LiveMeeting, one of the leaders in web-conferencing that originated out of early MMO technology); and IPWireless (a 4G wireless solution, powering mobile broadband with a large emphasis on mobile video for consumers). His current focus is in the Digital Media realm, with recent investments in web 2.0 plays like Chegg (Craig's List for college students), social networking mobile applications, as well as plays in virtual worlds.

Mr. Bolander currently serves as non-executive chairman of AccessLine Holdings and is a board member of Chegg, Encentuate, Eyespot, IPWireless, Kajeet, Neopath Networks, Persistent Systems, and Tapatap. He has also served on the boards of Arula Systems (acquired by Raritan); NetScaler (acquired by Citrix Systems) as well as on the public boards of Concord Communications (acquired by Computer Associates) and Exodus Communications (NASDAQ: EXDS, IPO, then acquired by Savvis). He is an advisor to The Infinity Venture Fund, a venture capital fund based in India. He is also a charter member of The IndUS Entrepreneurs (TiE).

Prior to Gabriel Venture Partners, Mr. Bolander spent seven years in various operational roles, ranging from product development and operations management to regional marketing and sales management at AT&T / Lucent.

Mr. Bolander received a Bachelor of Science in Electrical Engineering from the University of Michigan (summa cum laude) and holds an MS in Electrical Engineering from the University of Michigan, where he taught computer architecture. He also holds an MBA from Harvard Business School.

DR. PROMOD HAQUE
Investor Nominee Director

Dr. Promod Haque has 17 years of experience in the venture capital industry and currently serves as Managing Partner at Norwest Venture Partners. He joined Norwest Venture Partners in 1990.

Dr. Haque focuses on investments in semiconductor and components, systems, software and services. He was an early investor and a board member of Cerent (acquired by Cisco); Siara Systems (acquired by Redback Networks); OnDisplay (acquired by Vignette); Winphoria Networks (acquired by Motorola) and Extreme Networks.

Dr. Haque's current investments include Persistent Systems, among other companies. Prior to Norwest Venture Partners, he spent 18 years in various operational roles, ranging from product development, marketing, and as Chief Operating Officer and Chief Executive Officer at various public and private companies.

Dr. Haque received a Bachelor of Science in Electrical Engineering from the University of Delhi, India. He holds a PhD in Electrical Engineering from Northwestern University and an MBA from Northwestern's Kellogg Graduate School of Management, where he serves on the advisory board. Dr. Haque has been ranked as a top dealmaker on the annual Forbes Midas List for the past five years and, in 2004, Forbes named him as the #1 venture capitalist based on performance over the last decade. In 2006, he was presented with a Global Leadership award from NASSCOM.

SANDEEP JOHRI
Independent Director

Mr. Sandeep Johri is Vice President, Strategy & Corporate Development for HP Software. Mr. Johri is responsible for overall Strategy, M&A, and Acquisition Integration and has been an instrumental part of the team that developed the strategy that resulted in the OpenView business growing 2X of the market over the last three years.

During his tenure at HP, he has led the acquisition and successful integration of nine software companies, valued at more than USD 5 billion, including one of the largest software acquisitions done by HP, of Mercury Interactive.

Prior to HP, Mr. Johri was an Entrepreneur-in-Residence at Mayfield Fund, a leading venture fund in Silicon Valley. Prior to that, Johri was the CEO and Founder of Oblix (acquired by Oracle), a leading provider of Enterprise Identity Management solutions. In 1999, he co-founded eBoodle (acquired by EW Scripps), one of the first e-commerce comparison-shopping services. He has also worked at Silicon Graphics and Gemini Consulting.

Mr. Johri has an MBA from Stanford University, a Master's in Industrial Engineering from Wayne State University, Detroit, and a Bachelor's in Mechanical Engineering from Pune University, India. He currently serves on the boards of BlueLane (a security startup), Livedeal (online local classifieds website) and Persistent Systems and as an advisor to several other startups.

P. B. KULKARNI
Independent Director

Mr. P. B. Kulkarni is a senior banker and renowned expert in the area of foreign exchange and commercial banking. He was an Executive Director of the Reserve Bank of India and is a former Chairman and Managing Director of the Bank of Maharashtra, a reputed nationalised bank in India. He was also a non-executive chairman of the local advisory board of a foreign bank. He is rendering advisory and consultancy services in finance and banking areas, and functioning as director of some companies.

During his illustrious career spanning over 50 years, Mr. Kulkarni has handled several responsibilities at the Reserve Bank of India, including management of foreign exchange reserves and exchange rate policy. He was on deputation to the Asian Development Bank, Manila; the Bangladesh Shilpa Bank, Dhaka, and the Myanmar Economic Bank, Yangon (Rangoon). Mr. Kulkarni is associated with several organisations in the capacity of adviser / trustee / member. He has travelled extensively all over the world on professional assignments.

PROF. KRITHIVASAN RAMAMRITHAM
Independent Director

Prof. Krithivasan Ramamritham is Dean of R&D at IIT Bombay and the Vijay and Sita Vashee Chair Professor in the Computer Science Department.

Prof. Ramamritham's interests span the areas of real-time systems, database systems, and real-time database systems. He is applying concepts from these areas to solve problems in embedded systems, mobile computing, e-commerce, intelligent Internet, and the Web. During the last few years, he has been interested in the use of Information and Communication Technologies for creating tools aimed at socio-economic development.

Prof. Ramamritham has been a visiting fellow at the Science and Engineering Research Council, UK, at the University of Newcastle-upon-Tyne, UK, and has also held visiting positions at the Technical University of Vienna, Austria, and at IIT Madras. He is a Fellow of the IEEE and the ACM.

Prof. Ramamritham is an MTech in Electrical Engineering from IIT Madras. He received a PhD in Computer Science from the University of Utah and then joined the University of Massachusetts at Amherst. He received the Distinguished Alumnus Award from IIT Madras in 2006 and has been invited to receive the Doctor of Science (honoris causa) from the University of Sydney, Australia.

We... are stable and secure

- Debt-free
- Profitable from first year of operations
- Dividend-paying Company for the last 16 years
- Owned state-of-the-art development centres for more than 3,700 employees, another 3,700 employee facility (owned) under construction

Report of the Directors

Your Directors have pleasure in presenting the Seventeenth Annual Report of your Company together with the audited statement of accounts for the year ended March 31, 2007.

Business overview

Your Company has established leadership in Outsourced Software Product Development. The market for outsourced product development is getting differentiated. Product Companies are under margin pressure and are exploring ways to improve profitability by focusing on what is "core" to them and outsourcing what is "context."

Your Company's offering suits large product Companies who are looking to improve their efficiencies and the small start-ups who are looking at improving their time to market and reducing the risk of product development failure. Your Company's offering of supporting all aspects of the product life cycle have made it possible for the customer's of the Company to see your Company as a true partner and not just a vendor. This has allowed your Company to establish stable growth in existing customers.

During the year under report, your Company strengthened the management team by adding Dr. Srikanth Sundararajan as the Chief Operating Officer being based in Pune and Mr. Raj Sirohi as the President of Persistent Systems, Inc., the wholly owned subsidiary of your Company being based in California.

Financial results

During the year under report, your Company continued its track record of growth coupled with robust financials.

The total income of your Company amounted to Rs. 29,604 Lakhs (USD 65.93 Million) registering a growth of 40% over the previous year (in rupee terms) and the net profit after extra ordinary items grew to Rs. 5,907 Lakhs (USD 13.16 Million), a growth of 45% over the previous year (in rupee terms).

The highlights of the financial performance for the year ended March 31, 2007 are as under

Particulars	(Amount USD Million except EPS and Book Value)		(Amount Rs. Lakhs except EPS and Book Value)		
	2006-07	2005-06	2006-07	2005-06	% change
Total income	65.93	47.89	29,604	21,217	40
Profit before depreciation and taxes	19.11	13.70	8,582	6,071	41
Depreciation	5.96	4.11	2,675	1,820	47
Provision for taxes	0.40	0.23	182	100	82
Net profit for the year before exceptional and prior period items	12.75	9.37	5,726	4,151	38
Net profit for the year after exceptional and prior period items	13.16	9.19	5,907	4,071	45
Transfer to general reserve	5.26	4.25	2,363	1,882	26
Net worth	57.93	47.84	26,013	21,192	23
Earnings per share (basic)					
Including exceptional and prior period items	1.59	1.04	71.58	46.19	55
Excluding exceptional and prior period items	1.54	1.06	69.35	47.11	47
Earnings per share (diluted)					
Including exceptional and prior period items	1.28	0.96	57.67	42.57	35
Excluding exceptional and prior period items	1.24	0.98	55.90	43.42	29
Book value per equity share	4.78	3.62	214.67	155.61	38

[Conversion rate: USD 1 = Rs 44.90 (2006-07) and USD 1 = Rs. 44.30 (2005-06)]

On a consolidated basis, the total income of your Company and its subsidiaries amounted to Rs. 31,441 Lakhs (USD 70.02 Million) and the net profit after extraordinary items amounted to Rs. 5,552 Lakhs (USD 12.36 Million).

Issue of equity shares

During the year under report, your Company allotted 1,500 equity shares to its Independent Directors on a preferential basis.

Employee stock option plans

Your Company has introduced various Stock Option Plans for employees of the Company. The details of the options granted under these schemes form part of the Corporate Governance report and Notes to Accounts.

Dematerialisation of shares

As a good investor protection measure, your Company has dematerialised its Equity and Preference shares with Central Depository Services (India) Ltd. (CDSL).

As at March 31, 2007, 89.95% of the Company's shares are held in electronic form and remaining 10.05% of the Company's shares are held in physical form.

Subsidiary Companies

Your Company had two subsidiaries viz. Persistent Systems, Inc. and Persistent eBusiness Solutions Pvt. Ltd. as at March 31, 2007. Your Company incorporated a subsidiary in Singapore during the current financial year 2007-08.

Persistent Systems, Inc.

Persistent Systems, Inc. (PSI), a wholly owned subsidiary of your Company, was incorporated under the California Corporation Code in the United States of America. PSI is engaged in providing professional services and solutions to the US based customers.

During the year under report, PSI recorded a turnover of Rs. 4,537 Lakhs (USD 10.10 Million) [previous year Rs. 2,920 Lakhs (USD 6.59 Million)] and a loss of Rs. 407 Lakhs (USD 0.91 Million) [previous year profit Rs. 2 Lakhs (USD 0.01 Million)]. PSI worked to improve the visibility of your Company's brand in the US market. This was done by working closely with analysts and other influencers of the Software Industry.

Persistent eBusiness Solutions Pvt. Ltd.

Persistent eBusiness Solutions Pvt. Ltd. (PeBS) is an India based subsidiary of your Company. PeBS recorded a total income of Rs. 137 Lakhs (USD 0.31 Million) [previous year Rs. 53 Lakhs] (USD 0.12 Million)] and a net profit of Rs. 53 Lakhs (USD 0.12 Million) [previous year Rs. 15 Lakhs (USD 0.03 Million)] during the year under report.

Consolidated financial statements

Consolidated financial statements of your Company and its subsidiaries as at March 31, 2007, prepared in accordance with the Accounting Standard 21 (AS-21) on 'Consolidated Financial Statements' issued by the Institute of Chartered Accountants of India form part of this Annual Report.

Particulars required as per Section 212 of the Companies Act, 1956

As per Section 212 of the Companies Act, 1956, your Company is required to attach the Directors' Report, Auditor's Report, Balance Sheet, Profit and Loss Account and Schedules to Accounts and Notes to Accounts of your Company's subsidiaries. Your Company applied to the Ministry of Company Affairs, Government of India for an exemption from such attachment as your Company presents the audited consolidated financial statements in the Annual Report.

The Ministry of Company Affairs, Government of India, vide its letter no. 47/66/2007-CL-III dated March 15, 2007 granted your Company an exemption from attaching full financial statements of the subsidiaries under Section 212 of the Companies Act, 1956.

Accordingly, the Annual Report does not contain full financial statements of the subsidiaries. Your Company will make available the audited annual accounts and related information of the subsidiary companies, where applicable, upon request by any Shareholder of your Company. These documents will also be available for inspection during business hours at the registered office of your Company and the registered office of respective subsidiaries. A Statement showing the financial highlights of the subsidiary companies is attached to the consolidated financial statements.

Dividend

For the first half of the year under report, Directors declared an interim dividend of Rs. 15 per share on the total Series A Preferred Share Capital on a pro-rata basis and 15% on the paid-up equity share capital, on a pro-rata basis. For the second half of the year, your Directors declared an interim dividend of Rs. 15 per share on the total Series A Preferred Share Capital on a pro-rata basis and 15% on the total paid up equity share capital on a pro-rata basis. Your Directors consider the same to be adequate and recommend no further dividend for the financial year 2006-07.

Key recruitments

During the year under report, Mr. Raj Sirohi was appointed as a Director of Persistent Systems, Inc., a wholly owned subsidiary of your Company and designated as President, Persistent Systems, Inc.

Mr. Sirohi brings with him a rich IT experience of over 25 years. Having offered his expertise to organizations such as HCL Technologies, in India as well as US and Covansys Corporation, Mr. Sirohi is known to have shown his organizational skills in putting together customer-focused teams of high-caliber achievers who have delivered remarkable performances.

A graduate in Business and Economics from Delhi University, Mr. Raj Sirohi has also completed an advanced Management Program from Harvard University.

Dr. Srikanth Sundararajan was appointed as the Chief Operating Officer of your Company, during the year under report. He is responsible for overall operations of your Company

Dr. Srikanth Sundararajan, prior to joining your Company, was working with IDS. Prior to IDS, he was the Chief Technology Officer at Cognizant Technology Solutions and HCL Technologies. Before returning to India in 2000, he spent 16 years in the US where he worked with Hewlett-Packard and Informix before founding Pretzel Logic, a California-based start up which was merged into a BEA spin-off Webgain, Inc.

Dr. Srikanth Sundararajan has a B. Tech. from IIT, Madras and a Ph.D. from the University of Illinois at Urbana Champagne.

Significant events

Dr. Anand Deshpande, Chairman and Managing Director of your Company has been elected on the Executive Committee of NASSCOM for a two year term 2007-09.

Software 2006

Your Company was Gold Sponsor at the event “Software 2006”. The event was a grand success with more than 1,500 CEOs, VPs, VCs and top executives of various organisations visiting the Santa Clara Convention Center on April 4-5, 2006.

One of the compelling attractions and highlights of the two-day conference was Persistent’s breakout sessions on ‘10 Best Practices for Successful Offshore Development Centers’ and ‘Product Development Outsourcing — The Next Wave’.

Webinar on 'Trends, Strategies and Best Practices in Outsourced Product Development'

Your Company organised a webinar on ‘Trends, Strategies and Best Practices in Outsourced Product Development’ in June 2006. Sand Hill Group presented highlights from the study, "Software’s Offshoring Leaders" with a clear objective of providing quick, significant and ‘actionable’ information on product development trends, strategies and best practices. ‘Seven Networks’, shared the important learnings and takeaways from its experience in outsourcing.

Joint Webinar with Google

Google and your Company hosted a joint webinar in November 2006 at Santa Clara, USA. Your Company demonstrated how its ECSC Connector suite extended the reach of Google Search Appliance to crawl various Enterprise Content Management (ECM) repositories. The webinar witnessed a large participation from Google Enterprise Users as well as other Enterprise Search product companies who expressed interest in Persistent ECSC Connector suite.

Interop 2006

Your Company showcased its Packaged Identity Interoperability offering 'IdentityAware' at the Interop 2006. A lot of interest was generated by your Company's 'IdentityAware' offering which has been designed to enable software product and appliance vendors to interoperate with the Identity Management Platform of their customers without losing focus. Your Company's ready components and service expertise ensures reduced sales cycles and time to market for the ISVs' core product.

Joint event with Google at Lotusphere 2007

Lotusphere is a premier event managed by IBM for the Lotus Notes/ Domino developer and user community. Lotusphere 2007 event had more than 5,000 attendees.

Your Company joined Google at this event to demonstrate their enterprise search integration solution for IBM Lotus Notes and Domino content, which was based on Google Search Appliance from Google and Enterprise Content Search enabling Connectors (ECSC) from your Company.

Your Company and Google exhibited at this event to increase awareness about this joint solution amongst the Notes/ Domino developer and user community and showcase the solution capabilities in live.

Recognitions

The Forrester Research Group identified your Company as a niche vendor in the Outsourced Software Product Development space. Also your Company was classified as a Gold Certified Partner of Microsoft. Your Company appeared in Deloitte Fast 500 list of companies.

The life science group of your Company has partnered with Washington University and the Alvin J. Siteman Cancer Center, St. Louis, USA for developing software for the cancer Biomedical Informatics Grid (caBIG™), a National Cancer Institute initiative.

At April 2006 caBIG™ annual gathering of the National Institute of Health (NIH) in Arlington, Virginia, USA, this collaboration was honored with several awards from among 80 organizations. The team received following awards

a. 'Tissue Banks and Pathology Tools Workspace Team' Award in recognition of excellent teamwork in developing and promoting the caTISSUE Core application, a data management tool for tissue banks. caTISSUE Core is a web based informatics system that helps bio-specimen banks in collecting, processing, storing and distributing human tissue material for correlative scientific cancer research.

b. The prestigious 'caBIG™ Outstanding Team Contribution' Award, from among all cancer centers, universities and other participants, in recognition of exemplary work on multiple caBIG™ projects and significant contribution to integrative cancer research, tissue banks and pathology tools, architecture, vocabularies and common data elements workspaces.

Mr. Manoj Bokil, Associate Technical Manager of your Company won the Volunteer of the Year Recognition Award and Certificate of Appreciation at the Society for Technical Communication (STC) Annual Conference held at Bangalore. Mr. Manoj Bokil continues for a third consecutive term as the City Representative for STC Pune.

Ms. Sulekha Rani and Ms. Vishakha Naik of your Company won the Recognition Award & Certificate of Appreciation respectively at the STC Annual Conference held recently at Bangalore.

Ms. Naik got the award for presenting a paper titled "The recipe for a perfect portfolio" while Ms. Rani won the award for helping Mr. Manoj Bokil in arranging the STC annual conference.

Directors

During the year under report, Mr. Navin Chaddha resigned as Director of your Company with effect from September 5, 2006. The Board places on records its appreciation for the services rendered by him during his tenure of directorship of the Company.

Consequent to resignation of Mr. Navin Chaddha, Mr. Frederick W. W. Bolander was appointed as an Additional Director of your Company with effect from March 2, 2007, as a nominee of Gabriel Venture Partners. The term of Mr. Bolander as an Additional Director of the Company will expire at the ensuing Annual General Meeting of the Company.

Mr. Bolander is a Managing Partner at Gabriel Venture Partners. He has more than 11 years of experience in the venture capital industry. Mr. Bolander focuses on investments involving digital media infrastructure and applications, communications, information technology and the Internet.

Mr. Bolander received a Bachelor of Science in Electrical Engineering from the University of Michigan and he holds an MS in Electrical Engineering from the University of Michigan where he taught computer architecture. Mr. Bolander also holds an MBA from Harvard Business School.

Amalgamation of ControlNet (India) Pvt. Ltd.

During the year under review, your Company completed the process of amalgamation of ControlNet (India) Pvt. Ltd. with your Company. Your Company had acquired ControlNet (India) Pvt. Ltd. in Goa in October 2005 having a focus on VLSI and Embedded Systems area. ControlNet (India) Pvt. Ltd. has been completely integrated into the Company and hence it was considered prudent to amalgamate ControlNet (India) Pvt. Ltd. into your Company.

Corporate Governance

Your Company has pro-actively and voluntarily prepared a report on the measures adopted by it in terms of the Corporate Governance in line with the clause 49 of the Listing Agreement. The report on Corporate Governance is annexed to this report.

Secretarial Compliance Certificate

Your Company annually obtains a compliance certificate from a Practicing Company Secratary on a voluntary basis relating to the compliance with the provisions of the Companies Act, 1956. The same is annexed to the Corporate Governance report.

Management Discussion and Analysis report

Report on Management Discussion and Analysis based on audited, consolidated, financial statements for the period 2006-07 forms part of this report.

Future Outlook

This year, your Company has added senior seasoned executives to the leadership team. With leadership in place and the market looking up, the Management of your Company is very optimistic about the future of your Company.

Recruitment and retention of employees will continue to be the most important challenge for industry including your Company during the next few years. The Company has taken measures to attract and retain the best of talent.

Human resource management

Your Company recruited 1,250 (technical & non-technical) professionals during the year ended March 31, 2007 including several qualified and experienced professionals returning from USA. This steady stream of US returning professionals has provided a very strong middle management group. Your Company continues to attract the best talent available from various Engineering Colleges in India.

Your Company crossed the strength of 2,800 employees during the year under report. The technical strength at present comprises of 15 PhDs, about 350 post graduates engineers and about 2,450 graduate engineers. The consolidated human resource strength of your Company and its subsidiaries crossed 3,000 which includes trainees and Associates.

Your Company considers training as an important activity towards Human Resource Development. In this endeavour, several courses, seminars and conferences in technical and domain specific areas were conducted. Your Company also conducted training courses for the benefit of the employees in different areas such as leadership skills, team building, personal effectiveness and foreign languages. This year your Company has shifted towards a Role Based Organisational structure and rolled out Career Tracks for different streams.

The employees have developed a sense of belongingness to your Company. Various employee welfare activities such as sports and cultural events that were organized for and by the employees had wide participation at all levels.

As your Company plans to scale up the operations during the current year, and it expects to hire additional 1,800 software professionals in its offshore development centers across Pune, Goa and Nagpur.

Corporate social responsibility

Your Company recognises its social obligations. As a responsible social citizen, your Company earmarks certain funds for giving donations. Donations are given primarily to organisations or institutions which are engaged in activities relating to promotion of education, health, information technology, community welfare and also in the event of national calamities.

In this endeavour, apart from regular donations, your Company made a significant contribution for health and police welfare related activities.

Your Company funded for establishment of Police Cyber Lab in cooperation with NASSCOM for Pune Police which will help traning Police Officials, lawyers about cyber crime and related issues. The total budget for the project including Hardware, Software, Interiors and other infra structure was around Rs. 16 Lakhs. The space of 440 sq. ft. for the cyber lab was provided by Pune Police Commissionerate in Police Welfare Center, Shivajinagar, Pune in July 2006. Using its resources, your Company completed interiors, furnishing, air-conditioning and networking (LAN) in 1 month. Your Company also provided 23 computers, 1 LCD projector and UPS system for the Cyber Lab. While the cyber lab started functioning from September 2006, the official inauguration was done on January 20, 2007. After Mumbai & Thane, this is third such facility in Maharashtra.

Your Company participated in CII Programme on "No Load Shedding in Pune". The programme aims to mitigate the load shedding for Pune city with the help of Captive Power Plant (CPP) of High Tension (HT) users of MSEB.

Under this initiative, your Company agreed to generate the power during peak hours and not use MSEB supply. With reduced demand from HT users, MSEB could divert this power to Domestic Consumers and minimize load shedding in Pune.

Employees remuneration

Information as per section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, forms part of this report. As per the provisions of section 219(1)(b)(iv) of the Companies Act, 1956, the Annual Report is being sent to all the shareholders of the Company excluding, the statement of particulars of employees referred to hereinbefore. Any shareholder interested in obtaining a copy of the said statement may write to the Company Secretary of the Company at the Registered office of your Company.

Conservation of energy, technology absorption, research and development, foreign exchange earnings and outgo

Your Company strives to conserve energy on a perpetual basis. Your Company has procured various energy saving devices and systems, which help in conserving energy. A building automation system has been implemented to control working of air conditioners and to make them more power efficient. Bulk of the electric fixtures is equipped with electronic ballast which has resulted in significant savings in the energy cost.

Your Company has taken effective steps such as use of flat LCD monitors, VRV air-conditioning system, solar energy for hot water and LED logo on Building for conservation of energy. Further your Company proposes to use Ozone units for air-conditioning system.

As power costs constitute a very insignificant part of the total expenses, the financial impact of these measures is not material. As your Company has not entered into Technical Collaboration with any entity, there are no particulars relating to Technology Absorption.

Research and Development (R&D) of new product, technologies, tools, processes and methodologies continue to be of importance at your Company. This allows your Company to enhance quality, productivity and customer satisfaction.

The particulars of R&D expenditure are as follows

(Amount Rs. Lakhs)

Particulars	2006-07	2005-06
Capital expenditure	13.43	6.26
Revenue expenditure	257.85	205.03
Total R & D expenditure	271.28	211.29
As % of total Income	1	1

The particulars of foreign exchange earnings & outgo are as follows

(Amount Rs. Lakhs)

Particulars	2006-07	2005-06
Earnings	29,215.77	21,062.05
Outgo	3,457.12	7,292.18
Capital items (Earnings)	-	11,199.45

Explanation to Auditors' remark in the report of the Auditors

The delay in payment of Service Tax was caused due to lack of clarity regarding liability of the Company to pay service tax on the sales and marketing services availed outside India.

Auditors

M/s. Joshi Apte & Co., Chartered Accountants and M/s. S. R. Batliboi & Co., Chartered Accountants, the joint auditors of your Company retire at the ensuing Annual General Meeting and are eligible for re-appointment.

Directors' responsibility statement

The Directors state that

1. In the preparation of the annual accounts, the applicable mandatory accounting standards have been followed;

2. The Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period;

3. The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

4. The annual accounts have been prepared on a going concern basis.

Acknowledgments

Your Board would like to thank the Director, Software Technology Park, Pune for unflinching support, guidance and help in the operations of your Company. The Board would also like to place on record the help and co-operation received from the officers and staff of Software Technology Park of India, Central Excise and Customs Department, Income Tax Department, Ministry of Company Affairs, Registrar of Companies, Pune, Sales Tax Department, Central Depository Services (India) Ltd., Maharashtra State Electricity Distribution Company Limited, Maharashtra Industrial Development Corporation, Department of Revenue and Forest and Ministry of Information Technology.

Your Directors would also like to thank Bank of India, Citibank N.A., Bank of Baroda, State Bank of India, Export Import Bank of India (EXIM Bank), Syndicate Bank, Bank of Tokyo Mitsubishi, Japan and its officials for extending excellent support in all banking related activities. Your Directors take this opportunity to express their sincere appreciation for the dedicated work put in by the employees of your Company, which enabled your Company to successfully emerge as a stronger company.

For and on behalf of the Board of Directors

Dr. Anand Deshpande
Chairman and Managing Director

Pune; April 30, 2007

Report on Corporate Governance

Philosophy

Corporate governance is about commitment to the values and ethical business conduct. The Company's corporate governance philosophy is based on the principle to be transparent and maintain a high degree of disclosure level.

The Company defines Corporate Governance as a set of guidelines that are followed by the Board of Directors and the Management of the Company to create value for the stakeholders.

As part of its set high standards, the Company continued with its initiative of voluntary adoption of various corporate governance measures. In line with the spirit of corporate governance standards, the Company has the principles of transparency, accountability, trusteeship and integrity at the very core of its basic character.

The Company firmly believes in conducting its affairs with the highest level of integrity, accountability and transparency. Commitments and social responsibility in all dealings with customers, Government authorities, suppliers, employees and other stakeholders are the objectives of Company's good corporate governance practices. The Company has established a reputation of honesty and integrity over the years.

The Company respects and strives hard to meet these objectives of good corporate governance.

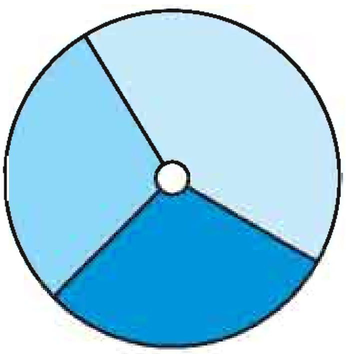
The following report on the voluntary implementation of the Corporate Governance Code in terms of Clause 49 of the Listing Agreement by the Company is a reflection of the same.

Report on voluntary compliance of Corporate Governance

1. Board of Directors

A. Size and composition of the Board

The Board of Directors of the Company has a mix of executive and non-executive directors with independent directors. Independent directors help to maintain the independence of the Board and to separate the Board functions of governance and management. At present, the Company's Board consists of seven members, of whom, two are executive directors and five are non-executive. The Board is headed by an executive Chairman. Table 1 gives the composition of the Board and the number of outside directorships held by each of the directors as on April 30, 2007.



71% of the Directors on the Board of Directors are Non-Executive Directors of which 43% are Independent Directors

Executive Directors | Non-Executive Directors | Non-Executive Independent Directors

Table No. 1: Board of Directors

Name of the Director	Category	No. of other Boards on which Director is a member	No. of committees on which Director is a member
Dr. Anand Deshpande @	Chairman & Managing Director	3	1
Mr. S. P. Deshpande @	Executive Director	2	2
Mr. Frederick W. W. Bolander*	Investor Nominee Director	8	3
Mr. Navin Chaddha#	Investor Nominee Director	5	3
Dr. Promod Haque	Investor Nominee Director	13	21
Mr. Sandeep Johri	Independent Director	2	-
Mr. P. B. Kulkarni	Independent Director	2	4
Prof. Krithivasan Ramamritham	Independent Director	-	-

In this report, following signs, wherever it appears, denotes the following

@	:	Promoter Director
#	:	Ceased to be a Director and member of the Committee/s of the Board w.e.f. September 5, 2006
*	:	Appointed as an Additional Director w.e.f. March 2, 2007
√	:	Attended the meeting
X	:	Not attended the meeting
NA	:	Not Applicable as was not director on the date of meeting
C	:	Attended the meeting through tele-conferencing/ video conferencing

B. Board meetings and deliberations

The Company Secretary in consultation with the Chairman of the Company prepares the agenda and supporting papers for discussion at each Board Meeting. Members of the Board are free to suggest inclusion of items in the agenda, in addition to their right to bring up matters for discussion at the meeting with the permission of the Chairman.

Information and data that are important to the Board's understanding of the business in general and related matters are tabled for discussion at the meeting. Agenda is distributed in writing to the members of the Board in advance of the meeting.

The Board meets in executive session, at least, four times in a year, at quarterly intervals to review quarterly financial statements and other items on the agenda. Additional meetings are held, if deemed necessary to conduct its business. Those members of the Board, who are not able to physically participate in the Board meetings generally participate in the meeting through tele-conferencing/ video-conferencing. The Chief Operating Officer, President – Persistent Systems, Inc. and the Head of Finance generally attend the Board meetings as invitees. Other Executives and Divisional Heads are invited at the Board Meetings, whenever required. In compliance of Clause 49 of the Listing Agreement, the gap between two Board Meetings has not exceeded four months. Table 2 below gives the attendance record of the directors at the Board Meetings and last Annual General Meeting.

Table 2 : Attendance of Directors at Board Meeting and Annual General Meeting

Name of the director	Board meetings				Annual general meeting
	Apr 23, 2006	Jul 20, 2006	Oct 31, 2006	Jan 16, 2007	Jul 19, 2006
Dr. Anand Deshpande @	√	√	√	√	√
Mr. S. P. Deshpande @	√	√	√	√	√
Mr. Navin Chaddha#	√	C	N.A.	N.A.	X
Mr. Frederick W. W. Bolander*	N.A.	N.A.	N.A.	N.A.	N.A.
Dr. Promod Haque	√	√	√	√	√
Mr. Sandeep Johri	C	C	C	C	X
Mr. P. B. Kulkarni	√	√	√	√	√
Prof. Krithivasan Ramamritham	√	√	C	√	X

2. Committees of the Board of Directors

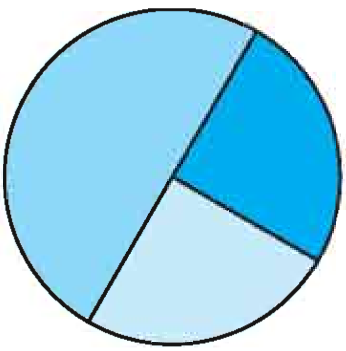
The Company has constituted three Committees of the Board of Directors viz. Audit Committee, Compensation Committee and Executive Committee. The Chairman of all these three Committees is an Independent Director. The composition of these Committees comprise one Independent Director, one Executive Director and two Non-Executive Directors.

Committee meetings and deliberations

The Company Secretary in consultation with the Chairman of the Committee prepares the agenda and supporting papers for discussion at each Committee Meeting. Members of the Committee are free to suggest inclusion of items in the agenda, in addition to their right to bring up matters for discussion at the meeting with the permission of the Chairman.

Information and data that are important to the Committee's terms of reference in general and related matters are tabled for discussion at the meeting. Agenda is distributed in writing to the members of the Committee sufficiently in advance of the meeting.

Those members of the Committee, who are not able to physically participate in the Committee meetings generally participate in the meeting through tele-conferencing/ video-conferencing.



75% of the members of all the committees are Non-Executive Directors of which 25% are Independent Directors

Executive Directors   Non-Executive Directors   Non-Executive Independent Directors

A. Audit Committee

Brief description of terms of reference

An Audit Committee was constituted by the Board at its meeting held on April 23, 2004. The Audit Committee was constituted to ensure prudent financial and accounting practices, fiscal discipline and transparency in financial reporting. The quarterly audited accounts are reviewed by the Audit Committee and recommended to the Board for its adoption.

The Committee presently consists of four Directors. The Chairman of the Committee is an Independent Director. Table 3 gives the composition of the Audit Committee of the Board of Directors.

Table No. 3 : Composition of Audit Committee

Name of the Director	Category
Mr. P. B. Kulkarni	Independent Director
Mr. S. P. Deshpande@	Executive Director
Mr. Frederick W. W. Bolander*	Investor Nominee Director
Mr. Navin Chaddha*	Investor Nominee Director
Dr. Promod Haque	Investor Nominee Director

In addition to the Audit Committee members, the Head of Finance, Statutory Auditors and other executives, whenever required, attend the Audit Committee meetings.

The Company Secretary of the Company is the Secretary of the Committee.

The Audit Committee is constituted with the responsibilities including but not limited to the following

i. To ensure that the financial statements are correct, sufficient and credible.

ii. To review financial statements with the Management before submission to the Board.

iii. To review adequacy of internal control systems and internal audit.

iv. To recommend appointment of external auditor and fixation of audit fees and also approval for payment of other services.

v. To hold discussion with internal auditors.

vi. To hold discussion with external auditors about scope of audit.

vii. To review financial and risk management policies.

viii. To review substantial defaults in the payment to the depositors, debenture holders, shareholders and creditors.

ix. To review Management Discussion and Analysis report.

x. To review reports on compliance of laws and risk management, reports issued by Statutory/ Internal Auditors, related party transactions, appointment of Internal Auditors and remuneration.

xi. To attend to any other responsibility as may be entrusted by the Board.

The Audit Committee is empowered to do the following

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

ii. To seek information from any employee.

iii. To obtain advice from outside legal professionals.

iv. To secure attendance of outsiders with relevant expertise.

Meetings and attendance

Four meetings were held during the financial year 2006-07. Table 4 gives attendance record of Member of the Audit Committee at its Meetings held during the financial year 2006-07.

Table 4: Attendance at the Audit Committee Meetings during the financial year 2006-07

Name of the Director	Audit committee meeting				
	Apr 20, 2006	Apr 23, 2006	July 19, 2006	Oct 30, 2006	Jan 16, 2007
Mr. P. B. Kulkarni	√	√	√	√	√
Mr. S. P. Deshpande @	√	√	√	√	√
Mr. Fredrick W. W. Bolander*	N.A	N.A	N.A	N.A	N.A
Mr. Navin Chaddha#	C	√	X	N.A	N.A
Dr. Promod Haque	C	√	√	√	√

B. Compensation Committee

Brief description of terms of reference

The Compensation Committee of the Board was constituted on April 23, 2004. The Compensation Committee decides on the issues relating to Employee Stock Option Schemes, transfer, transmission and transposition of shares and remuneration of Executive Directors.

The Committee presently consists of four directors. The Chairman of the Committee is an Independent Director. Table 5 gives the present composition of the Compensation Committee of the Board of Directors.

Table 5: Composition of Compensation Committee Meeting

Name of the Director	Category
Mr. P. B. Kulkarni	Independent Director
Dr. Anand Deshpande @	Chairman and Managing Director
Mr. Frederick W. W. Bolander*	Investor Nominee Director
Mr. Navin Chaddha#	Investor Nominee Director
Dr. Promod Haque	Investor Nominee Director

The Compensation Committee is constituted with responsibilities including but not limited to the following

i. To decide the quantum of equity shares/ options to be granted under Employee Stock Options Schemes (ESOS) and preferential offer to the Executive Directors (in terms of the resolution passed by the Board of Directors at its meeting held on April 23, 2004), as the case may be, per employee and the total number in aggregate.

ii. To determine at such intervals, as the Compensation Committee considers appropriate, the persons to whom shares or options may be granted.

iii. To decide the conditions under which shares or options vested in employees may lapse in case of termination of employment for any reason.

iv. To lay down the procedure for making a fair and reasonable adjustment to the number of shares or options and to the exercise price in case of rights issues, bonus issues and other corporate actions.

v. To specify the grant, vest and exercise of shares/ option in case of employees who are on long leave.

vi. To construe and interpret the plan and to establish, amend and revoke rules and regulations for its administration. The Compensation Committee may correct any defect, omission or inconsistency in the plan or any option and/ or vary/ amend the terms to adjust to the situation that may arise.

vii. To recommend to the Board the remuneration to be paid to the Executive Directors.

viii. To approve transfer the shares in the name of employee at the time of exercise of options by such employee under ESOS.

ix. To attend to any other responsibility as may be entrusted by the Board.

The Compensation Committee is empowered to do the following

i. To invite any employee or such document as it may deem fit for exercising of its functions.

ii. To approve allotment, transfer, transmission, transposition, consolidation, split, name deletion and issue of duplicate share certificate of equity shares of the Company.

Meetings and attendance

One meeting was held during the financial year 2006-07.

Table 6 gives attendance record of Members of the Compensation Committee at its Meeting held during the financial year 2006-07.

Table 6: Attendance at the Compensation Committee Meeting during the financial year 2006-07

Name of the Member	Compensation Committee Meeting April 23, 2006
Mr. P. B. Kulkarni	√
Dr. Anand Deshpande @	√
Mr. Fredrick W.W. Bolander*	N.A
Mr. Navin Chaddha#	√
Dr. Promod Haque	√

Remuneration Policy

i. Managing Director's salary is linked to the profits of the Company. The rise in the salary is also linked to the increase in the profits of the Company.

ii. Salary of the Executive Directors is decided based on the assessment of the Managing Director. The salary rise is based on the performance of the Executive Director(s) and is in line with the increase, proposed for other employees. The revised salary is effective on the same day as is done for all other employees of the Company.

iii. Non-Executive Independent Directors are entitled to commission based on the profitability of the Company.

iv. The total managerial remuneration not to exceed 11% of the net profits of the Company.

Remuneration to Directors

Table 7 and Table 8 below gives details of remuneration to Executive and Non-Executive Directors of the Company.

Table 7: Remuneration to Executive Directors (Amount Rs. Lakhs)

Name of the director	Category	Year ended March 31	Salary and allowance	Performance linked incentives/ commission	Company's contribution to provident fund and super-annuation	Perquisite and other payments	Total
Dr. Anand Deshpande @	Chairman & Managing Director	2007	33.49	18.54	3.62	3.49	59.14
		2006	15.85	34.26	0.91	5.81	56.83
Mr. S. P. Deshpande @	Executive Director	2007	15.30	9.04	-	-	24.34
		2006	19.22	3.39	-	-	22.61
Total		2007	48.79	27.58	3.62	3.49	83.48
		2006	35.07	37.65	0.91	5.81	79.44

Table 8: Remuneration to Non - Executive Directors (Amount Rs. Lakhs)

Name of the Director	Position	Year ended March 31	Commission	Sitting Fees	Total
Mr. Sandeep Johri	Independent Director	2007	3.35	-	3.35
		2006	2.00	0.05	2.05
Mr. P. B. Kulkarni	Independent Director	2007	3.35	0.70	4.05
		2006	2.00	0.95	2.95
Prof. Krithivasan Ramamritham	Independent Director	2007	3.35	0.25	3.60
		2006	2.00	0.20	2.20
Total		2007	10.05	0.95	11.00
		2006	6.00	1.20	7.20

In terms of the internal policy of Norwest Venture Partners–Mauritius and Gabriel Venture Partners (Mauritius), Dr. Promod Haque, Mr. Navin Chaddha and Mr. Fredrick W. W. Bolander, voluntarily decided not to accept sitting fees as well as commission.

Reimbursements have been provided to Dr. Promod Haque, Mr. Navin Chaddha, Mr. Fredrick W. W. Bolander and Prof. Krithi Ramamritham for travel and stay for attending Board and Committee Meetings.

C. Executive Committee

Brief description of terms of reference

The Executive Committee of the Board of Directors was constituted on January 29, 2005. The Executive Committee was constituted to review the implementation of decisions taken by the Board of Directors. The Committee presently consists of four Directors. The Chairman of the Committee is an Independent Director. Table 9 gives the present composition of the Executive Committee.

Table 9: Composition of Executive Committee

Name of the Director	Category
Mr. P. B. Kulkarni	Independent Director
Mr. S. P. Deshpande @	Executive Director
Mr. Frederick W. W. Bolander*	Investor Nominee Director
Mr. Navin Chaddha*	Investor Nominee Director
Dr. Promod Haque	Investor Nominee Director

The Executive Committee is constituted with responsibilities including but not limited to

i. To review and follow up on the action taken on the Board decisions.

ii. To review the operations of the Company in general.

iii. To review the systems followed by the Company.

iv. To examine proposal for investment in real estate.

v. To review, propose and monitor annual budget including additional budget, if any, subject to the ratification of the Board.

vi. To review capital expenditure against the budget.

vii. To authorize opening and closing of bank accounts.

viii. To authorize additions / deletions to the signatories pertaining to banking transactions.

ix. To approve investment of surplus funds for an amount not exceeding Rs. 25 Crores as per the policy approved by the Board.

x. To approve transactions relating to foreign exchange exposure including but not limited to forward cover and derivative products.

xi. To approve donations as per the policy approved by the Board.

xii. To delegate authority to the Company officials to represent the Company at various courts, government authorities and so on.

xiii. To attend to any other responsibility as may be entrusted by the Board to investigate any activity within terms of reference.

The Executive Committee is empowered to do the following:

i. To seek information from any employee as considered necessary.

ii. To obtain outside legal professional advice as considered necessary.

iii. To secure attendance of outsiders with relevant expertise.

Meetings and attendance

The operations of the Company are tracked on a weekly basis in which Dr. Promod Haque and Mr. Frederick W. W. Bolander, Investor Nominee Directors regularly participate.

In view of this, during the year under report, the Board of Directors changed the frequency of the meeting of the Executive Committee of the Board from "twice in a calendar quarter" to "as may be required".

No meetings of the Executive Committee were held during the Financial year 2006-07 but certain decisions were taken by passing the resolutions by circulation and taken on record by the Board at the next meeting of the Board of Directors.

3. Subsidiary companies

The Audit Committee and the Board of Directors review the consolidated financial statements of the Company and its subsidiary companies.

The Audit Committee and the Board of Directors look into the related party transactions entered into by the Company including those with the subsidiary companies

Details of percentage holding in the subsidiary companies

Name of the subsidiary company	Registered in	Holding percentage
Persistent Systems, Inc.	USA	100%
Persistent eBusiness Solutions Pvt. Ltd.	India	99.97%

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4. Employee Stock Option Plan (ESOP)

The status of Options or Shares awarded under different ESOP Schemes is as follows

Sr. No.	Particulars of shares / options	Employee stock option purchase scheme ESOP - I	Employee stock option award scheme ESOA - II	Employee stock option purchase scheme ESOP - III	Employee stock option award scheme ESOA - IV	Employee stock option purchase scheme ESOP - V	Employee stock option award scheme ESOA - VI	Employee stock option award scheme ESOA - VII
		Options	Shares	Options	Shares	Options	Shares	Shares
	Ratio of conversion of options to shares	2 : 1	-	2 : 1	-	10 : 1	-	-
1.	Maximum reserved	11,20,000	4,30,000	11,00,000	8,00,000	40,00,000	2,32,516	3,50,000
2.	Granted	11,20,000	88,400	2,20,600	5,53,800	26,13,750	1,48,125	1,02,925
3.	Exercised	2,70,988	811	7,056	-	-	-	-
4.	Vested and not exercised	6,49,382	18,899	24,408	28,310	1,40,400	-	-
5.	Not vested	3,440	44,870	1,23,376	4,44,740	21,53,600	1,48,125	1,02,925
6.	Outstanding options / option to purchase shares before conversion	6,52,822	63,769	1,47,784	4,73,050	22,94,000	1,48,125	1,02,925
7.	Outstanding option to purchase shares after conversion	3,26,411	63,769	73,892	4,73,050	2,29,400	1,48,125	1,02,925
8.	Exercised after conversion	3,07,873	15,299	19,146	-	-	-	-
9.	Balance outstanding (not vested/ not exercised as at March 31, 2007)	18,538	48,470	54,746	4,73,050	2,29,400	1,48,125	1,02,925

5. General Body Meetings

Details of last three Annual General Meetings (AGM) held

Date of AGM	Time of AGM	Location
June 10, 2004	10.30 A.M.	"Bhageerath", 1-A Conference Room, 402, Senapati Bapat Road, Pune 411 016
June 10, 2005	10.30 A.M.	"Bhageerath", 1-A Conference Room, 402, Senapati Bapat Road, Pune 411 016
July 19, 2006	03.00 P.M.	"Bhageerath", 1-A Conference Room, 402, Senapati Bapat Road, Pune 411 016

No special resolution was passed in the previous three Annual General Meetings and no special resolution was passed through postal ballot last year.

6. Disclosures

A. Code of conduct

As good corporate governance practice, the Company continues to voluntarily and proactively comply with the provisions of Clause 49 of the Listing Agreement. The Company has laid down the Code of Conduct for Directors and Senior Management during the financial year 2005-06.

The Code of Conduct will help maintain high standards of business conduct for the Company and promote ethical conduct. In terms of Code of Conduct, Directors and Senior Management must act within the bounds of the authority conferred upon them and with a duty to make and enact informed decisions and policies in the best interests of the Company and its shareholders and stakeholders. Further, Directors and Senior Management should ensure that they do not derive any undue personal benefit because of their position in the company and / or certain confidential information coming to their knowledge.

The Company obtains declaration from Directors and Senior Management affirming their compliance to the Code of Conduct on annual basis.

B. Whistle blower policy

It has been a constant endeavor of the Company to achieve excellence in Corporate Governance by following principles of transparency, accountability and integrity in its functioning.

The Board of Directors of the Company has adopted a Whistle Blower Policy to provide a mechanism to enable employees to approach the Audit Committee of the Board of Directors for reporting the instances of unethical behaviour, actual or suspected fraud or violation of the Company's code of conduct and ethics, which may come to their knowledge.

This policy provides for adequate safeguards against victimization of employees who report to the Whistle Blower Administrator. The policy also provides for direct access to the Chairman of the Audit Committee in exceptional cases.

C. Disclosures on materially significant related party transactions that may have potential conflict with the interests of the Company

During the year, there were no transactions of material nature with promoters, Directors, relatives that has potential conflict with the interest of the Company.

All the disclosures related to financial and commercial transactions where Directors may have potential interests are provided to Audit Committee and the interested Directors do not participate in the discussion nor do they not vote such matters.

Details of all such transactions entered into by the Company with the related parties are been disclosed under "Related Party Transactions", in the Notes to Accounts of the Company which form part of this Annual Report.

D. Risk management and internal control policies adopted by the Company

The report on Risk Management and Internal Control Policies adopted by the Company forms separate part of this Annual Report.

E. Adherence to Accounting Standards

The Company follows the mandatory Accounting Standards prescribed by the Institute of Chartered Accountants of India and to the best of its knowledge there are no deviations in the accounting treatments which require specific disclosure.

F. Adherence to the corporate governance disclosure norms

The Company has voluntarily followed, to the extent possible, the corporate governance code as described in the clause 49 of the Listing Agreement and in terms of the Securities and Exchange Board of India circular no. SEBI/CFD/DIL/CG/1 /2004/12110 dated October 29, 2004.

7. Shareholders' information

Financial Year	:	April 1, 2006 to March 31, 2007
Registered Office	:	"Bhageerath", 402, Senapati Bapat Road, Pune 411 016, India
Contact Person	:	Mr. Vivek Sadhale, Company Secretary & Head - Legal
E-mail	:	secretarial@persistent.co.in
Website	:	www.persistentsys.com

8. Dematerialisation of shares

The Company's Equity and Preference Shares have been dematerialized with Central Depository Services (India) Ltd (CDSL). The International Security Identification Number (ISIN) for the equity shares is INE262H01013 and for the preference shares is INE262H03019.

As on March 31, 2007, 89.95% of the Company's shares are held in electronic form.

9. Compliance certificate

The Company places before the Audit Committee and the Board, a quarterly compliance certificate from Executive Director certifying the status of outstanding dues of the Company, defaults to Shareholders, Creditors or Stakeholders and detection of fraud, if any.

The Company Secretary of the Company places a quarterly compliance certificate before the Board. The Compliance Certificate certifies the status of compliance of the provisions of various Acts and rules made thereunder applicable to the Company.

10. Secretarial Compliance Certificate

The Company annually obtains a compliance certificate from a Practicing Company Secratary on a voluntary basis relating to the compliance with the provisions of the Companies Act, 1956. The same is annexed to this report.

11. Corporate Governance Handbook

The Company has prepared a Corporate Governance Handbook encompassing set of guidelines and policies with respect to Composition of Board of Directors and Committees of the Board, Meetings of the Board of Directors and Committees of the Board, Managerial Remuneration, Code of Conduct, Whistle Blower Policy, Risk Management Policy, Internal Control Procedures etc. being adhered to by the Company. Corporate Governance Handbook is updated on annual basis.

Certificate of compliance with the conditions of Corporate Governance

The Board of Directors,
Persistent Systems Pvt. Ltd.
Pune.

This is to certify that

1. We have reviewed financial statements and the cash flow statement for the year ended March 31, 2007 and that to the best of my knowledge and belief

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

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

2. To the best of our knowledge and belief, no transactions entered into by the Company during the year are fraudulent or illegal.

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

4. We have indicated to the auditors and the Audit Committee of the significant changes in internal control during the year.

5. There is no significant change in accounting policies during the year. The accounting policies have been disclosed in the notes to Accounts.

For and on behalf of the Board of Directors

Dr. Anand Deshpande	S. P. Deshpande
Chairman & Managing Director	Director

Pune; April 30, 2007

Voluntary Secretarial Compliance Certificate

CIN No. U72300MH1990PTC056696

To,
The Members,
Persistent Systems Private Limited,
'Bhageerath', 402, Senapati Bapat Road,
Pune 411 016.

I have examined the registers, records, books and papers of Persistent Systems Private Limited (the Company) as required to be maintained under the Companies Act, 1956 (the Act) and the rules made thereunder and also the provisions contained in the Memorandum and Articles of Association of the Company for the financial year ended on March 31, 2007. In my opinion and to the best of my information and according to the examinations carried out by me and explanations furnished to me by the Company, its officers and agents, I certify that in respect of the aforesaid period:

1. The Company has kept and maintained all registers as stated in Annexure 'A' to this certificate, as per the provisions and the rules made there under and all entries therein have been duly recorded;

2. The Company has duly filed the forms and returns as stated in Annexure 'B' to this certificate, with the Registrar of Companies, Regional Director and Central Government, within the time prescribed under the Act and the rules made there under;

3. The Company, being private limited Company, has the minimum prescribed paid-up capital and its maximum number of members during the said financial year was 23 (Twenty Three) excluding its present and past employees and the Company during the year under scrutiny:

A. has not invited public to subscribe for its shares or debentures, and

B. has not invited or accepted any deposits from person other than its members, Directors or their relatives;

4. The Board of Directors duly met 4 (Four) times on April 23, 2006, July 20, 2006, October 31, 2006 and January 16, 2007 in respect of which, proper notices were given and proceedings were properly recorded and signed including the circular resolutions passed in the Minutes Book maintained for the purpose;

5. The Audit Committee of the Board of Directors duly met 5 (Five) times on April 20, 2006, April 23, 2006, July 19, 2006, October 30, 2006 and January 16, 2007 in respect of which, proper notices were given and proceedings were properly recorded and signed in the Minutes Book maintained for the purpose;

6. The Compensation Committee of the Board of Directors duly met 1 (one) time on April 23, 2006 in respect of which proper notice was given and proceedings were properly recorded and signed in the Minutes Book maintained for the purpose;

7. The annual general meeting for the financial year ended on March 31, 2006 was held on July 19, 2006 after giving due notice to the members of the Company and the resolutions passed thereat were duly recorded in Minutes Book maintained for the purpose;

8. 1 (One) extra ordinary meeting was held on May 22, 2006 during the period under report after giving due notice to the members of the Company and the resolutions passed thereat were duly recorded in Minutes Book maintained for the purpose;

   The said meeting was called by the order of Hon'ble Bombay High Court, Mumbai for the purpose of sanctioning the Scheme of Amalgamation of M/s. ControlNet (India) Private Limited, Goa with the Company.

9. The Company has not advanced any amount as loan to its Directors and/or persons or firms or companies referred in the section 295 of the Act.

10. The Company has duly complied with the provisions of section 297 of the Act in respect of contracts specified in that section.

    The Company has taken due permission from Central Government through Regional Director, Mumbai during previous year, for the Agreement entered into with one of the related parties.

11. The Company has made necessary entries in the register maintained under section 301 of the Act.

12. The Company has obtained necessary approvals from the Board of Directors, members and previous approval of the Central Government pursuant to section 314 of the Act wherever applicable.

13. The Company has delivered all the certificates on allotment of securities and on lodgment thereof for transfer in accordance with the provisions of the Act. Transfers of Equity and Preference Shares held in dematerialisation mode have been approved by the Board of Directors / Compensation Committee within the prescribed time during the year under report.

14. The Company has deposited the amount of dividend declared including interim dividend in a separate bank account within five days from the date of declaration of such dividend.

15. The Company has paid/posted warrants for dividends to all the members within a period of 30 (Thirty) days from the date of declaration and that there is no unclaimed/unpaid dividend.

16. The Company has duly complied with the requirements of section 217 of the Act.

17. The Board of Directors of the Company is duly constituted and the appointment of additional Directors has been duly made.

    During the period under report, Mr. Navin Chaddha resigned from the Directorship of the Company and Mr. Frederick W. W. Bolander was appointed as an Additional Director.

18. The Company has obtained necessary approval of the Regional Director under the provisions of section 297 of the Act.

    Please refer to Clause No. 10 of the said Certificate.

19. The Directors have disclosed their interest in other firms/companies to the Board of Directors pursuant to the provisions of the Act and the rules made thereunder.

    Disclosures made by all Directors under Sections 274(1) (g) and 299 of the Act were available for inspection.

20. The Company has issued 1,500 Equity Shares of Rs. 10 each at a premium during the period under report and complied with the provisions of the Act.

21. The Company has not issued any Preference Shares during the period under report.

22. The Company has not bought back any securities during the period under report.

23. The amount borrowed by the Company from banks during the financial year ending March 31, 2007 is within the borrowing limits of the Company.

24. The Company has made loans to other body corporate in compliance with the provisions of the Act. However, the Company, being a private limited company, is not required to maintain Register of Investments u/s 372A of the Companies Act, 1956.

25. The Company has not altered the provisions of the Memorandum with respect to share capital of the Company during the year under scrutiny.

26. The Company has not altered its articles of association during the period under report. However, pursuant to the provisions of the Act, the Company has attached copy of orders passed by the Hon'ble Bombay High Court, Mumbai and Hon'ble Bombay High Court, Goa Bench approving Scheme of Amalgamation of ControlNet (India) Private Limited with Persistent Systems Private Limited to its Memorandum and Articles of Association.

27. There is no prosecution initiated against or show cause notice received by the Company for alleged offences under the Act.

28. Any other applications:

A. The Company had applied to the Regional Director, SIRC, under section 22 of the Companies Act, 1956, for seeking an order for the change of name of a company Persistent Software Pvt. Ltd., a company incorporated with Registrar of Companies, Hyderabad on grounds of similarity of purpose / business and name. In this regard, the Company has received an order in its favour directing the said Persistent Software Pvt. Ltd. to change its name or to remove the word 'Persistent'.

B. The Company had applied to the Central Government for exemption under section 212 for financial year ending March 31, 2007, against which the Company has received the subject approval for the same for the financial year ending March 31 2007.

Shridhar S Kulkarni
Company Secretary
ACS 13046; CP No. 3950
Pune; April 30, 2007

ANNEXURE 'A'

Registers as maintained by the Company:

A. Statutory Registers

Sr. No.	Name of Register	Maintained under section
1.	Register of charges	143
2.	Register of members	150
3.	Minutes books (Board, Committees and General Meetings)	193
4.	Register of contracts	301
5.	Register of directors	303
6.	Register of directors' shareholding	307
7.	Register of buy-back of securities	Rule 11

B. Other Registers

Sr. No.	Name of Registers Maintained
1.	Register for transfer and transmission of shares
2.	Directors' attendance register at Board and Committee Meetings
3.	Members' attendance register
4.	Register for application and allotment of shares

ANNEXURE 'B'

Forms and Returns as filed by the Company with Registrar of Companies, Regional Director, Central Government or other authorities during the period ending on March 31, 2007

Sr. No.	Form No./ Return	For	Filed u/s	Date of event	Date of filing	Whether filed within the prescribed time
1.	eForm No. 23	Revision of Remuneration payable to Dr. Anand Deshpande, Chairman and Managing Director for the years 2005-06 and 2006-07	192(4)(c)	November 11, 2006	May 17, 2006	Yes
2.	eForm No. 23	Approval of Scheme of Amalgamation u/s. 391	192	May 22, 2006	June 16, 2006	Yes
3.	eForm No. 20B	Annual Return- 2006	159	July 19, 2006	August 17, 2006	Yes
4.	eForm No. 23AC	Balance Sheet- 2006	220	July 19, 2006	August 17, 2006	Yes
5.	eForm No. 32	Resignation of Mr. Navin Chaddha, Director	303	September 5, 2006	September 26, 2006	Yes
6.	eForm no. 2	Return of Allotment pertaining to allotment of 1,500 Equity Shares	75(1)	September 30, 2006	October 19, 2006	Yes
7.	eForm no. 21	Order received from the High Court Mumbai pertaining to Amalgamation of ControlNet (India) Pvt Ltd with the Company.	394(1)	October 20, 2006	December 20, 2006	Yes
8.	DIN-3	For Directors: a.Mr. Suresh Deshpande b.Dr. Anand Deshpande c.Mr. Sandeep Johri d.Mr. P B Kulkarni	266E, Rule 6	November 11, 2006	November 14, 2006	Yes
9.	DIN-3	For Director: a. Dr. Promod Haque	266E, Rule 6	November 13, 2006	November 16, 2006	Yes
10.	DIN-3	For Director: a. Prof Krithi Ramamritham	266E, Rule 6	December 26, 2006	January 2, 2007	Yes
11.	eForm-62	Intimation of Change in beneficiary holding.	187C	March 1, 2007	March 20, 2007	Yes

Sr. No.	Form No./ Return	For	Filed u/s	Date of event	Date of filing	Whether filed within the prescribed time
12.	eForm 32	Appointment of Additional Director- Mr. Frederick W W Bolander	303	March 2, 2007	March 2, 2006	Yes
13.	DIN-3	For Director: Mr. Frederick W W Bolander	266E, Rule 6	March 12, 2007	March 15, 2006	Yes
14.	eForm. 23AAB	Application for Exemption from attaching the annual accounts of the subsidiary company.	212(8)	For the financial year 2006-07	November 3, 2006	NA
15.	Form No 24A	Application to Regional Director, SIRC	22	NA	September 12, 2006	NA

Management Discussion and Analysis

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

The following discussion based on the audited, consolidated, financial statements of Persistent Systems Pvt. Ltd., (the Company), and its subsidiaries.

Share capital

During the financial year 2006-07, there was no change in the authorised share capital of the Company.

The Issued, subscribed and paid-up capital increased by Rs. 0.15 Lakhs due to preferential issue of 1,500 Equity Shares of Rs. 10 each to Non-executive Independent Directors.

Reserves and surplus

During the financial year 2006-07, there was no change in the capital redemption reserve.

Securities premium account increased by Rs. 2.39 Lakhs on account of premium collected on the preferential issue of 1,500 Equity Shares of Rs. 10 each to Non-executive Independent Directors.

During the financial year 2006-07, following changes took place in the general reserve.

A sum of Rs. 2,363 Lakhs was transferred from Profit and Loss Account to general reserve. The Company voluntarily transferred an amount of Rs. 1,826 Lakhs, over and above, a sum of Rs. 537 Lakhs which was required to be transferred as per the Companies (Transfer of Profits to Reserve) Rules, 1975.

A sum of Rs. 449.89 Lakhs was reduced from general reserve towards goodwill arising on amalgamation of ControlNet (India) Pvt. Ltd., with the Company (Refer note 20 to schedule 15).

A sum of Rs. 107.98 Lakhs was reduced from general reserve due to transitional adjustments arising from early adoption by the Company of the Accounting Standard 15 (AS – 15) (revised 2005) issued by the Institute of Chartered Accountants of India (Refer note 8 to schedule 15).

Foreign currency translation reserve was reduced by Rs. 3.28 Lakhs towards exchange difference arising during the year on the net investment in the foreign subsidiary company.

Deferred tax liability

Deferred tax liability as at March 31, 2007 amounted to Rs. 5.67 Lakhs as compared to Rs. 61.43 Lakhs as at March 31, 2006.

Fixed assets

Gross block of fixed assets amounted to Rs. 26,402 Lakhs as at March 31, 2007 as against Rs. 19,554 Lakhs as at March 31, 2006.

During the financial year 2006-07, the Company added fixed assets worth Rs. 7,648.43 Lakhs. A large part of this addition was related to Aryabhata - the new software development center which became operational during the year. The details of assets added during the year are as below

Particulars	Financial year 2006-07 Rs. Lakhs
Lease-hold land	97.23
Building	3,597.65
Computers	853.44
Software	1,229.90
Plant and machinery	1,243.97
Furniture and fixture	626.24
Total	7,648.43

During the financial year 2006-07, the Company disposed off/ retired assets worth Rs. 348.85 Lakhs. Goodwill amounting to Rs. 449.89 Lakhs relating to acquisition of ControlNet (India) Pvt Ltd was adjusted against General Reserve (Refer note 20 to schedule 15).

Capital Work-in-Progress as at March 31, 2007 amounted to Rs. 1,309.71 Lakhs as against Rs. 2,665.93 Lakhs as at March 31, 2006. This related mainly to the Company's new software development centers under construction at Hinjewadi, Pune and Parsodi, Nagpur.

Investment

During the financial year 2006-07, Kriyari Inc., a customer of Persistent Systems, Inc., allotted shares worth Rs. 3.91 Lakhs to Persistent Systems, Inc., as a part consideration towards software development services.

The Company parked the surplus funds generated from operations in liquid or short term schemes of a selected mutual funds with a view to optimise returns on investment. Investment in various mutual funds as at March 31, 2007 amounted to Rs. 2,465.21 Lakhs as against Rs. 1,152.17 Lakhs as at March 31, 2006.

The market value of the investment in mutual funds as at March 31, 2007 was Rs. 2,467.22 Lakhs as against Rs. 1,154. 52 Lakhs as at March 31, 2006.

Sundry debtors

Sundry debtors (net of provision) amounted to Rs. 5,229.33 Lakhs as at March 31, 2007 as compared to Rs. 3,867.67 Lakhs as at March 31, 2006.

The age-wise analysis of the sundry debtors is as follows

Particulars	As at 31-Mar-07 Rs. Lakhs	%
Not due	3,852.58	73
Due< 30 days	1,173.66	22
Due 30 – 60 days	51.65	1
Due 60 - 90 days	38.93	1
Due 90 - 120 days	21.74	1
Due over 120 days	90.78	2
Total	5,229.33	100

The Company has a policy of providing for all invoices outstanding for a period of six months or more and for those invoices which are otherwise considered doubtful. Provision for doubtful debts amounted to Rs. 736.25 Lakhs as at March 31, 2007 as compared to Rs. 135.80 Lakhs as at March 31, 2006.

Cash and bank balances

Cash and bank balances amounted to Rs. 1,127.23 Lakhs as at March 31, 2007 as compared to Rs. 394.56 Lakhs as at March 31, 2006. The Company received remittances amounting to Rs. 595 Lakhs on March 30, 2007, which resulted in high bank balance at the year-end.

Other current assets

Other current assets increased to Rs. 558.82 Lakhs as at March 31, 2007 from Rs. 296.32 Lakhs as at March 31, 2006, as per details give below

Particulars	As at 31-Mar-07 Rs. Lakhs	As at 31-Mar-06 Rs. Lakhs
Income accrued	1.03	0.76
Unbilled revenue	427.21	206.55
Unamortised premium of forward contracts	130.58	89.01
Total	558.82	296.32

Unbilled revenue represents revenue recognised in relation to work done on fixed price projects until the balance sheet date for which billing has not taken place.

The Company amortises the difference between forward rate and spot rate as on the date of taking forward contract, over the life of the forward contract. Unamortised premium of forward contracts, therefore, reflects the difference between forward rate and spot rate of the forward contracts outstanding as at March 31, 2007 which has not been recognised in the Profit and Loss Statement.

Loans and advances

Loans and advances amounted to Rs. 2,651.67 Lakhs as at March 31, 2007 as compared to Rs. 2,649.68 Lakhs as at March 31, 2006, as per details given below

Particulars	As at 31-Mar-07 Rs. Lakhs	As at 31-Mar-06 Rs. Lakhs
Advance to ESOP Trust	1,828.31	1,828.31
Advance income tax	-	60.25
Deposits	211.49	266.52
Advance recoverable in cash or in kind or for value to be received	532.92	472.53
VAT receivable	78.95	22.07
Total	2,651.67	2,649.68

Reduction in the amount of deposits is due to release of deposits on surrender of leased premises during the year.

Increase in the amount of recoverable advances is due to rise in advances given to employees and amount of prepaid insurance.

Current liabilities

Current liabilities increased to Rs. 3,525.28 Lakhs as at March 31, 2007 from Rs. 1,763.40 Lakhs as at March 31, 2006, as per details give below

Particulars	As at 31-Mar-07 Rs. Lakhs	As at 31-Mar-06 Rs. Lakhs
Advance from customers	58.37	71.09
Sundry creditors – capital goods	1,020.22	405.13
Sundry creditors – other	1,053.67	657.97
Unearned revenue	180.12	37.55
Accrued employee liabilities	412.28	209.19
Other liabilities	800.62	382.47
Total	3,525.28	1,763.40

Increase in the amount of sundry creditors for capital goods is due to rise in creditors relating to new facilities under construction at Hinjewadi, Pune and Parsodi, Nagpur.

Increase in other creditors is in line with general growth of business.

Accrued employee liabilities relate to leave travel assistance, superannuation and other liabilities accrued as at March 31, 2007. The increase in the amount of accrued liabilities is due to the growth in the employee strength.

Provisions

Total provisions increased to Rs. 787.45 Lakhs as at March 31, 2007 from Rs. 592.42 Lakhs as on March 31, 2006, as per details give below

Particulars	As at 31-Mar-07 Rs. Lakhs	As at 31-Mar-06 Rs. Lakhs
Stock appreciation rights	-	376.34
Gratuity	229.39	16.40
Leave encashment	524.52	180.56
Proposed dividend	-	11.40
Provision for income tax and fringe benefit tax	33.54	7.72
Total	787.45	592.42

Amount of Rs. 376.34 Lakhs towards provision for stock appreciation rights was written back consequent to the change in the ESOP Scheme (Refer note 7 to schedule 15).

The Company decided to go in for early adoption of the revised Accounting Standard 15 (AS – 15). The provision for gratuity and leave encashment is made as per the Revised AS-15 (Refer to note 8 to schedule 15).

Income

The Company is engaged in providing Outsourced Software Product Development services to the Independent Software Vendors (ISVs) and enterprises. As a Software Export Unit registered under the Software Technology Park Scheme, the Company derives its revenue predominantly from export of software services and products.

The income from software services, products and related activities recorded 43% increase during the financial year 2006-07 as shown in the following table

Particulars	Financial year 2006-07 Rs. Lakhs	Financial year 2005-06 Rs. Lakhs	Change %
Software services and products (exports)	29,862.49	20,965.71	42
Software services and products (domestic)	294.99	55.57	431
Reimbursement of expenses	1,074.31	794.48	35
Total	31,231.79	21,815.76	43

Reimbursement of expenses relates to travel and other expenses reimbursed by the customers in relation to projects as per the terms of the contract with the customers.

Geographic distribution of revenue

As in the past, the Company continued to derive a substantial part of its revenues from the North America, since most of the ISVs are located in the USA. The geographic distribution of revenues from software services and products is shown in the following table

Region	Financial year 2006-07 Percentage	Financial year 2005-06 Percentage
North-America	92	89
Europe	7	7
Asia-Pacific	1	4
Total	100	100

Other income

Other income comprises income from investment of surplus funds in bank deposits and mutual funds, profit on sale of assets and provisions written back. Other income recorded 49% increase during financial year 2006-07 as shown in the following table

Region	Financial year 2006-07 Rs. Lakhs	Financial year 2005-06 Rs. Lakhs	Change %
Income from investment of funds	85.56	123.10	(30)
Profit on sale of equipments	41.23	1.44	2,763
Provisions written back	72.54	5.02	1,345
Miscellaneous income	9.41	10.56	(11)
Total	208.74	140.12	49

Expenditure

Personnel expenses

Personnel expenses recorded 49% increase during the financial year 2006-07. However, as a percent of total revenue, they increased by 2.2% over the previous year. The details of the changes are as shown in the following table

Region	Financial year 2006-07 Rs. Lakhs	Financial year 2005-06 Rs. Lakhs	Change %
Salary and allowances	15,865.96	10,677.79	49
Staff welfare and benefits	455.59	327.65	39
Contribution to provident & other fund	569.90	272.45	109
Gratuity expenses	213.56	102.20	109
Software professional charges	328.62	198.55	66
ESOP charge	-	98.91	-
Total	17,433.63	11,677.55	49
Percent of revenue	55.4	53.2	

Reasons for increase in the personnel expenses are as below

A. Average headcount during the financial year 2006-07 increased by 30%.
B. The Company's salary structure was revised twice during the financial year 2006-07, on April 1, 2006 and on October 1, 2006.
C. The Company strengthened its sales and marketing team by inducting senior personnel.
D. The above expenses include expenses of ControlNet (India) Pvt. Ltd., for twelve months of the financial year 2006-07, whereas expenses for the financial year 2005-06 include ControlNet (India) Private Limited expenses for a period of six months since its acquisition.

Operating and other expenses

Operating and other expenses recorded 35% increase during the financial year 2006-07, as a result of growth of business and head count. However, as a per cent of total revenue, they declined by 1% in comparison to the previous year. The details of major items of expenditure is shown in the table given on the next page.

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Region	Financial year 2006-07 Rs. Lakhs	Financial year 2005-06 Rs. Lakhs	Change %
Traveling and conveyance	1,820.11	1,200.47	52
Electricity & fuel	535.83	368.80	45
Internet link charges	203.08	194.17	5
Communication charges	207.56	196.37	6
Recruitment expenses	307.45	253.16	21
Training and seminars	189.09	103.00	84
Software support charges	176.68	122.51	44
Provision for doubtful debts	661.59	110.14	501
Rent	157.43	616.97	(74)
Insurance	152.37	60.34	153
Rates, fees and profession tax	93.15	59.63	56
Legal and professional fees	231.66	231.26	-
Repairs and maintenance	191.87	121.54	58
Commission on sale other than sole selling agent	263.89	115.14	129
Other expenses	552.41	486.64	14
Total	5,744.17	4,240.14	35
Percent of revenue	18	19	

A. Increase in traveling and conveyance expenses is due to rise in project related travel expenses and fees paid for processing work permits.

B. Increase in electricity and fuel expenses is due to rise in power tariff and increased use of internally generated power due to frequent load-shedding.

C. Increase in recruitment expenses is attributable to about 600 laterals recruited during the year.

D. Increase in the training expenses is due to a variety of new training initiatives undertaken by the Company in the areas of technical, soft skills and leadership.

E. Software support charges increased due to increase in the head count requiring additional number of licenses.

F. Increase in the provision for doubtful debts is attributable to extra-ordinary provision made in respect of outstanding invoices of a customer due to contract related issues.

G. Rent expenses decreased due to release of rented premises consequent to shift of offices to the Company's newly set up facilities at Pune.

H. Insurance expenses increased due to significant increase in the value of assets covered under various insurance policies.

I. Rates, fees and taxes increased due to additional municipal tax liability for the newly set up facilities of the Company.

J. Repairs and maintenance expenses increased due to additional assets getting under AMC and painting expenses incurred for a company building.

K. Commission on sale increased due to commission paid in respect of certain new contracts, acquired during the financial year 2006-07.

Earnings before interest, depreciation and tax (EBIDTA)

During the financial year 2006-07, the Company earned an EBIDTA of Rs. 8,262.73 Lakhs representing 37% increase over EBIDTA of Rs. 6,038.19 Lakhs during the financial year 2005-06. The EBIDTA margin declined by 1.2% from 27.5% to 26.3% primarily on account of the increase in the personnel expenses by 2.2% and decrease in operating and other expenses by 1% as explained above.

Interest

The interest costs declined from Rs. 89.51 Lakhs to Rs.11.21 Lakhs as a result debt-free status enjoyed by the Company for a large part of the financial year 2006-07. The Company had prepaid the foreign currency loan taken during the financial year 2004-05 in January 2006.

Interest cost for the financial year 2006-07 represents the interest paid on the export packing credit.

Depreciation

The Company provided a sum of Rs. 2,699.21 Lakhs towards depreciation for the financial year 2006-07 as compared to Rs. 1,870.78 Lakhs for the financial year 2005-06. The increase in depreciation is attributable to capitalisation of assets amounting to Rs. 7,648.43 Lakhs during the financial year 2006-07. Depreciation as a percentage of total income increased to 8.58% during the financial year 2006-07 from 8.52% for the previous year.

The Company follows the straight-line method (SLM) of depreciation. The depreciation rates followed by the Company are based on the useful life of the assets as estimated by the Management and are higher than the rates prescribed in the schedule IV as shown in the table below

Asset	Depreciation rates followed by the company	Depreciation rates as per Schedule XIV
Computers	33.33%	16.21%
Software	33.33%	16.21%
Electrical installations and other equipments	20%	4.75%
Air conditioners	20%	13.91%
Furniture and fixtures	20%	6.33%
Vehicles	20%	9.50%
Building	4%	1.63%
Leasehold improvements	16.67%	16.67%

Provision for tax

The Company did not have significant exposure to income tax as it is entitled to a tax holiday under Section 10A of the Income Tax Act, 1961 in respect of its units registered under the Software Technology Park (STP) Scheme.

The provision for tax for the financial year 2006-07 amounted to Rs. 157.10 Lakhs as against Rs. 28.90 Lakhs for the financial year 2005-06. During the financial year 2006-07, the Company made a provision of Rs. 83.33 Lakhs in respect of the demands made by the Income-tax authorities for the assessment year 2003-04 and the assessment year 2004-05. The Company has contested the demand by filing appeal to the Commissioner of Income-tax.

The Company made a provision of Rs. 80.56 Lakhs for the fringe benefits tax (FBT) for the financial year 2006-07 as compared to Rs. 51.69 Lakhs for the financial year 2005-06.

Net profit after tax and before exceptional and prior period items

The net profit after tax and before exceptional and prior period items for the financial year 2006-07 amounted to Rs. 5,370.41 Lakhs as compared to the Net Profit of Rs. 3,991.87 Lakhs for the financial year 2005-06 recording growth of 34.5%. The net profit margin for the financial year 2006-07, was at 17.1% as compared to 18.2% for the previous year. The reduction in the net profit margin is mainly on account of the increase in the personnel expenses as explained above.

Exceptional and prior period items

The Company wrote back a provision of Rs. 376.34 Lakhs in respect of stock appreciation rights under various ESOP Schemes due to conversion of stock appreciation rights to option to purchase shares (Refer note 7 of schedule 15).

The Company made an additional provision for depreciation for a prior year amounting to Rs. 194.97 Lakhs due to change in the method of capitalisation of software licenses acquired under Enterprise Agreement Scheme.

Net profit after exceptional and prior period items

Net profit for financial year 2006-07 after exceptional and prior period items amounted to Rs. 5,551.78 Lakhs recording 42% increase over the prior year.

Dividend

During the financial year 2006-07, the Company distributed interim dividend of Rs. 307.31 Lakhs as against Rs 222.31 Lakhs in the prior year.

During the financial year 2006-07, the Company paid tax on interim dividend amounting to Rs. 43.11 Lakhs as compared to Rs. 31.18 Lakhs in the financial year 2005-06.

Report on Risk Management

Objective

The objective of the risk management is to ensure that risks which are critical to business are continuously identified, monitored and effectively managed in order to protect the business of the Company.

Structure

The Audit Committee of the Board reviews the Risk Management Policy. The Executive Committee of the Board monitors implementation of risk mitigation measures.

Risk identification

The risks which are critical to the business of the Company are grouped into following categories

Business model	Financial	Operational	Legal
Business segment concentration	Foreign currency fluctuations	Operating leverage	Information security
Client concentration	Financial leverage	Attrition	IPR protection
Geographic concentration	Asset protection	Technology obsolescence	Contractual compliance
Competitive environment		Business continuity & disaster recovery	Immigration regulations

1. Risks related to the business model

A. Business segment concentration

The Company is predominantly engaged in providing Outsourced Software Product Development services to Independent Software Vendors (ISVs) and Enterprises. Therefore, a substantial proportion of the business of the Company is derived from the ISV segment, as shown in the following table

(Figures in %)

Segment	Financial year 2006-07	Financial year 2005-06	Financial year 2004-05
ISVs	60	56	65
Telecom	27	32	27
Enterprises	12	12	8
VLSI & Embedded	1	-	-
Total	100	100	100

High dependence on a single business segment exposes the Company to the business cycles and risks inherent to that segment. In order to mitigate these risks, the Company is diversifying into new domains and enhancing its service offerings to other segments.

B. Client concentration

A significant proportion of the revenues of the Company is derived from a small number of large customers. Dependence on a few large clients exposes the Company to the risk of price pressures and credit risk.

The following table shows the proportion of revenues from top customers during the last 3 years

(Figures in %)

Revenue derived from	Financial year 2006-07	Financial year 2005-06	Financial year 2004-05
The largest customer	10	9	14
Top 5 customers	35	40	47
Top 10 customers	51	62	67

The above table shows that the dependence of the Company on a few large customers is steadily declining. The Company added 64 new customers during financial year 2006-07. The Company has strengthened its sales and marketing capability to be able to add a significant number of new customers to its client portfolio on a regular basis.

C. Geographic concentration

As most of the Independent Software Vendors (ISVs) are located in the Bay Area of the USA, a large proportion of the Company's revenue is derived from the USA. The following table shows the proportion of revenue from different regions during the last 3 years

(Figures in %)

Region	Financial year 2006-07	Financial year 2005-06	Financial year 2004-05
North America	92	89	87
Europe	7	7	10
Asia-Pacific	1	4	3
Total	100	100	100

The geographic concentration exposes the Company to macro-economic and political risks associated with those geographies. In order to reduce geographic concentration, the Company has set up an office in the UK and established a 100% subsidiary in Singapore to promote business in Europe and Asia- Pacific regions.

D. Competitive environment

The Company faces competition from Indian software companies, offshore development centers of multinational technology companies and software companies from emerging regions such as China, Russia and East Europe.

In order to mitigate this risk, the Company tracks competing enterprises on a regular basis. The Company has also taken measures for promoting client loyalty by delivering value for money, conducting regular client satisfaction surveys and enhancing brand awareness through additional marketing efforts.

2. Financial risks

A. Foreign currency fluctuations

A substantial proportion of the revenue of the Company accrues in the US Dollars, whereas a large part of its expenditure is incurred in the Indian Rupees. The Company is, therefore, exposed to the risk of fluctuation of exchange rates between US Dollar and Indian Rupee.

The Company hedges its foreign currency risk by entering into forward cover contracts and currency options on a regular basis, without taking active trading positions in the foreign currency markets. For financial year 2007-08, the Company has hedged revenue of USD 48.50 Million at an average rate of USD 1 = Rs. 45.48 as on April 30, 2007.

B. Financial leverage

The Company finances its expansions largely through internal accruals and resorts to debt only when internal accruals are inadequate. The export packing credit is utilised only to finance short term funds requirements. As at March 31, 2007, the Company enjoyed zero debt status.

C. Asset protection

The Company has implemented strong access control systems to prevent unauthorised entry of outsiders into the Company's premises. The Company has devised a program for periodic physical verification of all important assets of the Company. The Company's assets at all locations are covered under comprehensive insurance policies.

3. Operational risks

A. Operating leverage

The Company inducts and trains people and invests in computing infrastructure in anticipation of business. The high proportion of the expenses comprise personnel expenses, establishment expenses, communication costs etc. which are in the nature of fixed costs. Therefore, if the business volume is lower than anticipated or if there are mismatches between skills required and available, the high incidence of fixed costs would have adverse impact on the profitability of the Company.

The Company has strengthened its planning and MIS functions to enhance the level of accuracy of business forecasts. The planning division works closely with the sales and marketing team to ensure higher predictability of resource and skills requirements. In case of skill mismatches, the Company's training division undertakes retraining of resources at a short notice. The compensation structure includes variable pay linked to the company performance, which gets reduced if the targets of the Company are not met.

B. Attrition

The IT services segment is exposed to high employee attrition rates due to increased competition and opportunities. The following table shows the Company's attrition data for the past 3 years.

	Financial year 2006-07	Financial year 2005-06	Financial year 2004-05
Attrition %	22	18.4	16.4

The Company has implemented a role based organisation structure and created separate career tracks for technical, management and domain streams. The Company maintains employee-friendly culture and performance based compensation structure to enhance employee retention. The Company has evolved comprehensive plans for capability building and career development of employees which would have positive impact on reducing attrition.

C. Technology obsolescence

The Company operates in the area of advanced technology domains which are subject to continuous innovations. To guard against the risk of technology obsolescence, the Company has set up a Technology Forum which tracks and inducts new technologies relevant to the Company's business. The Company invests large amounts in purchasing state of art equipment and tools for software development, testing, QA and project management. The Company follows a policy of providing accelerated depreciation for computing equipment and software tools.

D. Business continuity and disaster recovery

The Company had set-up a cross functional committee of senior managers to study business continuity and disaster recovery plans. The Committee has submitted a comprehensive report of recommendations to strengthen physical and network security, maintain back-ups of data across different locations and strengthen disaster recovery process. The Company has implemented the main recommendations given by the Committee.

4. Legal risks

A. Information security

The Company has adopted BS ISO/ IEC 27001 standards for information security and has set up a task force for implementation of these standards.

B. Intellectual property protection

As the Company is focused on Outsourced Software Product Development, management of Intellectual Property (IP) assumes vital significance in business of the Company. The Company has implemented comprehensive processes for protection of its IP and IP of its clients. All the employees of the Company execute confidentiality and IP assignment agreement and undergo a special training course for IP management and protection.

C. Contractual compliance

Software product development companies are exposed to legal risks related to violation of intellectual property rights, leakage of confidential information and claims for non-performance of contractual obligations. The Company has established a strong process for legal review of all contracts and documentation. As a matter of policy, the Company does not accept any open ended liability for non-performance of contracts. The Company has taken a comprehensive insurance policy to cover possible risks arising from errors and omissions in execution of contracts.

D. Immigration laws

The Company's business requires deputation of software professionals on overseas assignments which require appropriate visas to work in foreign countries. Any restrictions imposed on visas by foreign countries, especially by the USA, would have an adverse impact on the business of the Company.

The Company has engaged services of reputed immigration counsels to advise the Company on developments taking place in immigration regulations. Based on the advice received from the immigration counsels and business forecasts made by the planning division, the Company applies for visas/ work permit for its employees in advance of actual requirements.

We... are trusted and reliable

- Key investors : Norwest Venture Partners, Gabriel Venture Partners, Intel Capital and Hewlett-Packard Company
- 115+ satisfied customers
- SEI CMM Level-3 Certified Company
- Broad-based ESOP scheme
- Strict adherence to Corporate Governance standards
- Partnerships across the Eco-system
- Stringent policy for protecting Confidentiality and Intellectual Property Rights

Auditors' Report

S. R. BATLIBOI & CO.
Chartered Accountants
The Metropole
F-1 1st Floor
Bund Garden Road
Pune 411 001

JOSHI APTE & CO.
Chartered Accountants
"Dwarka", First Floor
2 Phatak Baug Society
999 Navi Peth,
Pune 411 030

To
The Members of Persistent Systems Private Limited

1. We have audited the attached Balance Sheet of Persistent Systems Private Limited as at March 31, 2007 and also the Profit and Loss account and the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

4. Further to our comments in the Annexure referred to above, we report that

i. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii. In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;

iii. The balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;

iv. In our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956.

v. On the basis of the written representations received from the directors, as on March 31, 2007, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2007 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

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

a. in the case of the balance sheet, of the state of affairs of the Company as at March 31, 2007;

b. in the case of the profit and loss account, of the profit for the year ended on that date; and

c. in the case of cash flow statement, of the cash flows for the year ended on that date.

For S. R. BATLIBOI & CO.
Chartered Accountants

per Arvind Sethi
Partner
Membership No.: 89802
Place: Pune
Date: April 30, 2007

For JOSHI APTE & CO.
Chartered Accountants

per C. K. Joshi
Partner
Membership No: 30428
Place: Pune
Date: April 30, 2007

S. R. BATLIBOI & CO. **JOSHI APTE & CO.**

Annexure referred to in paragraph [3] of our report of even date

Re: Persistent Systems Private Limited

i. (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
   (b) Fixed assets have been physically verified by the management during the year and no material discrepancies were identified on such verification.
   (c) There was no substantial disposal of fixed assets during the year.

ii. The Company does not hold any inventory and accordingly sub clauses (a), (b) and (c) to clause (ii) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.

iii. As informed, the Company has neither granted nor taken any loans, secured or unsecured to/from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly clause (iii) (b), (c), (d), (f) and (g) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.

iv. In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business, for the purchase of fixed assets and software services. The activities of the Company did not involve purchase of inventory or sale of goods. During the course of our audit, no major weakness has been noticed in the internal control system in respect of these areas.

v. Based on the audit procedures applied by us and according to the information and explanations provided by management, we are of the opinion that there are no transactions that need to be entered into the register maintained under section 301 of the Companies Act, 1956. Accordingly clause 4(v) (b) of the Companies (Auditor's Report) Order, 2003 (as amended) is not applicable to the company.

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

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

viii. To the best of our knowledge and as explained, the Central Government has not prescribed maintenance of cost records under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956 for the products of the Company.

ix. (a) The Company is regular in depositing with appropriate authorities undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, wealth-tax, customs duty, excise duty, cess and other material statutory dues applicable to it *except in case of service tax where there was a delay in one instance*. As the company is a private limited company, provisions relating to investor education protection fund are not applicable to it.
   (b) According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, employees' state insurance, income-tax, wealth-tax, service tax, sales-tax, customs duty, excise duty, cess and other undisputed statutory dues were outstanding, at the year end, for a period of more than six months from the date they became payable. As the company is a private limited company, provisions relating to investor education protection fund are not applicable to it.
   (c) According to the records of the Company, the dues outstanding of income-tax, sales-tax, wealth-tax, service tax, customs duty, excise duty and cess on account of any dispute are as follows:

Name of the statute	Nature of dues	Amount (Rs. in Lakhs)	Period to which the amount relates	Forum where dispute is pending
Income-tax Act, 1961	Under section 143(3)	9.89 (Net of tax paid Rs. 11.73)	AY 2004 – 2005	Commissioner of Income tax (Appeals) – II, Pune

x. The Company has no accumulated losses at the end of the financial year and it has not incurred cash losses in the current and immediately preceding financial year.

xi. The Company does not have any outstanding dues to a financial institution, bank or debenture holders. Therefore the provisions of clause (xi) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable.

xii. According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

xiii. In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.

xiv. In respect of dealing/trading in shares, securities, debentures and other investments, in our opinion and according to the information and explanations given to us, proper records have been maintained of the transactions and contracts and timely entries have been made therein. The shares, securities, debentures and other investments have been held by the Company, in its own name.

xv. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institutions.

xvi. The Company did not have any term loans outstanding during the year.

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

xviii. The Company has made preferential allotment of shares to parties and companies covered in the register maintained under section 301 of the Act. In our opinion the price at which shares have been issued is not prejudicial to the interest of the Company.

xix. The Company did not have any outstanding debentures during the year.

xx. The Company has not raised any money through a public issue during the year.

xxi. Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For S. R. BATLIBOI & CO.
Chartered Accountants

per Arvind Sethi
Partner
Membership No: 89802
Place: Pune
Date: April 30, 2007

For JOSHI APTE & CO.
Chartered Accountants

per C. K. Joshi
Partner
Membership No: 30428
Place: Pune
Date: April 30, 2007

Balance Sheet as at March 31, 2007

	Sch.	As at 31-Mar-07 Rs. Lakhs	As at 31-Mar-06 Rs. Lakhs
Sources of funds			
Shareholders' funds			
Share capital	1	1,024.45	1,024.30
Reserves and surplus	2	24,988.31	20,167.91
		26,012.76	21,192.21
Deferred tax liabilities (net) [Refer note 4.7 in the schedule 15]		5.67	61.43
		26,018.43	21,253.64
Application of funds			
Fixed assets	3		
Gross block		26,135.50	16,059.25
Less Accumulated depreciation		10,023.72	5,005.95
Net block		16,111.78	11,053.30
Capital work-in-progress including capital advances		1,309.71	2,665.93
		17,421.49	13,719.23
Investments	4	4,124.46	3,145.84
Current assets, loans and advances			
Sundry debtors	5	4,866.61	3,709.54
Cash and bank balances	6	736.14	92.21
Other current assets	7	524.70	296.28
Loans and advances	8	2,687.86	2,993.94
	(A)	8,815.31	7,091.97
Less			
Current liabilities and provisions			
Current liabilities	9	3,554.55	2,111.29
Provisions	10	788.28	592.11
	(B)	4,342.83	2,703.40
Net current assets	(A - B)	4,472.48	4,388.57
		26,018.43	21,253.64
Notes to accounts	15		

The schedules referred to above and notes to accounts form an integral part of the Balance Sheet.
As per our report of even date

For and on behalf of the Board of Directors

For S. R. BATLIBOI & CO.
Chartered Accountants

per Arvind Sethi
Partner
Membership No. 89802
Place: Pune
Date: April 30, 2007

For JOSHI APTE & CO.
Chartered Accountants

C. K. Joshi
Partner
Membership No. 30428
Place: Pune
Date: April 30, 2007

Dr. Anand Deshpande
Chairman and
Managing Director

S. P. Deshpande
Director

Rohit Kamat
Associate
Vice President - Finance
Place: Pune
Date: April 30, 2007

Vivek Sadhale
Company Secretary
and Head - Legal

Profit and Loss Account for the year ended March 31, 2007

	Sch.	For the year ended 31-Mar-07 Rs. Lakhs	For the year ended 31-Mar-06 Rs. Lakhs
Income			
Sale of software services and products	11	29,374.63	21,062.05
Other income	12	229.31	154.61
		29,603.94	21,216.66
Expenditure			
Personnel expenses	13	16,140.55	11,229.25
Operating and other expenses	14	4,869.78	3,826.59
		21,010.33	15,055.84
Profit before interest, depreciation and tax		8,593.61	6,160.82
Interest		11.21	89.51
Depreciation		2,674.61	1,819.95
Profit before tax, exceptional and prior period items		5,907.79	4,251.36
Current tax (including prior period Rs. 83.33 Lakhs)		157.10	28.90
Deferred tax (credit)/ charge		(55.76)	21.00
Provision for fringe benefit tax		80.50	50.00
Profit after tax and before exceptional and prior period items		5,725.95	4,151.46
Add/ (less) Exceptional items [net of tax Rs. Nil (Previous year Rs. 28.61 Lakhs)]			
[Refer Note 4.3 in the schedule 15]		376.34	(80.69)
Add/ (less) Prior period depreciation [Refer Note 5 in the schedule 3]		(194.97)	-
Profit after tax and after exceptional and prior period items		5,907.32	4,070.77
Balance brought forward from previous year		6,997.57	5,062.29
Profit available for appropriation		12,904.89	9,133.06
Appropriations			
Transfer to general reserve		2,363.00	1,882.00
Interim dividend			
On equity shares		244.60	214.64
On preference shares		62.71	7.67
Tax on interim dividend			
On equity shares		34.31	30.10
On preference shares		8.80	1.08
Surplus carried to Balance Sheet		10,191.47	6,997.57
Earnings per share			
Basic [Nominal value of shares Rs.10 (Previous year Rs.10)]			
Computed on the basis of earnings including exceptional and prior period		Rs. 71.58	Rs. 46.19
Computed on the basis of earnings excluding exceptional and prior period items		Rs. 69.35	Rs. 47.11
Diluted [Nominal value of shares Rs.10 (Previous year Rs.10)]			
Computed on the basis of earnings including exceptional and prior period items		Rs. 57.67	Rs. 42.57
Computed on the basis of earnings excluding exceptional and prior period items		Rs. 55.90	Rs. 43.42
Notes to accounts	15		

The schedules referred to above and notes to accounts form an integral part of the Profit and Loss Account.
As per our report of even date

For S. R. BATLIBOI & CO.
Chartered Accountants

For JOSHI APTE & CO.
Chartered Accountants

per Arvind Sethi
Partner
Membership No. 89802
Place: Pune
Date: April 30, 2007

C. K. Joshi
Partner
Membership No. 30428
Place: Pune
Date: April 30, 2007

For and on behalf of the Board of Directors

Dr. Anand Deshpande
Chairman and
Managing Director

S. P. Deshpande
Director

Rohit Kamat
Associate
Vice President - Finance
Place: Pune
Date: April 30, 2007

Vivek Sadhale
Company Secretary
and Head - Legal

Schedules forming part of Balance Sheet

		As at 31-Mar-07 Rs. Lakhs	As at 31-Mar-06 Rs. Lakhs
Schedule 1			
Share capital			
Authorised			
1,00,00,000 Equity Shares of Rs. 10 each		1,000.00	1,000.00
(Previous year 1,00,00,000)			
2,50,000 Series A Participatory Cumulative Optionally			
Convertible Preference Shares of Rs. 100 each		250.00	250.00
(Previous year 2,50,000)			
		1,250.00	1,250.00
Issued, subscribed and paid-up			
81,54,050 Equity Shares of Rs. 10 fully paid-up		815.41	815.26
(Previous year 81,52,550)			
2,09,045 Series A Participatory Cumulative Optionally			
Convertible Preference Shares of Rs. 100 each fully paid-up			
(Previous year 2,09,045) [Refer Note 3 in the schedule 15]		209.04	209.04
		1,024.45	1,024.30
Schedule 2			
Reserves and surplus			
Capital redemption reserve			
Opening balance		97.95	-
Add Transfer from general reserve			
[Refer Note 3 in the schedule 15]		-	97.95
Closing balance	(A)	97.95	97.95
Securities premium account			
Opening balance		8,297.16	769.07
Add Additions during the year		2.39	9,044.96
Less Utilised for buy back of shares		-	1,516.87
Closing balance	(B)	8,299.55	8,297.16
General reserve			
Opening balance		4,775.23	3,906.05
Add Transferred from Profit and Loss Account		2,363.00	1,882.00
Less Utilised for buy-back of shares		-	914.87
Less Difference on amalgamation			
[Refer Note 6.1 in the schedule 15]		630.91	-
Less Adjustment for employee benefits provision			
[Net of tax Rs. Nil (Previous year Rs. Nil)]			
[Refer Note 4.4 in the schedule 15]		107.98	-
Less Transferred to capital redemption reserve			
[Refer Note 3 in the schedule 15]		-	97.95
Closing balance	(C)	6,399.34	4,775.23
Profit and Loss Account	(D)	10,191.47	6,997.57
	(A)+(B)+(C)+(D)	24,988.31	20,167.91

Schedules forming part of Balance Sheet (Contd.)

Schedule 3

Fixed assets

(Amount Rs. Lakhs)

Name of the asset	Gross block					Accumulated depreciation					Net block	
	As at 1-Apr-06	Acquisition on amalgamation	Additions during the year	Deductions/ transfers during the year	As at 31-Mar-07	As at 1-Apr-06	Acquisition on amalgamation	For the year	Deductions/ transfers during the year	As at 31-Mar-07	As at 31-Mar-07	As at 31-Mar-06
Land free-hold	2,029.82	-	-	-	2,029.82	-	-	-	-	-	2,029.82	2,029.82
Land lease-hold	218.76	-	97.23	-	315.99	-	-	-	-	-	315.99	218.76
Lease hold Improvements	23.43	-	-	23.43	-	6.57	-	1.95	8.52	-	-	16.86
Buildings	5,698.79	456.97	3,597.65	-	9,753.41	447.14	122.14	344.71	-	913.99	8,839.42	5,251.65
Computers	3,463.63	701.54	842.45	228.55	4,779.07	2,207.72	676.88	900.35	217.61	3,567.34	1,211.73	1,255.91
Software	994.85	1,218.18	1,229.90	-	3,442.93	582.47	1,208.70	795.85	-	2,587.02	855.91	412.38
Plant and Machinery	2,290.68	242.27	1,243.53	44.29	3,732.19	1,126.12	238.69	508.54	19.96	1,853.39	1,878.80	1,164.56
Furniture and fixtures	1,305.66	166.55	623.44	52.58	2,043.07	615.79	164.81	312.13	22.30	1,070.43	972.64	689.87
Vehicles	33.63	5.39	-	-	39.02	20.14	5.36	6.05	-	31.55	7.47	13.49
Total	16,059.25	2,790.90	7,634.20	348.85	26,135.50	5,005.95	2,416.58	2,869.58	268.39	10,023.72	16,111.78	11,053.30
Previous year	8,210.32	-	8,137.46	288.53	16,059.25	3,307.19	-	1,819.95	121.19	5,005.95	11,053.30	
Capital work-in-progress	2,665.93	-	2,529.22	3,885.44	1,309.71	-	-	-	-	-	1,309.71	2,665.93

1. Exchange gain/ (loss) adjusted in carrying cost of fixed asset Rs. 0.83 Lakhs [Previous year Rs. (61.80 Lakhs)]
2. Capital work-in-progress includes Capital Advances of Rs. 462.78 Lakhs [Previous year Rs. 2,531.80 Lakhs]
3. Company has entered into an agreement to lease with Maharashtra Industrial Development Corporation (MIDC) on February 07, 2006 for unit at MIDC Parsodi, Nagpur. This agreement will be converted into lease agreement for a term of 95 years after completion of stipulated conditions. Amortisation of land will be effective from date of such lease agreement.
4. Company has entered into an agreement to lease with Maharashtra Industrial Development Corporation (MIDC) on November 25, 2005 for unit at MIDC Hinjewadi, Pune. This agreement will be converted into lease agreement for a term of 95 years after completion of stipulated conditions. Amortisation of land will be effective from date of such lease agreement.
5. Depreciation on software for the period includes prior period depreciation of Rs. 194.97 Lakhs.

Schedules forming part of Balance Sheet (Contd.)

					As at 31-Mar-07 Rs. Lakhs	As at 31-Mar-06 Rs. Lakhs
Schedule 4						
Investment						
Long term investments (At cost)						
Other than trade (Unquoted)						
In Subsidiary companies						
Persistent eBusiness Solutions Pvt. Ltd.					422.78	422.78
9,20,000 Equity Shares of Rs. 10 each fully paid-up						
(Previous year 9,20,000)						
Less Provision for diminution in value of investment					422.78	422.78
				(A)	-	-
ControlNet (India) Pvt. Ltd. [Refer Note 6.1 in the schedule 15]						
(Previous year 1,79,100 equity shares of Rs. 100 each fully paid-up)					-	770.12
				(B)	-	770.12
Persistent Systems, Inc.						
3,70,00,000 stocks of USD 0.10 each fully paid-up						
(Previous year 2,70,00,000)				(C)	1,659.25	1,223.55
				(D)=(A)+(B)+(C)	1,659.25	1,993.67
Current investments (At lower of cost and market value)						
Other than trade (Quoted)						
Investment in mutual funds (Quoted)						
Fund name	Year	Units held	Book value per unit in Rs.			
DSPML Liquidity Fund	2006-07	49,222.19	1,000.20			
	2005-06	Nil	Nil			
HDFC Liquid Fund	2006-07	45,66,510.35	10.64			
	2005-06	41,52,723.52	12.03			
Prudential ICICI Liquid Plan	2006-07	49,24,997.23	10.01			
	2005-06	55,24,533.50	10.00			
DWS Money Plus Fund	2006-07	49,76,708.04	10.00			
	2005-06	Nil	Nil			
Standard Chartered Liquidity Manager Plus	2006-07	49,695.60	1,000.10			
	2005-06	9,81,075.17	10.20			
Aggregate amount of quoted investments market value						
Rs. 2,467.22 Lakhs (Previous year Rs. 1,154.52 Lakhs)					2,465.21	1,152.17
				(E)	2,465.21	1,152.17
				(D)+(E)	4,124.46	3,145.84

Schedules forming part of Balance Sheet (Contd.)

	As at 31-Mar-07 Rs. Lakhs	As at 31-Mar-06 Rs. Lakhs
Schedule 5		
Sundry debtors		
Debts outstanding for a period exceeding six months		
(Unsecured unless otherwise stated)		
Considered doubtful	609.68	108.97
Other debts		
Considered good	4,866.61	3,709.54
Considered doubtful	83.97	23.74
	5,560.26	3,842.25
Less Provision for doubtful debts	693.65	132.71
	4,866.61	3,709.54
Included in sundry debtors are Rs. 160.28 Lakhs (Previous year Rs. 278.90 Lakhs) from Persistent Systems, Inc., being the dues from the company under the same management		
Schedule 6		
Cash and bank balance		
Cash in hand	0.93	0.77
Bank balances		
Balances with scheduled banks		
On current accounts	697.03	62.02
On deposit accounts	38.11	29.35
	735.14	91.37
Balances with other banks		
On savings account	0.07	0.07
	736.14	92.21
Bank balances with other banks include		
Bank of Tokyo - Mitsubishi, Japan	0.07	0.07
[Maximum amount outstanding during the year Rs. 8.24 Lakhs (Previous year Rs. 10.09 Lakhs)]		
Schedule 7		
Other current assets		
Income accrued	1.00	0.72
Unbilled revenue	393.12	206.55
Unamortised premium on forward contract	130.58	89.01
	524.70	296.28

Schedules forming part of Balance Sheet (Contd.)

	As at 31-Mar-07 Rs. Lakhs	As at 31-Mar-06 Rs. Lakhs
Schedule 8		
Loans and advances (Unsecured unless otherwise stated)		
Considered good		
Loan to the subsidiary company	-	317.20
Advance to the subsidiary company	70.66	148.75
	70.66	465.95
Advance to PSPL ESOP Management Trust	1,828.31	1,828.31
Advance income tax (Net of provision Rs. Nil (Previous year Rs. 142.10 Lakhs))	-	58.97
Deposits	195.04	253.05
Advances recoverable in cash or kind or for value to be received	514.42	365.59
VAT receivable [Net of provision Rs. 45.17 Lakhs (Previous year Rs. 23.13 Lakhs)]	79.43	22.07
	2,617.20	2,527.99
Considered doubtful		
Loan to the subsidiary company	255.25	255.25
Less Provision for non recoverable loan	255.25	255.25
	-	-
	2,687.86	2,993.94
Included in loans and advances are		
Dues from companies under the same management		
Persistent Systems, Inc.	-	-
[Maximum amount outstanding during the year Rs. 158.03 Lakhs		
(Previous year Rs. 138.95 Lakhs)]	52.27	115.52
Persistent eBusiness Solutions Pvt. Ltd.		
[(Maximum amount outstanding during the year Rs. 25.03 Lakhs		
(Previous year Rs. 22.86 Lakhs)]	18.39	22.02
ControlNet (India) Pvt. Ltd.		
[(Maximum amount outstanding during the year Rs. Nil		
(Previous year Rs. 15.68 Lakhs)]	-	11.21
Schedule 9		
Current liabilities		
Advance from customer	58.37	71.09
Sundry creditors [(Includes Rs.1,020.22 Lakhs towards capital goods		
(Previous year Rs. 405.13 Lakhs)] [Refer Note 10 in the schedule 15]	2,448.07	1,436.25
Unearned revenue	173.72	21.90
Accrued employee liabilities	412.13	208.92
Other liabilities	462.26	373.13
	3,554.55	2,111.29

Note

As per Micro, Small and Medium Enterprise Development Act, 2006, no supplier has declared as covered under the Act.

Schedules forming part of Balance Sheet (Contd.)

	As at 31-Mar-07 Rs. Lakhs	As at 31-Mar-06 Rs. Lakhs
Schedule 10		
Provisions		
Stock appreciation right [Refer Note 4.3 in the schedule 15]	-	376.34
Gratuity [Refer Note 4.4 and 4.5 in the schedule 15]	229.11	16.26
Leave encashment	524.22	180.41
Proposed dividend	-	11.40
Provision for income tax [Net of advance tax Rs. 281.35 Lakhs		
(Previous year Rs. Nil)]	13.81	-
Provision for fringe benefit tax [Net of advance tax Rs.109.36 Lakhs		
(Previous year Rs. 42.30 Lakhs)]	21.14	7.70
	788.28	592.11

Schedules forming part of Profit and Loss Account

	For the year ended 31-Mar-07 Rs. Lakhs	For the year ended 31-Mar-06 Rs. Lakhs
Schedule11		
Sale of software services and products		
Sale of software services and products (export)		
[Refer Note 4.8 in the schedule 15]	28,206.46	20,415.78
Sale of software services and products (domestic)	158.86	-
Reimbursement of expenses	1,009.31	646.27
	29,374.63	21,062.05
Schedule 12		
Other income		
Interest on bank deposits [Tax deducted at source Rs. 0.33 Lakhs		
(Previous year Rs. 0.89 Lakhs)]	2.52	5.24
Interest on intercorporate deposit and others [Tax deducted at		
source Rs. 5.79 Lakhs (Previous year Rs. 4.36 Lakhs)]	27.76	21.78
Profit on sale of equipment	41.23	1.44
Dividend from non-trade investments	72.17	110.69
Profit on sale of investments (net)	3.70	4.06
Excess provision no longer required written back	12.79	0.57
Doubtful debts written back	59.75	4.45
Miscellaneous income	9.39	6.38
	229.31	154.61

Schedules forming part of Profit and Loss Account (Contd.)

	For the year ended 31-Mar-07 Rs. Lakhs	For the year ended 31-Mar-06 Rs. Lakhs
Schedule13		
Personnel expenses		
Salary and allowances	13,645.47	9,338.50
Staff welfare and benefits	451.69	318.98
Contribution to provident & other fund	569.70	261.46
Gratuity expenses	213.50	102.20
Software professional charges	1,260.19	1,109.20
ESOP charge	-	98.91
	16,140.55	11,229.25
Schedule 14		
Operating and other expenses		
Traveling and conveyance	1,448.56	1,061.78
Electricity & fuel	534.30	343.70
Internet link charges	197.14	187.93
Communication charges	151.51	156.54
Recruitment expenses	306.26	247.87
Training and seminars	189.09	102.35
Software support charges	149.64	122.04
Provision for doubtful debts	620.55	109.82
Rent	88.51	563.67
Insurance	148.39	55.69
Rates, fees and profession tax	91.66	58.90
Legal and professional fees	78.46	146.30
Repairs and maintenance		
Equipments	83.41	72.52
Building	44.00	14.73
Others	53.61	20.23
Commission on sale other than sole selling agent	194.98	160.63
Advertisements, sponsorship fees	49.83	43.02
Computer consumables	27.40	13.11
Auditors' remuneration [Refer Note 5.2 in the schedule 15]	27.34	6.00
Donations	26.80	18.55
Books, memberships, subscriptions	16.70	35.12
Foreign exchange loss	64.76	73.87
Loss on sale of assets	2.76	4.76
Directors' sitting fees	0.95	1.50
Directors' commission	10.05	6.00
Miscellaneous expenses	263.12	199.96
	4,869.78	3,826.59

Notes to Accounts

Schedule 15

1. Nature of Operations

Persistent Systems Private Limited is predominantly engaged in Outsourced Product Development services for Independent Software Vendors (ISVs) and Enterprises. The Company offers complete product life cycle services from end to end.

2. Statement of significant accounting policies

A. Basis of preparation

The financial statements have been prepared to comply in all material respects with the mandatory Accounting Standards (AS) issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual basis. The accounting policies have been consistently applied except for early adoption of the Accounting Standard 15 (AS - 15) (Revised 2005) which is mandatory from accounting period starting from December 7, 2006 and are consistent with those used in the previous year. Also refer note 4.4

B. Fixed assets

Fixed assets are stated at cost, less accumulated depreciation and impairment losses, if any. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use.

Borrowing costs relating to acquisition of fixed assets which takes substantial period of time to get ready for its intended use are also included to the extent they relate to the period till such assets are ready to be put to use.

Capital work-in-progress includes cost of fixed assets that are not ready or put to use and advances paid to construct or acquire fixed assets.

C. Depreciation

Depreciation is provided using the Straight Line Method (SLM) as per the useful lives of the assets estimated by the management, or at the rates prescribed under schedule XIV of the Companies Act, 1956, whichever is higher.

A comparative statement of rates of deprecation is as follows

Asset	Rates (SLM)	Schedule XIV of the Companies Act, 1956
Computers	33.33%	16.21%
Software	33.33%	16.21%
Plant and Machinery	20%	13.91% / 4.75%
Furniture and fixtures	20%	6.33%
Vehicles	20%	9.50%
Building	4%	1.63%

Leasehold improvements are depreciated over the period of the lease.

Depreciation on assets purchased / sold during the year is charged on a pro-rata basis. Individual assets costing less than Rs. 5,000 are fully depreciated in the year of purchase.

Notes to Accounts (Contd.)

D. Impairment

i. The carrying amounts of assets are reviewed at each balance sheet date for any indication of impairment based on internal/ external factors. An impairment loss is recognised wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital.

ii. After impairment, depreciation is provided on the revised carrying amount of the asset over its remaining useful life.

E. Investments

Investments which are readily realisable and intended to be held for a period not more than a year are classified as current investments. All other investments are classified as long-term investments.

Current investments are carried at lower of cost and fair value determined on an individual investment basis. Long-term investments are carried at cost. However, provision for diminution in value is made to recognise a decline, other than temporary decline, in the value of the investments.

F. Revenue recognition

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

i. Income from software services and products

The principal source of revenue is software services.

Revenue from software services is recognised on time basis in accordance with the terms of the contracts.

Revenue from fixed price projects is recognised in accordance with the proportionate completion method as per the terms of the contract. Revenue from licensing of products is recognised on delivery of products.

Revenue from maintenance contracts is recognised on pro-rata basis over the period of the contract as and when services are rendered.

Unbilled revenue represents revenue recognised in relation to work done on fixed price projects until the balance sheet date for which billing has not taken place.

Unearned revenue represents the billing in respect of contracts for which the revenue is not recognised as per the terms of contract.

ii. Interest

Revenue is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

iii. Dividend

Revenue is recognised when the shareholders' right to receive payment is established by the Balance Sheet date. Dividend from subsidiaries is recognised even if same is declared after the Balance Sheet date but pertains to period on or before the date of Balance Sheet as per the requirement of schedule VI of the Companies Act, 1956.

Notes to Accounts (Contd.)

iv. Royalty

Revenue from royalty is recognised on sale of products in accordance with the terms of the relevant agreement.

G. Foreign currency translation

i. Initial recognition

Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

ii. Conversion

Foreign currency monetary items are reported using the closing rate. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction; and non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

iii. Exchange differences

Exchange differences arising on the settlement of monetary items or on reporting the Company's monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognised as income or as expenses in the year in which they arise except those arising from investments in non-integral operations. Exchange differences on liability relating to fixed assets acquired within India arising out of transactions entered on or before March 31, 2004 are added to the cost of such assets in line with old Accounting Standard 11 (AS-11) (1994) issued by the Institute of Chartered Accountants of India.

iv. Forward exchange contracts not intended for trading or speculation purposes

The premium or discount arising at the inception of forward exchange contracts is amortised as expense or income over the life of the contract. Any profit or loss arising on cancellation or renewal of forward exchange contract is recognised as income or as expense for the year.

H. Retirement and other employee benefits

i. Gratuity

Gratuity liability represents defined benefit obligation and is provided for on the basis of Actuarial Valuation made at the end of each year for employees covered under Group Gratuity Scheme of the Life Insurance Corporation of India and the premium paid during the year is charged to the Profit & Loss Account.

ii. Superannuation

The Company has provided for a superannuation scheme as a defined contribution plan covering eligible employees. The Company makes yearly contribution to the superannuation fund managed by Life Insurance Corporation of India equal to the specified percentage of the basic salary of the eligible employees as per the scheme. The contribution to this scheme is charged to the Profit and Loss Account on an accrual basis.

iii. Provident fund

The Company has provided for a provident fund scheme as a defined contribution plan covering eligible employees. The Company and the eligible employees make a monthly contribution to the provident fund maintained by the Regional Provident Fund Commissioner equal to the specified percentage of the basic salary of the eligible employees as per the scheme. The employer's contribution is charged to the Profit and Loss Account on an accrual basis.

Notes to Accounts (Contd.)

iv. Leave salary

The Company has made a provision for short term leave absences based on estimates. Long term compensated absences are provided for based on actuarial valuation.

Actuarial gains/ losses are immediately taken to Profit and Loss Account and are not deferred.

I. Accounting policy for income tax, deferred tax and fringe benefit tax

Tax expense comprises of current, deferred and fringe benefit tax. Current income tax and fringe benefit tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act. Deferred income tax reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years.

Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

J. Segment reporting policies

In accordance with paragraph 4 of Accounting Standard 17 (AS-17) "segment reporting" issued by the Institute of Chartered Accountants of India, the Company has disclosed segmental information only on the basis of the consolidated financial statements (refer note 14 of schedule 15 of consolidated financial statements) which shall be presented together with the stand alone financial statements.

K. Earnings per share (EPS)

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders (after deducting preference dividend and attributable taxes) by the weighted average number of equity shares outstanding during the period.

For the purpose of calculating diluted earnings per share, the net profit or loss for the period before deducting preference dividend and tax thereon, attributable to equity shareholders and the weighted average number of shares outstanding during the period is adjusted for the effects of all dilutive potential equity shares.

L. Cash and cash equivalents

Cash and cash equivalents in the Balance Sheet comprise cash at bank and in hand, bank deposits and short-term investments with an original maturity of three months or less.

M. Employee stock compensation cost

Measurement and disclosure of the employee share-based payment plans is done in accordance with the Guidance Note on Accounting for Employee Share-based Payments, issued by the Institute of Chartered Accountants of India.

N. Lease

Operating Leases

Assets acquired as leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating lease. Lease rentals are charged to the Profit and Loss Account as incurred.

Notes to Accounts (Contd.)

3. Issue of Series A Participatory Cumulative Optionally Convertible Preference Shares

During the financial year 2005-06, the Company had issued 2,09,045 Series A Participatory Cumulative Optionally Convertible Preference Shares of Rs. 100 each at a total premium of Rs. 4,000 per share. The terms of redemption and conversion of preference shares are as follows

- On or after November 17, 2009 the preference shareholders have a right to require the Company to undertake a Qualified Initial Public Offer (QIPO).

- If the Company is not able to commence the process of QIPO within 90 days from the notice from the preference shareholders, then they have a right to exercise the exit transaction or buy back option to provide liquidity to their investments so that they receive the higher of :

  a. Two times the Series A Adjusted Price for each share to be bought back together with all unpaid dividends which have been declared but remaining unpaid; and

  b. Fair market value per share as determined by an independent accounting firm, together with all dividends, which have been declared but remaining unpaid

The Series A Adjusted Price as mentioned in point 3(a) above is required to be proportionally or appropriately adjusted for

i. any distribution of securities by way of return of capital;

ii. any bonus issue by the Company;

iii. any stock split, consolidation or other similar action in respect of the share capital of the Company; or

iv. any other reorganisation, recapitalisation, reclassification, or similar event in respect of the share capital of the Company.

For the purpose of the above terms, "QIPO" shall mean an initial public offering of shares by the Company resulting in gross proceeds to it of not less than the Indian Rupee equivalent of USD 35 Million (USD Thirty Five Million) resulting in the Company's Shares being listed on in the Relevant Market.

During the financial year 2005-06, the Company bought back 9,79,450 Equity Shares in pursuance of Section 77A of the Companies Act, 1956 by utilising the equity share capital and share premium account. Consequent to buy back, the Company has created capital redemption reserve of Rs. 97.95 Lakhs in the financial year 2005-06.

3.1 Securities for loans

The Company's immovable properties and moveable fixed assets located at Bhageerath and Aryabhata - Pingala in Pune are secured by first mortgage and charge in respect of term loan sanctioned by the Export Import Bank of India (EXIM) Bank. The Company has prepaid the loan and is in the process of clearing the charge.

The export packing credit is secured by hypothecation of entire current assets of the Company on pari passu basis with Bank of India and Citibank NA. The export packing credit is also secured by hypothecation of entire receivables of the Company on pari passu basis with State Bank of India. There is no balance payable as at the end of the financial year 2006-07.

Notes to Accounts (Contd.)

4

4.1 Contingent liabilities not provided for

Particulars	As at March 31, 2007 Rs. Lakhs	As at March 31, 2006 Rs. Lakhs
Claims against the Company not acknowledged as debts – legal claims	3.54	3.54
Guarantees and Counter guarantees given by the Company	0.63	3.63
Income tax not provided for but paid against the demand for Assessment year 2003-04 in respect of which the Company has gone in appeal	Nil	54.61
	4.17	61.78

4.2 Capital commitments

Particulars	As at March 31, 2007 Rs. Lakhs	As at March 31, 2006 Rs. Lakhs
Estimated amount of contracts remaining to be executed on capital account and not provided for	841.73	2,195.08

4.3 Employees stock options

Based on the guidance note on share based payments issued by the Institute of Chartered Accountants of India, the Company had made a provision of Rs. 373.41 Lakhs in respect of stock appreciation rights under Employees Stock Option Plan (ESOP – I), Employees Stock Option Plan – III (ESOP – III) and an amount of Rs. 2.93 Lakhs in respect of options to purchase shares under ESOA - II scheme.

During the year, the Company converted the stock appreciation rights under the ESOP-I, ESOP – III and ESOP – V schemes into option to purchase shares. As a result of this conversion, the Company is no more liable to pay compensation for stock appreciation rights to the employees. Therefore the Company has reversed the provision in respect of stock appreciation rights amounting to Rs. 376.34 Lakhs as no longer required.

Based on the assessment of fair value of equity shares of the Company by the independent valuer, no compensation expense is required to be recognised in the books for the shares granted under the ESOP schemes.

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Notes to Accounts (Contd.)

The position as of March 31, 2006 was as follows

Sr. No.	Particulars of shares / options	Employee stock option purchase schemes		Employee stock option award scheme
		ESOP - I	ESOP - III	ESOA - II
		Options	Options	Shares
A.	Maximum reserved	11,20,000	11,00,000	4,30,000
B.	Granted	11,20,000	2,20,600	88,400
C.	Exercised	2,21,695	2,361	181
D.	Vested and Not Exercised	6,09,130	12,459	4,639
E.	Not Vested	98,880	1,71,110	70,330
F.	Balance available (A-C-D-E)	1,90,295	9,14,070	3,54,850
G.	Outstanding options/ options to purchases shares (E+D)	7,08,010	1,83,569	74,969

Schemes IV, V, VI and VII were floated during the financial year 2006-07.

The status of various schemes before conversion and after conversion is shown in the following table

Sr. No.	Particulars of shares / options	Employee stock option purchase scheme ESOP - I	Employee stock option award scheme ESOA - II	Employee stock option purchase scheme ESOP - III	Employee stock option award scheme ESOA - IV	Employee stock option purchase scheme ESOP - V	Employee stock option award scheme ESOA - VI	Employee stock option award scheme ESOA - VII
		Options	Shares	Options	Shares	Options	Shares	Shares
	Ratio of conversion of options to shares	2 : 1	-	2 : 1	-	10 : 1	-	-
1.	Maximum reserved	11,20,000	4,30,000	11,00,000	8,00,000	40,00,000	2,32,516	3,50,000
2.	Granted	11,20,000	88,400	2,20,600	5,53,800	26,13,750	1,48,125	1,02,925
3.	Exercised	2,70,988	811	7,056	-	-	-	-
4.	Vested and not exercised	6,49,382	18,899	24,408	28,310	1,40,400	-	-
5.	Not vested	3,440	44,870	1,23,376	4,44,740	21,53,600	1,48,125	1,02,925
6.	Outstanding options / option to purchase shares before conversion	6,52,822	63,769	1,47,784	4,73,050	22,94,000	1,48,125	1,02,925
7.	Outstanding option to purchase shares after conversion	3,26,411	63,769	73,892	4,73,050	2,29,400	1,48,125	1,02,925
8.	Exercised after conversion	3,07,873	15,299	19,146	-	-	-	-
9.	Balance outstanding (not vested/ not exercised as at March 31, 2007)	18,538	48,470	54,746	4,73,050	2,29,400	1,48,125	1,02,925

Notes to Accounts (Contd.)

4.4 Adoption of Accounting Standard 15 (AS - 15) (Revised 2005) employee benefits

The Company has gone for early adoption of the Accounting Standard 15 (AS-15) (Revised 2005) issued by the Institute of Chartered Accountants of India, which is mandatory from accounting periods starting from December 7, 2006. Accordingly, the Company has provided for leave encashment on short term leaves on actual cost as against actuarial valuation in the previous year. Further in accordance with the transitional provision in the revised accounting standard, Rs. 107.98 Lakhs has been adjusted to the General Reserve for leave encashment.

4.5 Gratuity and other post-employment benefit plans

The Company has a defined benefit gratuity plan. Every employee who has completed five years or more of service gets a gratuity on departure at 15 days basic salary (last drawn basic salary) subject to a maximum of 30 days basic salary (last drawn basic salary) as per the rules of the Company for each completed year of service. The scheme is funded with an insurance company in the form of a qualifying insurance policy.

The following tables summarise the components of net benefit expense recognised in the Profit and Loss Account and the funded status and amounts recognised in the balance sheet for the respective plans.

Net employee benefit expense (recognised in Employee cost in Profit and Loss Account)

Particulars	For the year ended March 31, 2007 Rs. Lakhs
Current service cost	176.12
Interest cost on benefit obligation	25.77
Expected return on plan assets	(24.28)
Net actuarial (gain) / loss recognised in the year	32.92
Past service cost	-
Net benefit expense	210.53

Details of provision for gratuity

Changes in the fair value of plan assets (recognised in Balance Sheet) are as follows

Particulars	As at March 31, 2007 Rs. Lakhs
Opening fair value of plan assets	315.60
Expected return	24.28
Contributions	0.43
Benefits paid	(25.10)
Actuarial gains / (losses)	(24.28)
Closing fair value of plan assets	290.93

Notes to Accounts (Contd.)

Changes in the present value of the defined benefit obligation (recognised in Balance Sheet) are as follows

Particulars	As at March 31, 2007 Rs. Lakhs
Opening defined benefit obligation	334.62
Interest cost	25.76
Current service cost	176.12
Benefits paid	(25.10)
Actuarial (gains) / losses on obligation	8.64
Closing defined benefit obligation	520.04

Summary statement of provision for gratuity is as follows

Particulars	As at March 31, 2007 Rs. Lakhs
Fair value of plan assets	290.93
Less Defined benefit obligation	520.04
Less Unrecognised past service cost	-
Plan asset / (liability)	(229.11)

The Company maintains gratuity fund, which is being administered by Life Insurance Corporation of India (the insurer). The amount of investment as at March 31, 2007 is Rs. 290.93 Lakhs.

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

The principal assumptions used in determining gratuity for the Company's plans are shown below

Particulars	As at March 31, 2007
Discount rate	8 %
Expected rate of return on assets	8 %
Increase in compensation cost	7 %

Notes to Accounts (Contd.)

Amounts for the current year are as follows

Particulars	As at March 31, 2007 Rs. Lakhs
Plan assets	290.93
Less defined benefit obligation	520.04
Surplus / (deficit)	(229.11)
Experience adjustments on plan liabilities	8.64
Experience adjustments on plan assets	(24.28)

4.6 Derivative Instruments

Particulars	As at March 31, 2007 USD Million	As at March 31, 2006 USD Million
Hedged		
Hedge of expected future sales	46.82	59.80
Hedge of expected future purchase	2.25	Nil
Un-hedged		
Investments in foreign subsidiaries	3.70	2.70

4.7 Deferred tax

Particulars		As at March 31, 2007 Rs. Lakhs	As at March 31, 2006 Rs. Lakhs
Differences in depreciation and other differences in block of fixed assets as per tax books and financial books		33.19	61.43
Gross deferred tax liabilities	(A)	33.19	61.43
Provision for leave liability		27.52	-
Gross deferred tax assets	(B)	27.52	-
Net deferred tax liability	(A) - (B)	5.67	61.43

4.8 Sale of software services and products

Sale of software services and products include foreign currency fluctuation loss of Rs. 331.02 Lakhs (Previous year gain Rs. 144.29 Lakhs)

Notes to Accounts (Contd.)

4.9 Earnings per share (EPS)

Particulars		As at March 31, 2007	As at March 31, 2006
Basic earnings per share (After exceptional & prior period Items)			
Numerator for basic EPS (Rs. in Lakhs)			
Net profit after tax and after exceptional and prior period items		5,907.32	4,070.77
Less preference dividend and dividend tax		71.51	8.75
	(a)	5,835.81	4,062.02
Numerator for diluted EPS (Rs. in Lakhs)			
Net profit after tax and after exceptional and prior period items and preference dividend and dividend tax		5,835.81	4,062.02
Add preference dividend and dividend tax		71.51	8.75
	(b)	5,907.32	4,070.77
Denominator for basic EPS			
Weighted average number of equity shares	(c)	81,53,302	87,94,502
Denominator for diluted EPS			
Weighted average number of equity shares and potential equity shares	(d)	1,02,43,752	95,61,955
Basic earning per share of face value of Rs. 10 each (After exceptional & prior period items)	(a/c)	Rs. 71.58	Rs. 46.19
Diluted earning per share of face value of Rs. 10 each (After exceptional & prior period items)	(b/d)	Rs. 57.67	Rs. 42.57
(See Note on next page)			
Basic earnings per share (Before exceptional & prior period Items)			
Numerator for basic EPS (Rs. in Lakhs)			
Net profit after tax and before exceptional and prior period items		5,725.95	4,151.46
Less preference dividend and dividend tax		71.51	8.75
	(e)	5,654.44	4,142.71
Numerator for diluted EPS (Rs. in Lakhs)			
Net profit after tax and before exceptional and prior period items and preference dividend and dividend tax		5,654.44	4,142.71
Add preference dividend and dividend tax		71.51	8.75
	(f)	5,725.95	4,151.46
Denominator for basic EPS			
Weighted average number of equity shares	(g)	81,53,302	87,94,502
Denominator for diluted EPS			
Weighted average number of equity and potential equity shares	(h)	1,02,43,752	95,61,955
Basic Earning per share of face value of Rs. 10 each (Before exceptional & prior period items)	(e/g)	Rs. 69.35	Rs. 47.11
Diluted earning per share of face value of Rs. 10 each (Before exceptional & prior period items)	(f/h)	Rs. 55.90	Rs. 43.42
(See Note on next page)			

Notes to Accounts (Contd.)

Note

a. Weighted average number of equity shares for diluted EPS includes 2,09,045 Series A participatory Redeemable Cumulative Optionally Convertible Preference Shares of Rs 100 each. The preference shareholders have a right to convert one share of Rs. 100 each into 10 Equity shares of Rs. 10 each prior to the Initial public offer (IPO).

5. Supplementary statutory information

5.1 Remuneration paid to executive and non-executive Directors

Particulars	As at March 31, 2007 Rs. Lakhs	As at March 31, 2006 Rs. Lakhs
Directors' remuneration		
Salaries	48.79	70.90
Commission/performance linked incentives to whole time directors	27.58	42.29
Commission to non-whole time directors	10.05	6.00
Perquisites	3.49	13.00
Sitting fees paid to non-whole time directors	0.95	1.50
Contribution to superannuation fund	1.80	0.19
Contribution to provident fund	1.82	1.53
Total	94.48	135.41
(See Note below)		

Note

As the future liability for gratuity and leave encashment is provided on an actuarial basis for the Company as a whole, the amount pertaining to the directors is not ascertainable and, therefore, not included above.

Previous years remuneration include annual remuneration paid to Mr. Ashutosh Joshi and Mr. Ajit Tamhankar although they resigned as Directors on November 18, 2005.

Previous year's sitting fees include fees paid to Dr. Shridhar Shukla who resigned as Director on November 18, 2005.

5.2 Auditors' Remuneration

Particulars	For the year ended March 31, 2007 Rs. Lakhs	For the year ended March 31, 2006 Rs. Lakhs
Audit fee	23.57	5.05
Tax Audit fee	0.90	0.67
Taxation Matters	0.28	-
Other Matters	1.85	0.23
Out of pocket expenses	0.74	0.05
Total	27.34	6.00

Notes to Accounts (Contd.)

5.3 Earnings and expenditure in foreign currency (Accrual basis)

Particulars	For the year ended March 31, 2007 Rs. Lakhs	For the year ended March 31, 2006 Rs. Lakhs
A) Earnings in foreign currency		
(i) Capital items		
Equity shares	-	15.71
Equity share premium	-	629.62
Preference capital	-	209.04
Preference share premium	-	8,365.21
Term loan in foreign currency	-	1,979.86
Total	-	11,199.44
(ii) Revenue items		
Sale of software	28,206.46	20,415.78
Reimbursement of expenses	1,009.31	646.27
Total	29,215.77	21,062.05
B) Outgo in foreign currency		
(i) Capital items		
Repayment of foreign currency loan	-	4,001.15
Building	16.26	-
Purchase of computers and other equipments	560.78	946.58
Software	24.66	44.48
Plant and machinery	110.58	10.91
Investment in Persistent Systems, Inc.	435.70	444.50
Advance to Persistent Systems, Inc. (Net)	-	2.63
Total	1,147.98	5,450.25
(ii) Revenue items		
Traveling and conveyance	953.58	650.61
Training and seminars	9.48	2.24
Staff welfare and benefits	0.06	-
Software support charges	28.29	12.85
Software professional charges	1,045.62	816.50
Salary and allowances	57.60	-
Rent	2.22	3.35
Balance brought forward	2,096.85	1485.55

Notes to Accounts (Contd.)

5.3 Earnings and expenditure in foreign currency (Accrual basis) contd.

Particulars	For the year ended March 31, 2007 Rs. Lakhs	For the year ended March 31, 2006 Rs. Lakhs
Balance carried forward	2,096.85	1,485.55
Interest	-	82.43
Rates, fees and profession tax	4.60	0.02
Miscellaneous expenses	6.26	2.91
Legal and professional fees	19.45	62.94
Communication charges	0.35	-
Commission on sale other than sole selling agent	154.59	160.67
Books, memberships, subscriptions	3.57	11.40
Advertisements	23.47	36.01
Total	2,309.14	1,841.93

5.4 Value of imports calculated on CIF basis

Particulars	For the year ended March 31, 2007 Rs. Lakhs	For the year ended March 31, 2006 Rs. Lakhs
Capital goods	807.65	1,008.30
Total	807.65	1,008.30

5.5 Net dividend remitted in foreign exchange

Particulars	For the year ended March 31, 2007 Rs. Lakhs	For the year ended March 31, 2006 Rs. Lakhs
Number of non- resident shareholders	5	4
Number of equity shares held on which dividend was due	4,71,500	4,71,500
Number of preference shares held on which dividend was due	2,09,045	2,09,045
Amount remitted	76.86	16.11

Notes to Accounts (Contd.)

6

6.1 Merger of a subsidiary

The Company received sanction from the Bombay High Court, Mumbai and Bombay High Court, Goa bench for amalgamation of ControlNet (India) Pvt. Ltd. (ControlNet) effective from April 1, 2006. Pursuant to this, all assets, liabilities and losses of ControlNet are merged with the assets, liabilities and reserves of the Company with effect from April 1, 2006, by following "pooling of interest method" as prescribed in Accounting Standard 14 (AS -14) as issued by the Institute of Chartered Accountants of India.

The difference between the amounts recorded as investment and the amount of share capital plus reserves of ControlNet has been adjusted in the general reserve amounting to Rs. 630.91 Lakhs.

The amalgamation has resulted in transfer of assets, liabilities and reserves in accordance with the terms of the scheme at the values given below

Particulars		Rs. Lakhs
Fixed assets (Net)		374.31
Sundry debtors		38.53
Cash and bank balances		49.17
Loans and advances		26.28
Total assets acquired on amalgamation	(a)	488.29
Less		
Current liabilities and provisions		31.88
Unsecured loans		317.20
Total liabilities acquired on amalgamation	(b)	349.08
Total net assets acquired on amalgamation	(c) = (a) - (b)	139.21
Less		
Adjustment for cancellation of Company's investment in subsidiary	(d)	770.12
Balance transferred to General Reserve	(c) - (d)	(630.91)

6.2 Investment in subsidiaries

Particulars of additional investment made in subsidiaries are as follows

Particulars	For the year ended March 31, 2007 Rs. Lakhs	For the year ended March 31, 2006 Rs. Lakhs
Persistent Systems, Inc.	435.70	444.50
ControlNet (India) Pvt. Ltd.	Nil	770.12

Notes to Accounts (Contd.)

6.3 Details of current investments

Particulars of investments sold out of the opening balance during the year ended March 31, 2007.

Fund/ script name	Year ended	Opening balance Units/ shares	Opening balance Rs. Lakhs	Sold Units/ shares	Sold Rs. Lakhs
Standard Chartered Liquidity Manager Plus	Mar-07	9,81,075.17	100.08	9,81,075.17	100.08
	Mar-06	67,54,608.00	682.48	67,54,608.00	682.48
HDFC Liquid Fund	Mar-07	41,52,723.52	499.40	41,52,723.52	499.40
	Mar-06	31,14,605.00	331.10	31,14,605.00	331.10
Prudential ICICI Liquid Plan	Mar-07	55,24,533.50	552.69	55,24,533.50	552.69
	Mar-06	-	-	-	-
Bank of India	Mar-07	-	-	-	-
	Mar-06	400.00	0.18	400.00	0.18
Total	Mar-07	1,06,58,332.19	1,152.17	1,06,58,332.19	1,152.17
	Mar-06	98,69,613.00	1,013.76	98,69,613.00	1,013.76

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Notes to Accounts (Contd.)

6.4 Investment purchased and sold during the year

Fund name	Year ended	Purchased during the year Units	Purchased during the year Rs. Lakhs	Dividend received reinvested Units	Dividend received reinvested Rs. Lakhs	Sold during the year Units	Sold during the year Rs. Lakhs	Closing balance Units	Closing balance Rs. Lakhs
DSPML Liquidity Fund	Mar-07	1,82,15,851.19	2,655.00	1,01,780.00	13.93	1,82,68,409.00	2,176.61	49,222.19	492.32
	Mar-06	3,80,50,858.00	4,242.02	2,00,902.00	32.54	3,82,51,760.00	4,274.56	-	-
Standard Chartered Liquidity Manager Plus	Mar-07	1,81,981.60	1,820.00	8,221.00	8.77	1,40,507.00	1,331.76	49,695.60	497.01
	Mar-06	2,34,51,800.17	2,350.78	2,54,279.00	25.60	2,27,25,004.00	2,276.30	9,81,075.17	100.08
HDFC Liquid Fund	Mar-07	2,23,38,886.35	2,462.69	2,03,118.00	21.03	1,79,75,494.00	1,998.01	45,66,510.35	485.71
	Mar-06	4,03,08,894.52	4,740.00	1,81,061.00	22.29	3,63,37,232.00	4,262.89	41,52,723.52	499.40
Prudential ICICI Liquid Plan	Mar-07	2,08,22,593.23	1,590.00	83,459.00	7.80	1,59,81,055.00	1,105.30	49,24,997.23	492.50
	Mar-06	4,61,36,667.00	4,865.00	1,81,339.50	21.83	4,07,93,473.00	4,334.14	55,24,533.50	552.69
Templeton India Treasury Management Account	Mar-07	66,123.00	1,000.00	394.00	5.97	66,517.00	1,005.97	-	-
	Mar-06	1,36,802.00	1,460.00	811.00	8.43	1,37,613.00	1,468.43	-	-
Birla Cash Plus	Mar-07	44,43,498.00	480.00	27,461.00	2.97	44,70,959.00	482.97	-	-
	Mar-06	-	-	-	-	-	-	-	-
Tata Liquid Fund	Mar-07	22,431.00	250.00	24.00	0.26	22,455.00	250.26	-	-
	Mar-06	-	-	-	-	-	-	-	-
DWS Money Plus Fund	Mar-07	49,76,708.04	497.67	-	-	-	-	49,76,708.04	497.67
	Mar-06	-	-	-	-	-	-	-	-
Total	Mar-07	7,10,68,072.41	10,755.36	4,24,457.00	60.73	5,69,25,396.00	8,350.88	1,45,67,133.41	2,465.21
	Mar-06	14,80,85,021.69	17,657.80	8,18,392.50	110.69	13,82,45,082.00	16,616.32	1,06,58,332.19	1,152.17

Notes to Accounts (Contd.)

7. Operating leases

The Company has taken office premises under non-cancellable operating lease agreement for a period of 33 months. The lease rental charge (grouped in rent expenses) during the year is Rs. 33.78 Lakhs (previous year Rs. 27.03 Lakhs) and maximum obligation on long–term non-cancellable operating lease payable as per the rentals stated in respective agreement are as follows

Particulars	For the year ended March 31, 2007 Rs. Lakhs	For the year ended March 31, 2006 Rs. Lakhs
Obligation on non-cancellable operating leases		
Not later than one year	32.49	33.78
Later than one year and not later than five years	Nil	32.49

8. Related party disclosures

I. Names of related parties

Subsidiaries

ControlNet (India) Pvt. Ltd. (Subsidiary till March 31, 2006)
Persistent eBusiness Solutions Pvt. Ltd.
Persistent Systems, Inc.

Key Management Personnel

Dr. Anand S. Deshpande, Chairman and Managing Director
Mr. Suresh P. Deshpande, Director
Mr. Ashutosh Joshi (Resigned as Director on November 18, 2005)
Mr. Ajit Tamhankar (Resigned as Director on November 18, 2005)

Company in which a Non Executive Director was a Director

Great Software Laboratory Private Limited. (Resigned as Director on November 18, 2005)

Relatives of Key Management Personnel

Mrs. Chitra Buzruk (Relative of the Chairman and Managing Director and Executive Director)
Mrs. Sulabha Suresh Deshpande (Relative of the Chairman and Managing Director and Executive Director)
Mrs. Sonali Anand Deshpande (Relative of the Chairman and Managing Director and Executive Director)
Mr. Bhalchandra N. Shukla (Relative of ex-Non Executive Director, Dr. Shridhar Shukla who resigned as Director on November 18, 2005)
Mr. Shreekanth Joshi (Relative of ex-Director, Mr. Ashutosh Joshi who resigned as Director on November 18, 2005)

Notes to Accounts (Contd.)

II. Related party transactions

	Particulars		For the year ended March 31, 2007 Rs. Lakhs	For the year ended March 31, 2006 Rs. Lakhs
1	Subsidiaries			
A	Income			
A.1	Sale of Software	Persistent Systems, Inc.	1,452.28	1,185.03
A.2	Interest	Persistent eBusiness Solutions Pvt. Ltd.	20.68	11.49
		ControlNet (India) Pvt. Ltd.	-	7.58
A.3	Rent	Persistent eBusiness Solutions Pvt. Ltd.	0.43	0.43
A.4	Reimbursement of expenses	Persistent eBusiness Solutions Pvt. Ltd.	56.40	21.60
		Persistent Systems, Inc.	15.09	79.46
B	Expenditure			
B.1	Software Professional Charges	Persistent Systems, Inc.	1,045.62	816.50
		ControlNet (India) Pvt. Ltd.	-	111.12
		Great Software Laboratory Pvt. Ltd.	-	105.40
B.2	Commission –Others	Persistent Systems, Inc.	110.60	160.63
B.3	Reimbursement of Project Travel Expenses	Persistent Systems, Inc.	174.45	18.49
C	Sundry Debtors	Persistent Systems, Inc.	160.28	278.90
D	Sundry Creditors	Persistent Systems, Inc.	459.30	497.03
E	Investments			
E.1		Persistent Systems, Inc.	1,659.25	1,223.55
E.2		Persistent eBusiness Solutions Pvt. Ltd.	422.78	422.78
E.3		ControlNet (India) Pvt. Ltd.	-	770.12
F	Additional Investments			
F.1		Persistent Systems, Inc.	435.70	444.50
F.2		ControlNet (India) Pvt. Ltd.	-	770.12
G	Loans and Advances			
G.1	Loan given	Persistent eBusiness Solutions Pvt. Ltd.	255.25	255.25
G.2		ControlNet (India) Pvt. Ltd	-	317.20
H	Advances given			
H.1		Persistent Systems, Inc.	52.27	115.52
H.2		Persistent eBusiness Solutions Pvt. Ltd.	18.39	22.02
H.3		ControlNet (India) Pvt. Ltd.	-	11.21
2	Key Management Personnel			
A	Managerial remuneration			
A.1		Dr. Anand Deshpande	59.14	56.83
A.2		Mr. S. P. Deshpande	24.34	22.61
A.3		Mr. Ashutosh Joshi	-	17.26
A.4		Mr. Ajit Tamhankar	-	31.21

Notes to Accounts (Contd.)

Particulars			For the year ended March 31, 2007 Rs. Lakhs	For the year ended March 31, 2006 Rs. Lakhs
B	Dividend payment			
B.1		Dr. Anand Deshpande	96.91	80.33
B.2		Mr. S. P. Deshpande	32.55	27.08
B.3		Mr. Ashutosh Joshi	-	26.45
B.4		Mr. Ajit Tamhankar	-	1.51
B.5		Dr. Shridhar Shukla	-	22.40
3	Relatives of Key Management Personnel			
A	Dividend payment			
A.1		Mrs. Sonali Anand Deshpande	0.48	0.40
A.2		Mrs. Sulabha S. Deshpande	2.40	2.00
B.1	Salaries	Mrs. Chitra Buzruk	11.75	11.66
B.2		Mr. Shreekanth Joshi	-	14.06

9. Requirement of clause 3, 4C and 4D of Part II to schedule VI of the Companies Act, 1956

The Company is engaged in the development of software and related services. The production and sale of such software cannot be expressed in any generic unit. Hence, it is not possible to give quantitative details of sales and certain information as required under paragraphs 3, 4C and 4D of Part II to schedule VI of the Companies Act, 1956. The information required under clause 4D is given hereunder to the extent considered applicable

10. Dues to small scale industrial undertakings

On the basis of information available with the Company, there were no small scale undertakings to whom the Company owed a sum which was outstanding for more than 30 days as at March 31, 2007 (previous year ended March 31, 2006 Rs. Nil).

11. Previous year comparatives

The current year's figures of the Company include twelve months operating results of erstwhile ControlNet (India) Pvt. Ltd., which merged with the Company effective from April 1, 2006. Therefore, the current year figures are strictly not comparable with previous year figures.

Previous year's accounts were audited by M/s Joshi Apte & Co., Chartered Accountants and have been reclassified wherever necessary to confirm with the current year's presentation.

Signatures to schedules 1 to 15

As per our report of even date

For S. R. BATLIBOI & CO.
Chartered Accountants

per Arvind Sethi
Partner
Membership No. 89802
Place: Pune
Date: April 30, 2007

For JOSHI APTE & CO.
Chartered Accountants

C. K. Joshi
Partner
Membership No. 30428
Place: Pune
Date: April 30, 2007

For and on behalf of the Board of Directors

Dr. Anand Deshpande
Chairman
and Managing Director

S. P. Deshpande
Director

Rohit Kamat
Associate
Vice President - Finance
Place: Pune
Date: April 30, 2007

Vivek Sadhale
Company Secretary
and Head - Legal

Cash flow statement for the year ended March 31, 2007

	Particulars		31-Mar-07 Rs. Lakhs	31-Mar-06 Rs. Lakhs
A	Cash flow from operating activities			
	Net profit before taxation, and extraordinary items		5,907.79	4,251.36
	Adjustments for			
	Interest income		(30.28)	(27.02)
	Dividend income		(72.17)	(110.69)
	Depreciation		2,674.61	1,819.95
	Interest expense		11.21	89.51
	Write off/other adjustments of fixed assets		-	(5.01)
	Foreign exchange loss (net)		58.32	(7.15)
	Bad debts written off		-	-
	Provision for doubtful debts		560.80	105.37
	Prior period depreciation		194.97	-
	Profit on sale of investments		(3.70)	(4.06)
	Loss/ (Profit) on sale of fixed assets (Net)		(38.47)	3.32
	Operating profit before working capital changes		9,263.08	6,115.58
	Movements in working capital			
	(Increase)/decrease in sundry debtors		(1,737.66)	(1,162.94)
	(Increase)/decrease in other current assets		(228.69)	(237.09)
	(Increase)/decrease in loans and advances		15.16	(1,368.81)
	Increase/(decrease) in current liabilities & provisions		1,390.11	1,109.81
	Cash generated from operations		(561.08)	(1,659.03)
	Direct taxes paid (net of refunds)		(128.14)	(124.15)
	Cash flow before exceptional and prior period items		8,573.86	4,332.40
	Exceptional item		376.34	(80.69)
	Prior depreciation		(194.97)	-
	Net cash inflow from operating activities	(i)	8,755.23	4,251.71
B	Cash flows from investing activities			
	Purchase of fixed assets		(6,277.99)	(7,899.20)
	Proceeds from sale of fixed assets		118.92	163.87
	Purchase of investments		(10,816.09)	(17,768.49)
	Sale/ maturity of investments		9,506.75	17,634.14
	Purchase of investment in subsidiaries		(435.70)	(1,214.62)
	Dividends received		72.17	110.69
	Net cash outflow from investing activities	(ii)	(7,831.94)	(8,973.61)
C	Cash flows from financing activities			
	Proceeds from issuance of share capital		0.15	228.91
	Increase/ (Decrease) in securities premium		2.39	9,044.96
	Interest income		30.56	26.76
	Buyback of equity shares		-	(97.95)
	Securities premium being used for buyback of shares		-	(2,363.05)
	Share issue expenses		-	(68.70)
	Balance brought forward		33.10	6,770.93

Particulars		31-Mar-07 Rs. Lakhs	31-Mar-06 Rs. Lakhs
Balance carried forward		33.10	6,770.93
Repayment of long-term borrowings		-	(2,112.36)
Dividends paid		(307.31)	(222.31)
Tax on dividend paid		(43.11)	(31.18)
Interest paid		(11.21)	(89.51)
Net cash outflow from financing activities	(iii)	(328.53)	4,315.57
Net increase in cash and cash equivalents	(i) +(ii) + (iii)	594.76	(406.33)
Cash and cash equivalents at the beginning of the year		141.38	498.54
Cash and cash equivalents at the end of the year		736.14	92.21
Components of cash and cash equivalents as at		31-Mar-07	31-Mar-06
Cash and cheques on hand		0.93	0.77
With banks - on current account		697.03	62.02
on deposit account		38.11	29.35
on saving account		0.07	0.07
		736.14	92.21

Notes to cash flow statement

1. Cash and cash equivalents at the beginning of the year includes Rs. 49.17 Lakhs of the erstwhile ControlNet (India) Pvt. Ltd., which amalgamated with Persistent Systems Pvt. Ltd., effective from April 01, 2006.

2. The amalgamation of the erstwhile ControlNet (India) Pvt. Ltd., with Persistent Systems Pvt. Ltd., is a non cash transaction. (Refer Note 6.1 of the schedule 15)

3. Previous year's figures are not comparable due to point 1 and 2 above.

As per our report of even date

For S. R. BATLIBOI & CO.
Chartered Accountants

For JOSHI APTE & CO.
Chartered Accountants

per Arvind Sethi
Partner
Membership No.89802
Place: Pune
Date: April 30, 2007

C.K.Joshi
Partner
Membership No. 30428
Place: Pune
Date: April 30, 2007

For and on behalf of the Board of Directors

Dr. Anand Deshpande
Chairman and
Managing Director

S. P. Deshpande
Director

Rohit Kamat
Associate
Vice President - Finance
Place: Pune
Date: April 30, 2007

Vivek Sadhale
Company Secretary
and Head - Legal

Balance Sheet Abstract and Company's General Business Profile

I.	Registration details	
	Registration No.	U72300MH1990PTC056696
	State code No.	11
	Balance Sheet Date	March 31, 2007
II.	Capital raised during the year (Amount Rs. Lakhs)	
	Public issue	NIL
	Rights issue	NIL
	Bonus issue	NIL
	Private placement	0.15
III.	Position of mobilisation and deployment of funds (Amount Rs. Lakhs)	
	Total liabilities	26,018.43
	Total assets	26,018.43
	Sources of funds	
	Paid-up capital	1,024.45
	Reserves & surplus	24,988.31
	Secured loans	NIL
	Unsecured loans	NIL
	Deferred tax liability	5.67
	Application of funds	
	Net fixed assets	17,421.49
	Investments	4,124.46
	Net current assets	4,472.48
	Miscellaneous expenditure	
	Preliminary expenses	NIL
IV.	Performance of company (Amount Rs. Lakhs) (except earning per share and dividend)	
	Turnover/ receipts	29,603.94
	Total expenditure	23,696.15
	Profit/ (Loss) before tax	5,907.79
	Profit/ (Loss) after tax	5,907.32
	Earning per share in Rs. (Diluted)	55.90
	Dividend %	30
	Product description - Computer Software and Services	
	Item code No. - N.A.	

For and on behalf of the Board of Directors

Dr. Anand Deshpande
Chairman
and Managing Director

S. P. Deshpande
Director

Rohit Kamat
Associate
Vice President - Finance

Vivek Sadhale
Company Secretary
and Head - Legal

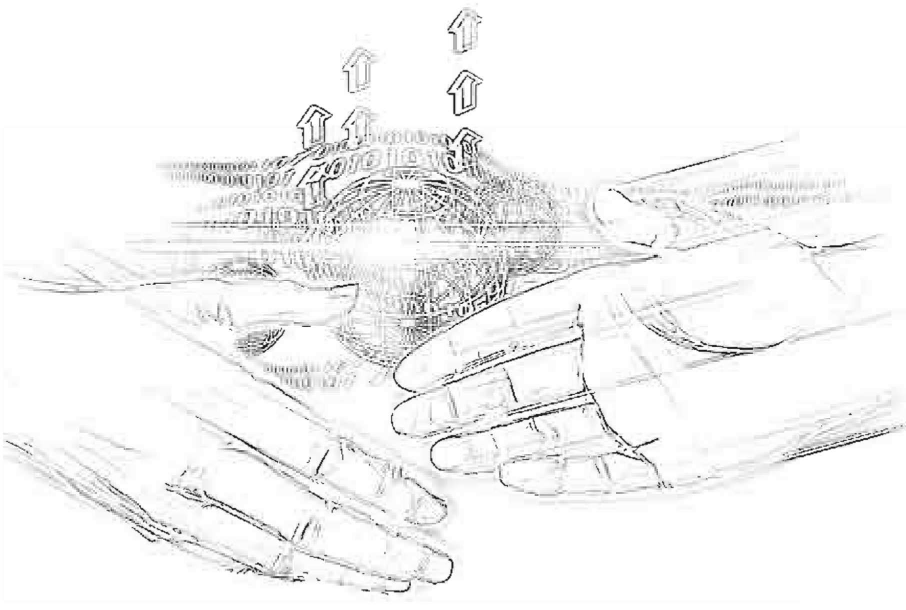
Pune; April 30, 2007

We... are global

- Global presence : Offices in USA, UK, Japan and Singapore
- Customers in 16 countries
- Customer base : USA 92%, Europe 7% and Asia Pacific 1%

Persistent Systems Private Limited

(Consolidated)



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PERSISTENT

Auditors' Report

S. R. BATLIBOI & CO.
Chartered Accountants
The Metropole
F-1 1st Floor
Bund Garden Road
Pune 411 001

JOSHI APTE & CO.
Chartered Accountants
"Dwarka", First Floor
2 Phatak Baug Society
999 Navi Peth,
Pune 411 030

To
The Board of Directors of Persistent Systems Private Limited

1. We, S.R. BATLIBOI & CO. and JOSHI APTE & CO. have audited the attached consolidated balance sheet of Persistent Systems Private Limited ('PSPL') and its subsidiaries (together referred to as 'the Group') as at March 31, 2007 and also the consolidated profit and loss account and the consolidated cash flow statement for the year ended on that date annexed thereto. These consolidated financial statements are the responsibility of PSPL's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

3. We did not jointly audit the financial statements of the following companies, whose total revenues and assets to the extent they are included in the consolidated financial statements of the Group are as given below:

Name of the Company	Extent of share in consolidated revenues (%)	Extent of share in consolidated assets (%)
Persistent eBusiness Solutions Pvt. Ltd.	0.44	0.27
Persistent Systems, Inc., USA	10.21	1.98

These financial statements have been audited solely by JOSHI APTE & CO., Chartered Accountants and have been accepted without verification by S.R. BATLIBOI & CO, Chartered Accountants and hence our joint audit opinion insofar as it relates to the amounts included in respect of these subsidiaries, is based solely on the report of JOSHI APTE & CO., Chartered Accountants.

4. We report that the consolidated financial statements have been prepared by PSPL's management in accordance with the requirements of Accounting Standard-21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate financial statements of PSPL and its subsidiaries.

5. In our opinion and to the best of our information and according to the explanations given to us, the attached consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India;

A. in the case of the Consolidated Balance Sheet, of the state of affairs of the Group as at March 31, 2007;
B. in the case of the Consolidated Profit and Loss Account of the profit of the Group for the year ended on that date;
C. in the case of the Consolidated Cash Flow Statement of the cash flows of the Group for the year then ended on that date.

For S. R. BATLIBOI & CO.
Chartered Accountants

per Arvind Sethi
Partner
Membership No: 89802
Place: Pune
Date: April 30, 2007

For JOSHI APTE & CO.
Chartered Accountants

per C. K. Joshi
Partner
Membership No: 30428
Place: Pune
Date: April 30, 2007

Balance Sheet as at March 31, 2007

	Sch.	As at 31-Mar-07 Rs. Lakhs	As at 31-Mar-06 Rs. Lakhs
Sources of funds			
Shareholders' funds			
Share capital	1	1,024.45	1,024.30
Reserves and surplus	2	24,142.82	19,500.22
		25,167.27	20,524.52
Deferred tax liabilities (net) [Refer Note 10 in the schedule 15]		5.67	61.43
		25,172.94	20,585.95
Application of funds			
Fixed assets	3		
Gross block		26,401.77	19,553.77
Less accumulated depreciation		10,261.98	7,638.33
Net block		16,139.79	11,915.44
Capital work-in-progress including capital advances		1,309.71	2,665.93
		17,449.50	14,581.37
Investments	4	2,469.12	1,152.17
Current assets, loans and advances			
Sundry debtors	5	5,229.33	3,867.67
Cash and bank balances	6	1,127.23	394.56
Other current assets	7	558.82	296.32
Loans and advances	8	2,651.67	2,649.68
	(A)	9,567.05	7,208.23
Less			
Current liabilities and provisions			
Current liabilities	9	3,525.28	1,763.40
Provisions	10	787.45	592.42
	(B)	4,312.73	2,355.82
Net current assets	(A - B)	5,254.32	4,852.41
		25,172.94	20,585.95
Notes to accounts	15		

The schedules referred to above and notes to accounts form an integral part of the Balance Sheet.
As per our report of even date

For S. R. BATLIBOI & CO.
Chartered Accountants

per Arvind Sethi
Partner
Membership No. 89802
Place: Pune
Date: April 30, 2007

For JOSHI APTE & CO.
Chartered Accountants

C. K. Joshi
Partner
Membership No. 30428
Place: Pune
Date: April 30, 2007

For and on behalf of the Board of Directors

Dr. Anand Deshpande
Chairman and
Managing Director

S. P. Deshpande
Director

Rohit Kamat
Associate
Vice President - Finance
Place: Pune
Date: April 30, 2007

Vivek Sadhale
Company Secretary
and Head - Legal

Profit and Loss Account for the year ended March 31, 2007

	Sch.	For the year ended 31-Mar-07 Rs. Lakhs	For the year ended 31-Mar-06 Rs. Lakhs
Income			
Sale of software services and products	11	31,231.79	21,815.76
Other income	12	208.74	140.12
		31,440.53	21,955.88
Expenditure			
Personnel expenses	13	17,433.63	11,677.55
Operating and other expenses	14	5,744.17	4,240.14
		23,177.80	15,917.69
Profit before interest, depreciation and tax		8,262.73	6,038.19
Interest		11.21	89.51
Depreciation		2,699.21	1,870.78
Profit before tax, exceptional and prior period items		5,552.31	4,077.90
Current tax (including prior period Rs. 83.33 Lakhs)		157.10	28.90
Deferred tax (credit)/ charge		(55.76)	5.44
Provision for fringe benefit tax		80.56	51.69
Profit after tax and before exceptional and prior period items		5,370.41	3,991.87
Add/ (less) Exceptional items [net of tax Rs. Nil (Previous year Rs. 28.61 Lakhs)]		376.34	(84.98)
Add/ (less) Prior period depreciation [Refer Note 5 in the schedule 3]		(194.97)	-
Profit after tax and after exceptional and prior period items		5,551.78	3,906.89
Balance brought forward from previous year		6,405.76	4,634.36
Profit available for appropriation		11,957.54	8,541.25
Appropriations			
Transfer to general reserve		2,363.00	1,882.00
Interim dividend			
On equity shares		244.60	214.64
On preference shares		62.71	7.67
Tax on interim dividend			
On equity shares		34.31	30.10
On preference shares		8.80	1.08
Surplus carried to Balance Sheet		9,244.12	6,405.76
Earnings per share			
Basic [Nominal value of shares Rs.10 (Previous year Rs.10)]			
Computed on the basis of earnings including exceptional and prior period items		Rs. 67.22	Rs. 44.32
Computed on the basis of earnings excluding exceptional and prior period items		Rs. 64.99	Rs. 45.29
Diluted [Nominal value of shares Rs. 10 (Previous year Rs.10)]			
Computed on the basis of earnings including exceptional and prior period items		Rs. 54.20	Rs. 40.86
Computed on the basis of earnings excluding exceptional and prior period items		Rs. 52.43	Rs. 41.75
Notes to accounts	15		

The schedules referred to above and notes to accounts form an integral part of the Profit and Loss Account.
As per our report of even date

For and on behalf of the Board of Directors

For S. R. BATLIBOI & CO.
Chartered Accountants

For JOSHI APTE & CO.
Chartered Accountants

Dr. Anand Deshpande
Chairman and
Managing Director

S. P. Deshpande
Director

per Arvind Sethi
Partner
Membership No. 89802
Place: Pune
Date: April 30, 2007

C. K. Joshi
Partner
Membership No. 30428
Place: Pune
Date: April 30, 2007

Rohit Kamat
Associate
Vice President - Finance
Place: Pune
Date: April 30, 2007

Vivek Sadhale
Company Secretary
and Head - Legal

Schedules forming part of Balance Sheet

		As at 31-Mar-07 Rs. In Lakhs	As at 31-Mar-06 Rs. In Lakhs
Schedule 1			
Share capital			
Authorised			
1,00,00,000 Equity shares of Rs. 10 each			
(Previous year 1,00,00,000)		1,000.00	1,000.00
2,50,000 Series A Participatory Cumulative Optionally Convertible			
Preference Shares of Rs. 100 each			
(Previous year 2,50,000)		250.00	250.00
		1,250.00	1,250.00
Issued, subscribed and paid-up			
81,54,050 Equity Shares of Rs. 10 fully paid-up			
(Previous year 81,52,550)		815.41	815.26
2,09,045 Series A Participatory Cumulative Optionally Convertible			
Preference Shares of Rs. 100 each fully paid-up			
(Previous year 2,09,045)		209.04	209.04
		1,024.45	1,024.30
Schedule 2			
Reserves and surplus			
Capital redemption reserve			
Opening balance		97.95	-
Add Transfer from general reserve		-	97.95
Closing balance	(a)	97.95	97.95
Securities premium account			
Opening balance		8,297.16	769.07
Add additions during the year		2.39	9,044.96
Less utilised for buy back of shares		-	1,516.87
Closing balance	(b)	8,299.55	8,297.16
General reserve			
Opening balance		4,692.21	3,823.00
Add transferred from Profit and Loss Account		2,363.00	1,882.00
Less utilised for buy-back of shares		-	914.84
Less goodwill adjustment on amalgamation [Refer Note 20 in the schedule 15]		449.89	-
Less adjustment for employee benefits provision			
[Refer Note 8 in the schedule 15]		107.98	-
Less transferred to capital redemption reserve		-	97.95
Closing balance	(c)	6,497.34	4,692.21
Foreign currency translation reserve			
Opening balance		7.14	(0.80)
Add/ (less) Exchange difference during the year on net investment in Non-integral operation		(3.28)	7.94
Closing balance	(d)	3.86	7.14
Profit and Loss Account	(e)	9,244.12	6,405.76
	(a)+(b)+(c)+(d)+(e)	24,142.82	19,500.22

Schedules forming part of Balance Sheet (Contd.)

Schedule 3

Fixed assets

(Amount Rs. Lakhs)

Name of the asset	Gross block: As at 1-Apr-06	Gross block: Additions during the year	Gross block: Deductions/ transfers during the year	Gross block: Currency adjustment	Gross block: As at 31-Mar-07	Accumulated depreciation: As at 1-Apr-06	Accumulated depreciation: For the year	Accumulated depreciation: Deductions/ transfers during the year	Accumulated depreciation: Currency adjustment	Accumulated depreciation: As at 31-Mar-07	Net block: As at 31-Mar-07	Net block: As at 31-Mar-06
Goodwill	449.89	-	449.89	-	-	-	-	-	-	-	-	449.89
Land free-hold	2,029.82	-	-	-	2,029.82	-	-	-	-	-	2,029.82	2,029.82
Land lease-hold	218.76	97.23	-	-	315.99	-	-	-	-	-	315.99	218.76
Lease-hold improvements	23.43	-	23.43	-	-	6.57	1.95	8.52	-	-	-	16.86
Building	6,155.76	3,597.65	-	-	9,753.41	569.28	344.71	-	-	913.99	8,839.42	5,586.48
Computers	4,213.86	853.44	228.55	(0.47)	4,838.28	2,922.87	908.75	217.61	0.16	3,614.17	1,224.11	1,316.16
Software	2,405.21	1,229.90	-	(1.14)	3,633.97	1,958.18	810.92	-	(2.18)	2,766.92	867.05	421.86
Plant and Machinery	2,540.13	1,243.97	44.29	(0.05)	3,739.76	1,370.49	508.97	19.96	(0.08)	1,859.42	1,880.34	1,169.64
Furniture and fixtures	1,477.89	626.24	52.58	(0.03)	2,051.52	785.44	312.83	22.31	(0.03)	1,075.93	975.59	692.45
Vehicle	39.02	-	-	-	39.02	25.50	6.05	-	-	31.55	7.47	13.52
Total	19,553.77	7648.43	798.74	(1.69)	26,401.77	7,638.33	2,894.18	268.40	(2.13)	10,261.98	16,139.79	11,915.44
Previous year	8,453.89	11,388.41	288.53	-	19,553.77	5,920.43	1,870.78	152.88	-	7,638.33	11,915.44	-
Capital work-in-progress	2,665.93	2,529.22	3,885.44	-	1,309.71	-	-	-	-	-	1,309.71	2,665.93

1. Exchange gain / (loss) adjusted in carrying cost of fixed asset Rs. 0.83 Lakhs [Previous year Rs. (61.80) Lakhs]
2. Capital work-in-progress includes Capital Advances of Rs. 462.78 Lakhs [Previous year Rs. 2,531.80 Lakhs]
3. Company has entered into an agreement to lease with Maharashtra Industrial Development Corporation (MIDC) on February 07, 2006 for unit at MIDC Parsodi, Nagpur. This agreement will be converted into lease agreement for a term of 95 years after completion of stipulated conditions. Amortization of land will be effective from date of such lease agreement.
4. Company has entered into an agreement to lease with Maharashtra Industrial Development Corporation (MIDC) on November 25, 2005 for unit at MIDC Hinjewadi, Pune. This agreement will be converted into lease agreement for a term of 95 years after completion of stipulated conditions. Amortisation of land will be effective from date of such lease agreement.
5. Depreciation on software for the period includes prior period depreciation of Rs. 194.97 Lakhs.

Schedules forming part of Balance Sheet (Contd.)

				As at 31-Mar-07 Rs. Lakhs	As at 31-Mar-06 Rs. Lakhs
Schedule 4					
Investment					
Long term investments (At cost)					
Other than trade (Unquoted)					
Kriyari, Inc.				3.91	-
				3.91	-
Current Investments (At lower of cost and market value)					
Other than trade (Quoted)					
Investment in mutual funds (Quoted)					
Fund name	Year	Units held	Book value per unit in Rs.		
DSPML Liquidity Fund	2006-07	49,222.19	1,000.20		
	2005-06	Nil	Nil		
HDFC Liquid Fund	2006-07	45,66,510.35	10.64		
	2005-06	41,52,723.52	12.03		
Prudential ICICI Liquid Plan	2006-07	49,24,997.23	10.01		
	2005-06	55,24,533.50	10.00		
DWS Money Plus Fund	2006-07	49,76,708.04	10.00		
	2005-06	Nil	Nil		
Standard Chartered	2006-07	49,695.60	1,000.10		
Liquidity Manager Plus	2005-06	9,81,075.17	10.20		
Aggregate amount of quoted investments market value				2,465.21	1,152.17
Rs. 2,467.22 Lakhs (Previous year Rs. 1,154.52 Lakhs)				2,465.21	1,152.17
				2,469.12	1,152.17
Schedule 5					
Sundry Debtors					
Debts outstanding for a period exceeding six months					
(Unsecured unless otherwise stated)					
Considered doubtful				652.28	112.06
Other debts					
Considered good				5,229.33	3,867.67
Considered doubtful				83.97	23.74
				5,965.58	4,003.47
Less provision for doubtful debts				736.25	135.80
				5,229.33	3,867.67

Schedules forming part of Balance Sheet (Contd.)

	As at 31-Mar-07 Rs.	As at 31-Mar-06 Rs.
Schedule 6		
Cash and bank balance		
Cash in hand	0.95	0.83
Bank balances		
Balances with scheduled banks		
On current accounts	720.72	136.48
On deposit accounts	38.86	39.35
	759.58	175.83
Balances with other banks		
On current accounts	366.63	217.83
On savings account	0.07	0.07
	366.70	217.90
	1127.23	394.56
Bank balances with other banks include		
Bank of Tokyo - Mitsubishi- NS, Japan		
[Maximum amount outstanding during the year		
Rs. 8.24 Lakhs (Previous year Rs.10.09 Lakhs)]	0.07	0.07
Bank of America		
[Maximum amount outstanding during the year		
Rs. 451.27 Lakhs (Previous year Rs. 465.48 Lakhs)]	30.17	146.73
Sillicon Valley Bank		
[Maximum amount outstanding during the year		
Rs. 605.11 Lakhs (Previous year Rs. 535.14 Lakhs)]	336.46	71.10
Schedule 7		
Other current assets		
Income accrued	1.03	0.76
Unbilled revenue	427.21	206.55
Unamortised premium on forward contract	130.58	89.01
	558.82	296.32
Schedule 8		
Loans and advances (Unsecured unless otherwise stated)		
Considered good		
Advance to PSPL ESOP Management Trust	1,828.31	1,828.31
Advance income tax [Net of provision Rs. Nil (Previous year Rs. 142.10 Lakhs)]	-	60.25
Deposits	211.49	266.52
Advances recoverable in cash or kind or for value to be received	532.92	472.53
VAT receivable [Net of provision Rs. 45.65 Lakhs (Previous year Rs. 23.13 Lakhs)]	78.95	22.07
	2,651.67	2,649.68

Schedules forming part of Balance Sheet (Contd.)

	As at 31-Mar-07 Rs. Lakhs	As at 31-Mar-06 Rs. Lakhs
Schedule 9		
Current liabilities		
Advance from customer	58.37	71.09
Sundry creditors [Includes Rs.1,020.22 Lakhs towards capital goods (Previous year Rs. 405.13 Lakhs)][Refer Note 19 in the schedule 15]	2,073.89	1,063.10
Unearned revenue	180.12	37.55
Accrued employee liabilities	412.28	209.19
Other liabilities	800.62	382.47
	3,525.28	1,763.40

Note
As per Micro, Small and Medium Enterprise Development Act, 2006, no supplier has declared as covered under the Act.

	As at 31-Mar-07 Rs. Lakhs	As at 31-Mar-06 Rs. Lakhs
Schedule 10		
Provisions		
Stock appreciation right [Refer Note 7 in the schedule 15]	-	376.34
Gratuity [Refer Note 9 in the schedule 15]	229.39	16.40
Leave encashment	524.52	180.56
Proposed dividend	-	11.40
Provision for Income tax [net of advance tax Rs. 282.81 Lakhs (Previous year Rs. Nil)]	12.35	-
Provision for fringe benefit tax [net of advance tax Rs. 109.39 Lakhs (Previous year Rs. 42.30 Lakhs)]	21.19	7.72
	787.45	592.42

Schedules forming part of Profit and Loss Account

	For the year ended 31- Mar-07 Rs. Lakhs	For the year ended 31- Mar-06 Rs. Lakhs
Schedule 11		
Sale of software services and products		
Sale of software services and products (export)	29,862.49	20,965.71
[Refer Note 11 in the schedule 15]		
Sale of software services and products (domestic)	294.99	55.57
Reimbursement of expenses	1,074.31	794.48
	31,231.79	21,815.76
Schedule 12		
Other income		
Interest on bank deposits [Tax deducted at source Rs. 0.33 Lakhs		
(Previous year Rs. 0.99 Lakhs)]	2.56	5.64
Interest on intercorporate deposit and others		
Tax deducted at source Rs. 5.79 Lakhs [Previous year Rs. 4.36 Lakhs]	7.13	2.71
Profit on sale of equipment	41.23	1.44
Dividend from non-trade investments	72.17	110.69
Profit on sale of investments (net)	3.70	4.06
Excess provision no longer required written back	12.79	0.57
Doubtful debts written back	59.75	4.45
Miscellaneous income	9.41	10.56
	208.74	140.12
Schedule 13		
Personnel expenses		
Salary and allowances	15,865.96	10,677.79
Staff welfare and benefits	455.59	327.65
Contribution to provident & other fund	569.90	272.45
Gratuity expenses	213.56	102.20
Software professional charges	328.62	198.55
ESOP charge	-	98.91
	17,433.63	11,677.55

Schedules forming part of Profit and Loss Account (Contd.)

	For the year ended 31- Mar-07 Rs. Lakhs	For the year ended 31- Mar-06 Rs. Lakhs
Schedule 14		
Operating and other expenses		
Traveling and conveyance	1,820.11	1,200.47
Electricity & fuel	535.83	368.80
Internet link charges	203.08	194.17
Communication charges	207.56	196.37
Recruitment expenses	307.45	253.16
Training and seminars	189.09	103.00
Software support charges	176.68	122.51
Provision for doubtful debts	661.59	110.14
Rent	157.43	616.97
Insurance	152.37	60.34
Rates, fees and profession tax	93.15	59.63
Legal and professional fees	231.66	231.26
Repairs and maintenance		
Equipments	92.17	82.36
Building	44.12	15.40
Others	55.58	23.78
Commission on sale other than sole selling agent	263.89	115.14
Advertisements, sponsorship fees	99.44	96.67
Computer consumables	29.16	14.06
Auditors' remuneration (Refer Note 15 in the schedule 15)	29.27	7.74
Donations	26.80	18.55
Books, memberships, subscriptions	17.40	35.30
Foreign exchange loss	52.60	74.04
Loss on sale of assets	2.76	4.76
Directors' sitting fees	0.95	1.50
Directors' commission	10.05	6.00
Miscellaneous expenses	283.98	228.02
	5,744.17	4,240.14

Notes to Accounts

Schedule 15

1. Nature of operations

Persistent Systems Pvt. Ltd. (the Company), is predominantly engaged in Outsourced Product Development services for Independent Software Vendors (ISVs) and Enterprises. The Company offers complete product life cycle services from end to end.

Persistent Systems, Inc. (PSI), a foreign subsidiary of the Company is engaged in software development, professional and marketing services.

Persistent eBusiness Solutions Private Limited (PeBS) is engaged in software development, consultancy and system integration services.

2. Principles of consolidation

The consolidated financial statements of the Company, PSI and PeBS are prepared under historical cost convention in accordance with generally accepted accounting principles applicable in India and the Accounting Standard 21 (AS-21) on consolidation of financial statements issued by the Institute of Chartered Accountants of India, to the extent possible in the same format as that adopted by parent Company (the Company) for its separate financial statements.

The financial statements of the Company and its subsidiary companies have been combined on Line-by-Line basis by adding together the book values of like items of assets and liabilities, income and expenses after fully eliminating intra group balances and intra group transactions.

According to the Para 26 of the Accounting Standard 21 (AS -21) on consolidation of financial statements issued by the Institute of Chartered Accountants of India – 'the losses applicable to the minority in a consolidated subsidiary, viz. Persistent eBusiness Solutions Pvt. Ltd., in excess of minority interest in the equity are adjusted against the majority interest.

The subsidiary companies considered in consolidated financial statements are

Name of the subsidiary	Ownership percentage	Country of incorporation
Persistent eBusiness Solutions Pvt. Ltd.	99.97% (Previous year 99.97%)	India
Persistent Systems, Inc.	100% (Previous year 100%)	USA

3. Statement of significant accounting policies

A. Basis of preparation

The financial statements have been prepared to comply in all material respects with the mandatory Accounting Standards (AS) issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual basis. The accounting policies have been consistently applied except for early adoption of the Accounting Standard 15 (AS - 15) (Revised 2005) which is mandatory from accounting period starting from December 7, 2006 and are consistent with those used in the previous year. Also refer note 8.

B. Fixed assets

Fixed assets are stated at cost, less accumulated depreciation and impairment losses, if any. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use.

Notes to Accounts (Contd.)

Borrowing costs relating to acquisition of fixed assets, which takes substantial period of time to get ready for its intended use, are also included to the extent they relate to the period till such assets are ready to be put to use.

Capital work-in-progress includes cost of fixed assets that are not ready or put to use and advances paid to construct or acquire fixed assets.

C. Depreciation

Depreciation is provided using the Straight Line Method (SLM) as per the useful lives of the assets estimated by the management or at the rates prescribed under schedule XIV of the Companies Act, 1956, whichever is higher.

A comparative statement of rates of depreciation is as follows

Asset	Rates (SLM)	Schedule XIV of the Companies Act, 1956
Computers	33.33%	16.21%
Software	33.33%	16.21%
Plant and machinery	20%	13.91% / 4.75%
Furniture and fixtures	20%	6.33%
Vehicles	20%	9.50%
Building	4%	1.63%

Leasehold improvements are depreciated over the period of the lease.

Depreciation on assets purchased/ sold during the year is charged on a pro-rata basis. Individual assets costing less than Rs. 5,000 are fully depreciated in the year of purchase.

D. Impairment

i. The carrying amounts of assets are reviewed at each balance sheet date for any indication of impairment based on internal/ external factors. An impairment loss is recognised wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital.

ii. After impairment, depreciation is provided on the revised carrying amount of the asset over its remaining useful life.

E. Investments

Investments which are readily realisable and intended to be held for a period not more than a year are classified as current investments. All other investments are classified as long-term investments.

Current investments are carried at lower of cost and fair value determined on an individual investment basis. Long-term investments are carried at cost. However, provision for diminution in value is made to recognise a decline, other than temporary decline, in the value of the investments.

F. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Notes to Account (Contd.)

i. Income from software services

The principal source of revenue is from sale of software services.

Revenue from software services is recognised on time basis in accordance with the terms of the contracts.

Revenue from fixed price projects is recognised in accordance with the proportionate completion method as per the terms of the contract. Revenue from licensing of products is recognised on delivery of products.

Revenue from maintenance contracts is recognised pro-rata over the period of the contract as and when services are rendered.

Unbilled revenue represents revenue recognised in relation to work done on fixed price projects until the balance sheet date for which billing has not taken place.

Unearned revenue represents the billing in respect of contracts for which the revenue is not recognised as per the terms of contract.

ii. Interest

Revenue is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

iii. Dividend

Revenue is recognised when the shareholders' right to receive payment is established by the balance sheet date. Dividend from subsidiaries is recognised even if same is declared after the balance sheet date but pertains to period on or before the date of balance sheet as per the requirement of schedule VI of the Companies Act, 1956.

iv. Royalty

Revenue from royalty is recognized on sale of products in accordance with the terms of the relevant agreement.

G. Translation of non-integral foreign operation

In translating the financial statements of a non-integral foreign operation for incorporation in financial statements, the assets and liabilities, both monetary and non-monetary, of the non-integral foreign operation are translated at the closing rate; income and expense items of the non-integral foreign operation are translated at exchange rates at average rate during previous twelve months; and all resulting exchange differences are accumulated in a foreign currency translation reserve until the disposal of the net investment.

H. Retirement and other employee benefits

i. Gratuity

Gratuity liability represents defined benefit obligation and is provided for on the basis of Actuarial Valuation made at the end of each financial year for employees covered under Group Gratuity Scheme of the Life Insurance Corporation of India and the premium paid during the year is charged to the Profit & Loss Account.

ii. Superannuation

The Company has provided for a superannuation scheme as a defined contribution plan covering eligible employees. The Company makes yearly contribution to the superannuation fund managed by Life Insurance Corporation of India equal to the specified percentage of the basic salary of the eligible employees as per the scheme. The contribution to this scheme is charged to the Profit and Loss Account on an accrual basis.

Notes to Account (Contd.)

iii. Provident fund

The Company has provided for a provident fund scheme as a defined contribution plan covering eligible employees. The Company and the eligible employees make a monthly contribution to the provident fund maintained by the Regional Provident Fund Commissioner equal to the specified percentage of the basic salary of the eligible employees as per the scheme. The employer's contribution is charged to the Profit and Loss Account on an accrual basis.

iv. Leave salary

The Company has made a provision for short term leave absences based on estimates. Long term compensated absences are provided for based on actuarial valuation.

Actuarial gains/ losses are immediately taken to Profit and Loss Account and are not deferred.

I. Accounting policy for income tax, deferred tax and fringe benefit tax

Tax expense comprises of current, deferred and fringe benefit tax. Current income tax and fringe benefit tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act. Deferred income tax reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years.

Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

J. Segment reporting policies

The Company's operations predominantly relate to providing outsourced product development services covering full life cycle of product to its customers.

Accordingly, product development services represented alongwith broad industry classes comprise primary basis of segmental information. Secondary segmental reporting is done on the basis of geographical location of customers who are invoiced or in relation to whom revenue is otherwise recognised.

The accounting principles consistently used in the preparation of financial statements are applied to record income and expenses in individual segments.

Income and direct expenses in relation to segments are categorised based on items that are individually identifiable to that segment such as salaries and project related travel expenses. The remainder is considered as unallocable expense and is charged against the total income.

There were no inter-segmental transactions during the year.

Segregation of assets, liabilities, depreciation and other non-cash expenses into various primary segments has not been done as the assets are used interchangeably between segments and the Company is of the view that it is not practical to reasonably allocate liabilities and other non-cash expenses to individual segments and an adhoc allocation will not be meaningful.

K. Earnings per share (EPS)

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders (after deducting preference dividends and attributable taxes) by the weighted average number of equity shares outstanding during the period.

Notes to Account (Contd.)

For the purpose of calculating diluted earnings per share, the net profit or loss for the period before deducting preference dividend and tax thereon, attributable to equity shareholders and the weighted average number of shares outstanding during the period is adjusted for the effects of all dilutive potential equity shares.

L. Cash and cash equivalents

Cash and cash equivalents in the Balance Sheet comprise cash at bank and in hand, bank deposits and short-term investments with an original maturity period of three months or less.

M. Employee stock compensation cost

Measurement and disclosure of the employee share-based payment plans is done in accordance with the Guidance Note on Accounting for Employee Share-based Payments, issued by the Institute of Chartered Accountants of India.

N. Lease

Operating Leases

Assets acquired as leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating lease. Lease rentals are charged off to the Profit and Loss Account as incurred.

4. Issue of Series A Participatory Cumulative Optionally Convertible Preference Shares

During the financial year 2005-06, the Company had issued 2,09,045 Series A Participatory Cumulative Optionally Convertible Preference Shares of Rs. 100 each at a total premium of Rs. 4,000 per share. The terms of redemption and conversion of preference shares are as follows

- On or after November 17, 2009 the preference shareholders have a right to require the Company to undertake a Qualified Initial Public Offer (QIPO).

- If the Company is not able to commence the process of QIPO within 90 days from the notice from the preference shareholders, then they have a right to exercise the exit transaction or buy back option to provide liquidity to their investments so that they receive the higher of

    a. Two times the Series A Adjusted Price for each share to be bought back together with all unpaid dividends which have been declared but remaining unpaid; and

    b. Fair market value per share as determined by an independent accounting firm, together with all dividends, which have been declared but remaining unpaid.

The Series A Adjusted Price as mentioned in point (a) above is required to be proportionally or appropriately adjusted for

i. any distribution of securities by way of return of capital;

ii. any bonus issued by the Company;

iii. any stock split, consolidation or other similar action in respect of the share capital of the Company; or

iv. any other reorganisation, recapitalisation, reclassification, or similar event in respect of the share capital of the Company.

For the purpose of the above terms, “QIPO” shall mean an initial public offering of shares by the Company resulting in gross proceeds to it of not less than the Indian Rupee equivalent of USD 35 Million (USD Thirty Five Million) resulting in the Company’s shares being listed on in the Relevant Market.

Notes to Account (Contd.)

During the financial year 2005 - 06, the Company bought back 9,79,450 Equity Shares in pursuance of Section 77A of the Companies Act, 1956 by utilizing the equity share capital and share premium account. Consequent to buy back, the Company has created capital redemption reserve of Rs. 97.95 Lakhs in the financial year 2005-06.

5. Securities for loans

The Company's immovable properties and moveable fixed assets located at Bhageerath and Aryabhata - Pingala in Pune are secured by first mortgage and charge in respect of term loan sanctioned by the Export Import Bank of India (EXIM) Bank. The Company has prepaid the loan and is in the process of clearing the charge.

The export packing credit is secured by hypothecation of entire current assets of the Company on pari passu basis with Bank of India and Citibank NA. The export packing credit is also secured by hypothecation of entire receivables of the Company on pari passu basis with State Bank of India. There is no balance payable as at the end of the financial year 2006-07.

6. Derivative instruments

Particulars	As at March 31, 2007 USD Million	As at March 31, 2006 USD Million
Hedged		
Hedge of expected future sales	46.82	59.80
Hedge of expected future purchase	2.25	Nil

7. Employees stock options

Based on the guidance note on share based payments issued by the Institute of Chartered Accountants of India, the Company had made a provision of Rs. 373.41 Lakhs in respect of stock appreciation rights under Employees Stock Option Plan (ESOP – I), Employees Stock Option Plan – III (ESOP – III) and an amount of Rs. 2.93 Lakhs in respect of options to purchase shares under ESOA - II scheme.

During the year, the Company converted the stock appreciation rights under the ESOP-I, ESOP – III and ESOP – V schemes into option to purchase shares. As a result of this conversion, the Company is no more liable to pay compensation for stock appreciation rights to the employees. Therefore the Company has reversed the provision in respect of stock appreciation rights amounting to Rs. 376.34 Lakhs as no longer required.

Based on the assessment of fair value of equity shares of the Company by the independent valuer, no compensation expense is required to be recognised in the books for the shares granted under the ESOP schemes.

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Notes to Account (Contd.)

The position as at March 31, 2006 was as follows

Sr. No.	Particulars of shares / options	Employee stock option purchase schemes		Employee stock option award scheme
		ESOP - I Options	ESOP - III Options	ESOA - II Shares
A.	Maximum reserved	11,20,000	11,00,000	4,30,000
B.	Granted	11,20,000	2,20,600	88,400
C.	Exercised	2,21,695	2,361	181
D.	Vested and Not Exercised	6,09,130	12,459	4,639
E.	Not Vested	98,880	1,71,110	70,330
F.	Balance available (A-C-D-E)	1,90,295	9,14,070	3,54,850
G.	Outstanding options/ options to purchases shares (E+D)	7,08,010	1,83,569	74,969

Schemes IV, V, VI and VII were floated during the financial year 2006 - 07.

The status of various schemes before conversion and after conversion is shown in the following table

Sr. No.	Particulars of shares / options	Employee stock option purchase scheme ESOP - I	Employee stock option award scheme ESOA - II	Employee stock option purchase scheme ESOP - III	Employee stock option award scheme ESOA - IV	Employee stock option purchase scheme ESOP - V	Employee stock option award scheme ESOA - VI	Employee stock option award scheme ESOA - VII
		Options	Shares	Options	Shares	Options	Shares	Shares
	Ratio of conversion of options to shares	2 : 1	-	2 : 1	-	10 : 1	-	-
1.	Maximum reserved	11,20,000	4,30,000	11,00,000	8,00,000	40,00,000	2,32,516	3,50,000
2.	Granted	11,20,000	88,400	2,20,600	5,53,800	26,13,750	1,48,125	1,02,925
3.	Exercised	2,70,988	811	7,056	-	-	-	-
4.	Vested and not exercised	6,49,382	18,899	24,408	28,310	1,40,400	-	-
5.	Not vested	3,440	44,870	1,23,376	4,44,740	21,53,600	1,48,125	1,02,925
6.	Outstanding options / option to purchase shares before conversion	6,52,822	63,769	1,47,784	4,73,050	22,94,000	1,48,125	1,02,925
7.	Outstanding option to purchase shares after conversion	3,26,411	63,769	73,892	4,73,050	2,29,400	1,48,125	1,02,925
8.	Exercised after conversion	3,07,873	15,299	19,146	-	-	-	-
9.	Balance outstanding (not vested/ not exercised as at March 31, 2007)	18,538	48,470	54,746	4,73,050	2,29,400	1,48,125	1,02,925

Notes to Account (Contd.)

8. Adoption of Accounting Standard 15 (AS – 15) (Revised 2005) employee benefits

The Company has gone for early adoption of the Accounting Standard 15 (AS-15) (Revised 2005) issued by Institute of Chartered Accountants of India, which is mandatory from accounting periods starting from December 7, 2006. Accordingly, the Company has provided for leave encashment on short term leaves on actual cost as against actuarial valuation in the previous year. Further in accordance with the transitional provision in the revised accounting standard, Rs. 107.98 Lakhs has been adjusted to the General Reserve for leave encashment.

9. Gratuity and other post-employment benefit plans

The Company has a defined benefit gratuity plan. Every employee who has completed five years or more of service gets a gratuity on departure at 15 days basic salary (last drawn basic salary) subject to a maximum of 30 days basic salary (last drawn basic salary) as per the rules of the Company for each completed year of service. The scheme is funded with an insurance company in the form of a qualifying insurance policy.

The following tables summarise the components of net benefit expense recognised in the profit and loss account and the funded status and amounts recognised in the Balance Sheet for the respective plans.

Net employee benefit expense (recognised in Employee Cost in Profit and Loss Account)

Particulars	For the year ended March 31, 2007 Rs. Lakhs
Current service cost	176.12
Interest cost on benefit obligation	25.77
Expected return on plan assets	(24.28)
Net actuarial (gain) / loss recognised in the year	32.92
Past service cost	-
Net benefit expense	210.53

Details of Provision for gratuity

Changes in the fair value of plan assets (recognised in Balance Sheet) are as follows

Particulars	As at March 31, 2007 Rs. Lakhs
Opening fair value of plan assets	315.60
Expected return	24.28
Contributions	0.43
Benefits paid	(25.10)
Actuarial gains / (losses)	(24.28)
Closing fair value of plan assets	290.93

Notes to Account (Contd.)

Changes in the present value of the defined benefit obligation (recognised in Balance Sheet) are as follows

Particulars	As at March 31, 2007 Rs. Lakhs
Opening defined benefit obligation	334.62
Interest cost	25.76
Current service cost	176.12
Benefits paid	(25.10)
Actuarial (gains) / losses on obligation	8.64
Closing defined benefit obligation	520.04

Summary statement of provision for gratuity is as follows

Particulars	As at March 31, 2007 Rs. Lakhs
Fair value of plan assets	290.93
Less Defined benefit obligation	520.04
Less Unrecognised past service cost	-
Plan asset / (liability)	(229.11)

The Company maintains gratuity fund, which is being administered by Life Insurance Corporation of India (the insurer). Investment with insurer as at March 31, 2007 was Rs. 290.93 Lakhs.

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

The principal assumptions used in determining gratuity for the Company's plans are shown below

Particulars	As at March 31, 2007
Discount rate	8 %
Expected rate of return on assets	8 %
Increase in Compensation cost	7 %

Notes to Account (Contd.)

Amounts for the current year are as follows

Particulars	As at March 31, 2007 Rs. Lakhs
Plan assets	290.93
Less defined benefit obligation	520.04
Surplus / (deficit)	(229.11)
Experience adjustments on plan liabilities	8.64
Experience adjustments on plan assets	(24.28)

10. Deferred tax

Particulars		As at March 31, 2007 Rs. Lakhs	As at March 31, 2006 Rs. Lakhs
Differences in depreciation and other differences in block of fixed assets as per tax books and financial books		33.19	61.43
Gross deferred tax liabilities	(a)	33.19	61.43
Provision for leave liability		27.52	-
Gross deferred tax assets	(b)	27.52	-
Net deferred tax liability	(a)-(b)	5.67	61.43

In view of the accumulated losses in the subsidiary companies viz. Persistent Systems, Inc. and Persistent eBusiness Solutions Private Limited, the respective companies have not recognised deferred tax assets, as there is no virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which deferred tax asset can be realised. This is consistent with the Accounting Standard 22 (AS-22) 'Accounting for Taxes on Income' issued by the Institute of Chartered Accountants of India.

Tax losses of subsidiaries

	Name of subsidiary	Business Loss Rs. Lakhs	Depreciation Rs. Lakhs	Short term capital loss Rs. Lakhs
1	Persistent Systems, Inc.	487.80	24.16	Nil
2	Persistent eBusiness Solutions Pvt. Ltd.	150.98	99.09	0.66
	Total	638.78	123.25	0.66

11. Sale of software services and products

Sale of software services and products includes foreign currency fluctuation loss of Rs. 331.02 Lakhs (Previous year gain Rs. 144.29 Lakhs)

Notes to Account (Contd.)

12. Earnings per share (EPS)

Particulars		As at March 31, 2007	As at March 31, 2006
Basic earnings per share (After exceptional & prior period Items)			
Numerator for basic EPS (Rs. in Lakhs)			
Net profit after tax and after exceptional and prior period items		5,551.78	3,906.89
Less preference dividend and dividend tax		71.51	8.75
	(a)	5,480.27	3,898.14
Numerator for diluted EPS (Rs. in Lakhs)			
Net profit after tax and after exceptional and prior period items and preference dividend and dividend tax		5,480.27	3,898.14
Add preference dividend and dividend tax		71.51	8.75
	(b)	5,551.78	3,906.89
Denominator for basic EPS			
Weighted average number of equity shares	(c)	81,53,302	87,94,502
Denominator for diluted EPS			
Weighted average number of equity shares and potential equity shares	(d)	1,02,43,752	95,61,955
Basic earning per share of face value of Rs. 10 each (After exceptional & prior period items)	(a/c)	Rs. 67.22	Rs. 44.32
Diluted earning per share of face value of Rs. 10 each (After exceptional & prior period items)	(b/d)	Rs. 54.20	Rs. 40.86
(See Note on next page)			
Basic earnings per share (Before exceptional & prior period Items)			
Numerator for Basic EPS (Rs. in Lakhs)			
Net profit after tax and before exceptional and prior period items		5,370.41	3,991.87
Less preference dividend and dividend tax		71.51	8.75
	(e)	5,298.90	3,983.12
Numerator for diluted EPS (Rs. in Lakhs)			
Net profit after tax and before exceptional and prior period items and preference dividend and dividend tax		5,298.90	3,983.12
Add preference dividend and dividend tax		71.51	8.75
	(f)	5,370.41	3,991.87
Denominator for basic EPS			
Weighted average number of equity shares	(g)	81,53,302	87,94,502
Denominator for diluted EPS			
Weighted average number of equity and potential equity shares	(h)	1,02,43,752	95,61,955
Basic Earning per share of face value of Rs. 10 each (Before exceptional & prior period items)	(e/g)	Rs. 64.99	Rs. 45.29
Diluted earning per share of face value of Rs. 10 each (Before exceptional & prior period items)	(f/h)	Rs. 52.43	Rs. 41.75
(See Note on next page)			

Notes to Account (Contd.)

Note

a. Weighted average number of equity shares for diluted EPS includes 2,09,045 Cumulative Optionally Convertible Preference Shares of Rs. 100 each. The preference shareholders have a right to convert one share of Rs. 100 each into 10 equity shares of Rs. 10 each prior to the Initial Public Offer (IPO).

13 Operating leases

The Company has taken office premises under non-cancellable operating lease agreement for a period of 33 months. The lease rental charge (grouped in rent expenses) during the year is Rs. 33.78 Lakhs (previous year 27.03 Lakhs) and maximum obligation on long–term non-cancellable operating lease payable as per the rentals stated in respective agreement are as follows

Particulars	For the year ended March 31, 2007 Rs. Lakhs	For the year ended March 31, 2006 Rs. Lakhs
Obligation on non-cancellable operating leases		
Not later than one year	32.49	33.78
Later than one year and not later than five years	Nil	32.49

14. Segment Information

(Amounts Rs. Lakhs)

Particulars	Year ended March 31,	ISV	Telecom	Enterprise & Solutions	VLSI & Embedded	Total
Revenue	2007	18,593.61	8,564.37	3,833.13	240.68	31,231.79
	2006	12,116.61	6,906.87	2,698.74	93.54	21,815.76
Identifiable expense	2007	8,657.60	4,506.61	1,996.47	237.90	15,398.58
	2006	5,706.02	2,808.54	1,714.59	67.31	10,296.46
Segmental operating income	2007	9,936.01	4,057.76	1,836.66	2.78	15,833.21
	2006	6,410.59	4,098.33	984.15	26.23	11,519.30
Unallocable expenses	2007	N. A.	N. A.	N. A.	N. A.	10,478.43
	2006	N. A.	N. A.	N. A.	N. A.	7,492.01
Operating income	2007	N. A.	N. A.	N. A.	N. A.	5,354.78
	2006	N. A.	N. A.	N. A.	N. A.	4,027.29
Other Income (net of expenses)	2007	N. A.	N. A.	N. A.	N. A.	197.53
	2006	N. A.	N. A.	N. A.	N. A.	50.61
Profit before taxes	2007	N. A.	N. A.	N. A.	N. A.	5,552.31
	2006	N. A.	N. A.	N. A.	N. A.	4,077.90
Income tax	2007	N. A.	N. A.	N. A.	N. A.	181.90
	2006	N. A.	N. A.	N. A.	N. A.	86.03
Profit after tax	2007	N. A.	N. A.	N. A.	N. A.	5,370.41
	2006	N. A.	N. A.	N. A.	N. A.	3,991.87
Exceptional & prior period items	2007	N. A.	N. A.	N. A.	N. A.	181.37
	2006	N. A.	N. A.	N. A.	N. A.	(84.98)
Profit after tax after exceptional & prior period items	2007	N. A.	N. A.	N. A.	N. A.	5,551.78
	2006	N. A.	N. A.	N. A.	N. A.	3,906.89

Geographical segments

The following table shows the distribution of the Company's consolidated sales by geographical market regardless of where the goods were produced

(Amount in Rs. Lakhs)

Particulars	Year ended March 31,	North America	Europe	Asia	Total
Revenue	2007	28,692.82	2,168.15	370.82	31,231.79
	2006	19,330.94	1,498.75	986.07	21,815.76

15. Auditors' Remuneration

Particulars	For the year ended March 31, 2007 Rs. Lakhs	For the year ended March 31, 2006 Rs. Lakhs
Audit fee	25.44	6.73
Tax audit fee	0.96	0.73
Taxation matters	0.28	-
Other matters	1.85	0.23
Out of pocket expenses	0.74	0.05
	29.27	7.74

16. Investment in subsidiaries

Particulars of additional investment made in subsidiaries are as follows

Particulars	As at March 31, 2007 Rs. Lakhs	As at March 31, 2006 Rs. Lakhs
Persistent Systems, Inc.	435.70	444.50
ControlNet (India) Pvt. Ltd.	Nil	770.12

17. Other significant accounting policies and additional information

The other Significant Accounting Policies have been set out in the respective Notes to Accounts of the Parent Company viz. Persistent Systems Pvt. Ltd. and its subsidiary companies namely Persistent eBusiness Solutions Private Limited and Persistent Systems Inc.

18. Requirement of clause 3, 4C and 4D of Part II to schedule VI of the Companies Act, 1956

The Company is engaged in the development of software and related services. The production and sale of such software cannot be expressed in any generic unit. Hence it is not possible to give quantitative details of sales and certain information as required under paragraphs 3, 4C and 4D of Part II to schedule VI of the Companies Act 1956. The information required under clause 4D is given hereunder to the extent considered applicable.

19. Dues to small scale industrial undertakings

On the basis of information available with the Company there were no small scale undertakings to whom the Company owed a sum which was outstanding for more than 30 days as at March 31, 2007 (previous year ended March 31, 2006 Rs. Nil).

20. Merger of a subsidiary

The Company has received sanction from the Bombay High Court, Mumbai and Bombay High Court, Goa bench for amalgamation of ControlNet (India) Pvt. Ltd. effective April 1, 2006. Following the "Pooling of interest method" goodwill amounting to Rs. 449.89 Lakhs appearing as asset until March 31, 2006, is adjusted against general reserve.

21. Previous year comparatives

Prior year accounts were audited by M/s Joshi Apte & Co., Chartered Accountants and have been reclassified wherever necessary to conform with current period's presentation.

Signatures to schedules 1 to 15

As per our report of even date

For S. R. BATLIBOI & CO.
Chartered Accountants

per Arvind Sethi
Partner
Membership No. 89802
Place: Pune
Date: April 30, 2007

For JOSHI APTE & CO.
Chartered Accountants

C. K. Joshi
Partner
Membership No. 30428
Place: Pune
Date: April 30, 2007

For and on behalf of the Board of Directors

Dr. Anand Deshpande
Chairman
and Managing Director

S. P. Deshpande
Director

Rohit Kamat
Associate
Vice President - Finance
Place: Pune
Date: April 30, 2007

Vivek Sadhale
Company Secretary
and Head - Legal

Consolidated Cash flow statement for the year ended March 31, 2007

			31-Mar-07 Rs. Lakhs	31-Mar-06 Rs. Lakhs
A	Cash flow from operating activities			
	Net profit before taxation, and extraordinary items		5,552.31	4,077.90
	Adjustments for			
	Interest income		(9.69)	(8.35)
	Dividend income		(72.17)	(110.69)
	Depreciation		2,699.21	1,870.78
	Interest expense		11.21	89.51
	Foreign exchange loss (net)		58.32	(7.15)
	Provision for doubtful debts		601.84	105.69
	Prior period depreciation		194.97	-
	Profit on sale of investments		(3.70)	(4.06)
	Loss on sale of fixed assets		(38.47)	3.32
	Operating profit before working capital changes		8,993.83	6,016.95
	Movements in working capital			
	(Increase)/decrease in sundry debtors		(2,021.84)	(1,100.41)
	(Increase)/decrease in other current assets		(262.49)	(59.61)
	(Increase)/decrease in loans and advances		(1.98)	(1,067.77)
	Increase/(decrease) in current liabilities		1,739.63	531.75
	Cash generated from operations		(546.68)	(1,696.04)
	Direct taxes paid (net of refunds)		(128.36)	(125.82)
	Cash flow before exceptional and prior period items		8,318.79	4,195.09
	Exceptional item		376.34	(84.98)
	Prior period depreciation		(194.97)	-
	Net cash from operating activities	(i)	8,500.16	4,110.11
B	Cash flows from investing activities			
	Purchase of fixed assets		(6,292.64)	(8,732.05)
	Proceeds from sale of fixed assets		118.91	132.33
	Purchase of investments		(10,820.00)	(17,768.49)
	Sale / maturity of investments		9,506.75	17,634.14
	Dividends received		72.17	110.69
	Net cash from investing activities	(ii)	(7,414.81)	(8,623.38)
C	Cash flows from financing activities			
	Proceeds from issuance of share capital		0.15	228.88
	Increase / (Decrease) in securities premium		2.39	9,044.96
	Interest income		9.69	8.35
	Foreign currency translation adjustment		(3.28)	6.37
	Buyback of equity shares		-	(97.95)
	Securities premium being used for buyback of shares		-	(2,363.05)
	Share issue expenses		-	(68.70)
	Balance brought forward		8.95	6,758.86

		31-Mar-07 Rs. Lakhs	31-Mar-06 Rs. Lakhs
Balance carried forward		8.95	6,758.86
Repayment of long-term borrowings		-	(2,112.36)
Dividends paid		(307.31)	(222.31)
Tax on dividend paid		(43.11)	(31.18)
Interest paid		(11.21)	(89.51)
Net cash used in financing activities	(iii)	(352.68)	4,303.50
Net increase in cash and cash equivalents	(i)+ (ii) + (iii)	732.67	(209.77)
Cash and cash equivalents at the beginning of the year		394.56	604.33
Cash and cash equivalents at the end of the year		1127.23	394.56
Components of cash and cash equivalents as at		31-Mar-07	31-Mar-06
Cash and cheques on hand		0.95	0.83
With scheduled banks - on current account		720.72	136.48
With non - scheduled banks - on current account		366.63	217.83
on deposit account		38.86	39.35
On saving account		0.07	0.07
		1,127.23	394.56

As per our report of even date

For S. R. BATLIBOI & CO.
Chartered Accountants

per Arvind Sethi
Partner
Membership No. 89802
Place: Pune
Date: April 30, 2007

For JOSHI APTE & CO.
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C. K. Joshi
Partner
Membership No. 30428
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For and on behalf of the Board of Directors

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Chairman and
Managing Director

S. P. Deshpande
Director

Rohit Kamat
Associate
Vice President - Finance
Place: Pune
Date: April 30, 2007

Vivek Sadhale
Company Secretary
and Head - Legal

Statement Pursuant to Section 212(1)(e) of the Companies Act, 1956, relating to Subsidiary Companies

Sr. No.	Particulars	Name of the Subsidiary Company Persistent Systems, Inc.	Persistent eBusiness Solutions Pvt. Ltd.
1.	Financial year of the subsidiary ended on	March 31, 2007	March 31, 2007
2.	Holding company's interest		
	(i) the number of equity shares held	3,70,00,000 Equity Shares of USD 0.10 each fully paid are held by Persistent Systems Pvt. Ltd.	9,20,000 Equity Shares of Rs. 10 each fully paid are held by Persistent Systems Pvt. Ltd.
	(ii) extent of interest in the capital of subsidiary	100%	99.97%
3.	The net aggregate amount of profits/ (Loss) of the subsidiary for the above financial year so far as the members of the holding Company are concerned and are (Amount Rs. Lakhs)		
	(i) dealt within the accounts of the holding company	-	-
	(ii) not dealt within the accounts of the holding company.	(406.91)	52.99
4.	The net aggregate amount of profits/ (loss) of the subsidiary for the previous financial years since it became subsidiary so far as the members of the holding company are concerned and are (Amount Rs. Lakhs)		
	(i) dealt within the accounts of holding company	-	(422.78)
	(ii) not dealt within the accounts of holding company	(917.44)	(133.58)
5.	Information where the financial year of a Subsidiary Company does not coincide with the financial year of the holding company		
	(i) Change in the holding company's interest in the subsidiary between the end of the financial year or of the last financial year of the subsidiary and the end of the holding company's financial year	Not Applicable	Not Applicable

(ii) Details of material changes which have occurred between the end of the financial year of the subsidiary and the end of the holding company's financial year in respect of the subsidiary's fixed Assets, its investments, the moneys lent by it and the moneys borrowed by it for any purpose other than that of meeting current liabilities	Not Applicable	Not Applicable

For and on behalf of the Board of Directors

Dr. Anand Deshpande
Chairman
and Managing Director

S. P. Deshpande
Director

Rohit Kamat
Associate
Vice President - Finance

Vivek Sadhale
Company Secretary
and Head - Legal

Pune; April 30, 2007

Statement Pursuant to Section 212 of the Companies Act, 1956, relating to Subsidiary Companies

(Amount Rs. Lakhs)

Sr. No	Particulars	Persistent Systems, Inc.	Persistent eBusiness Solutions Pvt. Ltd.
	Financial year ending on	March 31, 2007	March 31, 2007
1.	Share capital	1,659.25	92.03
2.	Reserves	5.70	224.00
3.	Liabilities	-	255.25
4.	Total liabilities	1,664.95	571.28
5.	Total assets	1,664.95	571.28
6.	Investments	-	-
7.	Turnover	4,536.64	137.48
8.	Profit/ (Loss) before tax	(406.91)	53.14
9.	Provision for taxation	-	0.06
10.	Profit/ (Loss) after tax	(406.91)	53.08
11.	Proposed dividend - Equity Shares	Nil	Nil
12.	Proposed dividend - Equity (%)	N.A.	N.A.

For and on behalf of the Board of Directors

Dr. Anand Deshpande
Chairman
and Managing Director

S. P. Deshpande
Director

Rohit Kamat
Associate
Vice President - Finance

Vivek Sadhale
Company Secretary
and Head - Legal

Pune; April 30, 2007

Notes

The stamp of
Growth...

...delivering
Value
year on year

Covering Persistent's journey :
the past annual reports.

PERSISTENT

India

Pune

Persistent Systems Private Limited
'Bhageerath',
402, Senapati Bapat Road,
Pune 411 016.
Tel : +91 (20) 2567 8900
Fax : +91 (20) 2567 8901

'Pingala - Aryabhata',
12A/12, Off Karve Road,
Erandwane,
Pune 411 004.
Tel : +91 (20) 3023 4000
Fax : +91 (20) 3023 4001

'Panini',
2A, Senapati Bapat Road,
Pune 411 016.
Tel : +91 (20) 2567 6700
Fax : +91 (20) 2567 6701

Bangalore

Unit No. 3A & B, 3rd Floor,
Shobha Alexander Plaza,
16/2, Commissariate Road,
Near Bangalore Central Mall,
Bangalore 560 001.
Tel : +91 (80) 5112 4203
Fax : +91 (80) 4153 3901

Goa

L-44, Unit-1,
Software Technology Park,
Verna Industrial Estate,
Verna, Salcette, Goa 403 722.
Tel : +91 (832) 288 3601
Fax : +91 (832) 278 3614

Nagpur

IT Tower, M.I.D.C. Infotech Park,
Parsodi, South Ambazari Road,
Nagpur 440 022.
Tel : +91 (712) 220 6900
Fax : +91 (712) 222 6901

Europe

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Scottish Software Partner Centre
Station Road,
South Queensferry,
Lothian EH30 9TG,
Scotland, UK.
Tel : +44 (131) 3317034

Japan

Persistent Systems Private Limited
3A Otsuka Building,
1-5-4 Toranomon, Minato ku,
Tokyo 1050001, Japan.
Tel : +81 (3) 35954417

Subsidiaries

USA

Persistent Systems, Inc.
440 N. Wolfe Road,
Sunnyvale, CA 94085.
Tel : +1 (408) 5247410
Fax : +1 (408) 5247418

India

Persistent eBusiness Solutions Private Limited
'Kapilvastu', First Floor,
397/9, Senapati Bapat Road,
Pune 411 016.

Singapore

Persistent Systems Pte. Ltd.
Co. Reg. No. 200706736G
78, Shenton Way,
26-02A, Lippo Centre,
Singapore 079120.

www.persistentsys.com