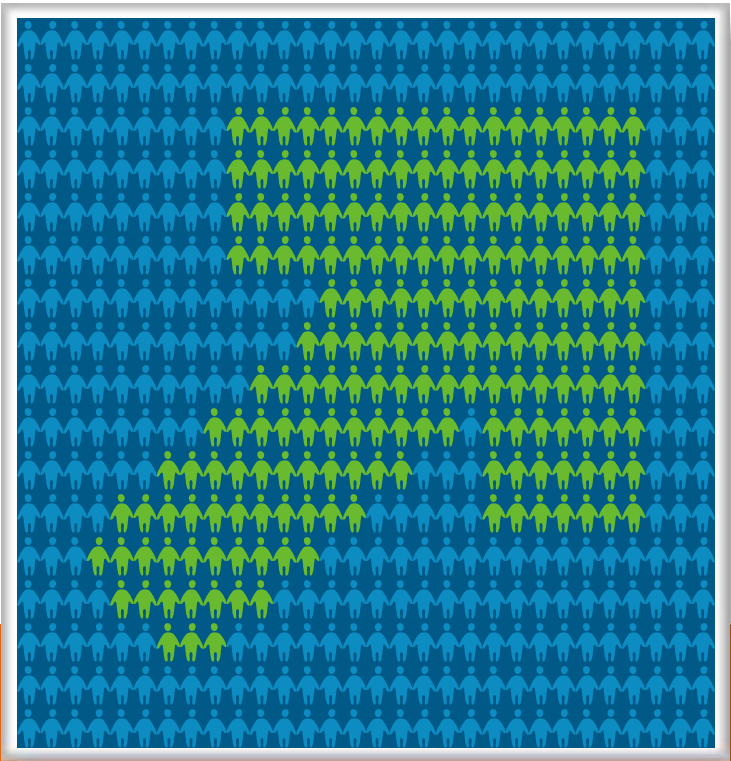




Persistent Systems Limited

Twenty First Annual Report 2010-11



Focused on Growth

Inside

02	From the Chairman's Desk
04	The Year of Success
08	Directors' Profile
15	Corporate Information
18	Historical Financials
19	Highlights
24	Report of the Directors
49	Report on Corporate Governance
74	Voluntary Secretarial Compliance Certificate
88	Management Discussion and Analysis
102	Report on Risk Management
107	Auditors' Report on Financial Statements
110	Financial Statements
140	Balance Sheet Abstract
Persistent Systems Limited (Consolidated)	
144	Auditors' Report on Consolidated Financial Statements
146	Consolidated Financial Statements
178	Section 212 Statement
185	Report on activities of Persistent Foundation

21st Annual General Meeting

Date : Monday, July 18, 2011 | Time : 9.30 a.m. (IST)

Venue : Persistent Systems Limited, Dewang Mehta Auditorium, Bhageerath, 402 Senapati Bapat Road, Pune 411 016

Focused on Growth



As we continue on our journey, our twenty-first year since inception and the first as a listed Company, we share through this Annual Report our commitment and focus on growth.

For companies, as for all living beings, growth is of paramount importance. Without growth, both companies and living beings wither.

The world is at the beginning of a new technology cycle. A technology-refresh cycle requires new investments and creates disruption, which allows new participants an opportunity to displace the incumbents.

Emerging stronger after the economic slow-down, we at Persistent are well-poised to leverage the opportunities that the technology-refresh cycle provides us.

The technology investments we made during the slow-down were on target and the outsourced software product development model that we pioneered has become relevant beyond just product companies.

For us, growth in the Company extends beyond just numbers and includes personal growth for each individual of the Company, growth for our customers and growth of our relationships and partnerships.

This Annual Report is a compilation of various facets of growth at Persistent.

As you go through the Twenty-First Annual Report, our journey continues.

From the Chairman's Desk

This was our first year as a listed company and as I share our twenty-first annual report with you, I am pleased with what we were able to achieve during this year.

We started the year against the back drop of the first signs of recovery, after nearly two years of global economic uncertainty. We were just coming out of a difficult and economically challenging period. We had seen two years of muted growth and the possibility of a double-dip recession was apparent. In April 2010 we got listed after our very successful IPO. Our shareholders gave us a resounding endorsement and we now have to live up to it.

In 2008, when the market slowed down, we decided to invest in two specific areas which would help us to achieve growth, once the market improves.

1. We decided to meet senior executives of our customers to understand how we could play a strategic role in their success, and
2. We decided to invest in specific technology areas that we believed would be growth drivers, once the market returns.

I am pleased to state that both these initiatives have started to deliver results during this year. They have become the cornerstone of our plan for the future and have provided us the focus for our growth plans for the next few years. It was clear from our conversations with senior executives that our customers expect us to take a strategic approach to our relationship with them. Growth is a theme common across all our customers, and with our wide foot-print across the eco-system, we could be the catalyst for growth for our customers.

We are at the threshold of the next technology-refresh cycle. This technology-refresh cycle is driven by advances in cloud computing and mobile technologies. The challenging economic environment also forced the acceleration of on-demand computing and pay-per-use business models.

In 2008, we decided to focus on four specific growth areas - cloud computing, analytics, collaboration and mobility. Our choices were perfect and our investments, not just in technology, but in partnerships, training and thought leadership, have started to yield results. Our traditional outsourced software product development business continues to flourish and grow. Product companies naturally lead in a technology-refresh cycle and our strong relationships with the leading product companies helps us grow.

In addition to the outsourced product development business that we pioneered, we have started working with

our customers and helping them deploy their products for *their* customers. This is a new initiative for us but it allows us to work with enterprises and end-customers and this could prove to be a significant opportunity for us in the future.

Over the last three years, we have continued to invest in acquiring and building intellectual property (IP). Our investments are aligned with the technology focus areas of the Company and help us establish thought leadership. With the rapid changes in technology that we are expecting, our investment in intellectual property will be a differentiator for us. IP-led businesses have the potential of creating significant non-linear revenue stream for us.

Growth in the Company has to be aligned with growth for our employees. New technology areas create new challenges and growth opportunities for employees in the Company. Our team is highly motivated and ready for the challenge. We are constantly learning from each other and tracking changes in the fast-paced technology market.

During the last year, we have established Persistent Labs to focus on research. As part of the Labs, we have set up research collaborations with leading universities and research laboratories. This year, we were recognized as an approved R&D centre by the Department of Scientific and Industrial Research, New Delhi. These collaborations have provided our employees the opportunity to contribute to cutting-edge research.

Life at Persistent allows much beyond desk-work. Encouraging the right balance between work and fun is the essence of a happy community, something Persistent is proud to create. Beyond work, we have strengthened our resolve to contribute to the society that we belong to. Persistent Foundation is very active and the 1% profit that we have allocated for CSR is being effectively deployed. It is heartening to see large employee participation in activities of the Foundation and we are proud of the fact that Persistent is making a contribution in being a responsible corporate citizen.

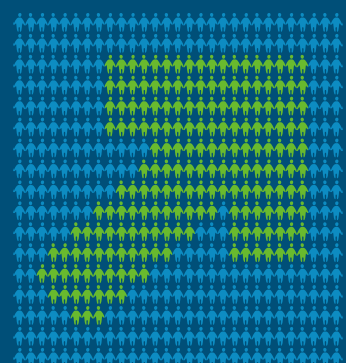
Finally, I believe we are very well-positioned to exploit the growth opportunities that exist in the fast-moving markets of today. Our focus, meticulous execution and agility will be the secret of our success, and we are determined to achieve it!

Sincerely,

Dr. Anand Deshpande
Founder, Chairman and Managing Director

Focused on Growth

Growth in the Company has to be aligned with growth for our employees. New technology areas create new challenges and growth opportunities for employees in the Company. Our team is highly motivated and ready for the challenge.



The Year of Success



Year 2010-11 was a 'year of success' for Persistent Systems. Here are some key highlights.

Celebrated Company's
20th Anniversary
on May 30, 2010 and unveiled the refreshed Corporate Logo.

Successfully listed
on NSE & BSE on April 6, 2010.
Gets included in
**BSE-500 and
BSE mid-cap Index.**

Acquires
OPD Business of
Infospectrum.

Enters into Partnership
with One Million by
One Million
to connect entrepreneurs to customers.

Recognised as
R&D Centre
by Department of Scientific
and Industrial Research.

Launches
Techstart - II
campus initiative focused
towards Computer Science
students to help them learn
cutting-edge technology.

Enters into
**Joint Venture
with Sprint Nextel.**

Crosses
**6,000
employee**
mark on March 31, 2011.

Wins Asia's
**Best Employer Brand
Award 2010-11**
in Western Region of India in 'Managing Health
at Workplace' category.

Wins
**Bloomberg UTV's
CXO Awards 2010**
in 'India's Emerging Software Company
of the Year' category.

Recognised as
**one of top five
companies for
Excellence in
Corporate
Governance** by ICSI.

Ranked
**Fifth in PwC
Global Software
100 Leaders**
2011 List.

Wins
**ICAI Award -
Silver Shield
for Excellence**
in Financial Reporting for the
year 2009-10.

Board of Directors



Sitting in the Front
(L to R) :

- Prof. Krithivasan Ramamritham
Independent Director
- Mr. S. P. Deshpande
Non-Executive Director
- Dr. Anand Deshpande
Founder, Chairman and
Managing Director
- Mr. P. B. Kulkarni
Independent Director
- Mr. Prakash Telang
Independent Director

Standing Behind
(L to R) :

- Mr. Kiran Umrootkar
Independent Director
- Mr. S. K. Bhattacharyya
Independent Director
- Dr. Dinesh Keskar
Independent Director

Directors' Profile

Dr. Anand Deshpande
Founder, Chairman and
Managing Director



Dr. Anand Deshpande is the founder, CEO, Chairman and Managing Director of Persistent Systems Limited. He earned a Bachelor's Degree (Hons.) in Technology in Computer Science and Engineering from the Indian Institute of Technology, Kharagpur in 1984. He earned a Master's Degree in Computer Science in 1986 and a Doctorate in Computer Science in 1989, both from the Indiana University, Bloomington, Indiana (USA).

He worked at Hewlett-Packard Laboratories as a member of the technical staff in Palo Alto, California from 1989 to 1990 and has been a Chairman of our Board since he founded Persistent Systems in 1990. He is a member of the Association for Computing Machinery, Institute of Electrical and Electronics Engineers, Computer Society of India, Institute of Engineers (India) and the Young Presidents' Organisation.

He is a co-opted member of the Executive Council of the Mahratta Chamber of Commerce, Industries and Agriculture for the term 2010-2012. He was on the executive committee of NASSCOM for the term 2004-2008 and reappointed on the executive committee for the term 2011-2013. He is currently the Co-chair of the ACM India Council. He was the Chairman of the Pune Zonal Council of the Confederation of Indian Industries for the year 2008-09. He has been the President of the Software Exporters' Association of Pune for 2005-06 and 2006-07 and Chairman of the Pune Chapter of the 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 Very Large Data Bases 2007 in Vienna, and was responsible for organising the said conference in Mumbai in 1996. He also served as the Industrial Program Committee Chairman for the International Conference on Data Engineering, 2005 in Tokyo and was actively involved in organising the 2003 edition of the above conference in Bengaluru, India. He was the Organising Chair of the Conference on Management of Data in 2005 at Goa, India. He was selected as the Technical Chair of the Conference on Database Systems for Advanced Applications held in January 2008, in New Delhi. He was awarded the Career Achievement Award of the School of Informatics at Indiana University, Bloomington in 2009, where he serves on the Dean's Advisory Council.

Married to Sonali, he has two children, Ria and Arul.

Mr. S. P. Deshpande
Founder and
Non-Executive Director



Mr. S. P. Deshpande is the founder and Non-Executive Director of Persistent Systems Limited. He earned a Bachelor's Degree in Electrical Engineering from Jabalpur Engineering College, India in 1958.

He joined Bharat Heavy Electricals Limited (BHEL), Bhopal, India as a graduate apprentice in 1958. He worked with BHEL for 23 years. 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. He worked with Kirloskar Pneumatic Company Limited for a period of eight and a half years.



He held important positions in materials division, quality analysis, manufacturing services and research and development. He joined as Associate Vice President in March 1982 and retired from Kirloskar Pneumatic Company Limited as Vice President in October 1990.

As an Executive Director of the Company since inception of the Company until October 2009, he headed the administrative functions of the Company, which include general administration, human resource, accounts, finance, corporate secretarial, legal and facilities functions. He retired from the day-to-day administration of the Company effective from November 1, 2009 (end of working hours of October 31, 2009) and currently is on the Board of Directors of the Company as a Non-Executive Director. He founded the Software Exporters' Association of Pune in 1998 to foster better interaction among software export units in Pune and help them resolve their problems in operations.

He has been a member of the Board of Directors since the inception of the Company, except for the period from April 1991 to October 1991.

Mr. S. K. Bhattacharyya
Independent Director



Mr. S. K. Bhattacharyya is an Independent Director on our Board. Mr. Bhattacharyya brings more than 38 years of experience in the banking and financial industry. As an astute senior level banker, his expertise spans in areas such as International and Corporate Banking across geographies, Retail Banking, Credit & Risk Management, Liability Management and Human Resource Management.

He was the Managing Director and Chief Credit and Risk Officer of State Bank of India (SBI) and Chief Executive Officer (CEO) of State Bank of Bikaner & Jaipur (SBBJ) and the SBI (International) Mauritius; participating in providing leadership to the Indian Financial System and being in the forefront of various initiatives undertaken by the SBI Group.

Mr. Bhattacharyya joined the State Bank of India as a Probationary Officer in the year 1972. During his tenure with State Bank of India, Mr. Bhattacharyya has held a number of important positions, including those of Chief General Manager of Hyderabad Circle and DGM (Vigilance) at Chennai Circle. Also, Mr. Bhattacharyya was posted abroad as Managing Director of SBI International (Mauritius) Ltd., Mauritius.

Mr. Bhattacharyya also brings extensive experience in leading the bank in complex transaction situations affecting both the top-line and bottom-line, regulatory compliance and has also headed bank committees regarding strategic alternatives, capital structure and liquidity, impact on earnings per share and shareholder disputes.

In his role as the head of the highest level credit committee of the bank, he has been involved with the evaluation of large value projects involving sanction of funds for mergers, acquisitions, green field and brown field projects.

Mr. Bhattacharyya was also the Member of the Basel-II Implementation and Risk Management Committee of Indian Banks Association, and Member of the Expert Committee on Banking & Finance of ASSOCHAM.

He has been a member of our Board since May 2011.



Dr. Dinesh Keskar
Independent Director



Dr. Dinesh Keskar is an Independent Director on our Board. Dr. Keskar brings more than two decades of expertise in the aerospace / defense industry. He was appointed as Vice President of Boeing International and President of Boeing India in March 2009.

Dr. Keskar is responsible for representing the entire enterprise and for leading Boeing-wide efforts focused on expanding the company's local presence and pursuing new growth and productivity initiatives in India. He is based in New Delhi and reports to Shep Hill, President of Boeing International. Since he joined Boeing in June 1980, Dr. Keskar has held senior positions in engineering, marketing and sales.

Dr. Keskar serves on several Boards and organizations, including the national board of directors of the American Society of Engineers of Indian Origin, Chairman of Amcham India, Chairman of the Federation of Indian Chambers of Commerce and Industry's civil aviation committee; the Advisory Board of the College of Engineering at the University of Cincinnati; U.S.-India Business Council Board Member Emeritus, which operates under sponsorship of the U.S. Chamber of Commerce; is a Fellow of the Royal Aeronautical Society; and an Associate Fellow of the American Institute of Aeronautics and Astronautics.

He served as a member of the Board of Directors of the International Society of Transport Aircraft Trading, an organization that serves as the official voice for the entire commercial transport aircraft secondary marketplace, and was a member of the Executive Committee of the Indo-American Society. Dr. Keskar remains an active member of Indian community organizations in the United States. Dr. Keskar was honored with the 'Distinguished Alumni Award' by the University of Cincinnati for meritorious achievement, recognized stature and conspicuous success in the imaginative blending of engineering education with highly productive endeavors in industry. He received the Outstanding Achievement award from the American Society of Engineers of Indian Origin.

He has been a member of our Board since October 2010.



Mr. P. B. Kulkarni
Independent Director



Mr. P. B. Kulkarni is an Independent Director on our Board. He earned Bachelor's Degrees in Commerce and Arts in 1955 and 1956, respectively, and a Post-Graduate Degree in Commerce from Pune University in 1957.

He is also a Certified Associate of the Indian Institute of Bankers and is a fellow of the Economic Development Institute of the World Bank, Washington D.C. He worked with the Reserve Bank of India from 1957 to 1993 in various positions including as an Executive Director. During this time, he served on deputation with the Asian Development Bank, Manila from 1967 to 1970 as operations officer, the Bangladesh Shilpa Bank intermittently for the period 1974 to 1977 as a consultant, the Myanmar Economic Bank, Yangon from 1978 to 1979 as chief of mission.

He was the Chairman and Managing Director of the Bank of Maharashtra from 1993 to 1995. He has also served as the Chairman of the local advisory board for the Bank of Bahrain & Kuwait, B.S.C from 1997 to 2005. He has been a Director on the boards of the Punjab and Sind Bank, Bank of India and Central Bank of India, and was an alternate

Director on the Board of Asian Clearing Union. He has over fifty years of experience in the fields of banking and finance. He has served as a Chairman of the finance sector subcommittee of the Mahratta Chamber of Commerce, Industries and Agriculture from 1996 to 2003 and is a past member of the editorial board of the journal of the National Institute of Bank Management. He is a member of the Centre for Advanced Strategic Studies, Pune and the English Speaking Union, Pune. He was a member of the Vision Committee of Pune University. He is the Chief Trustee of the Suparn Charitable Trust and a Founder Trustee of Persistent Foundation.

He has been a member of our Board since 2001.

Prof. Krithivasan
Ramamritham
Independent Director



Prof. Krithivasan Ramamritham is an Independent Director on our Board. Prof. Ramamritham earned a Bachelor's Degree in Technology in Electrical Engineering from the Indian Institute of Technology, Madras in 1976, a Master's Degree in Technology in Computer Science from the Indian Institute of Technology, Madras in 1978 and a Doctorate in Computer Science from the University of Utah in 1981.

He was the Dean of Research and Development at the Indian Institute of Technology, Bombay from 2006 to 2009 and holds the Vijay and Sita Vashee Chair in its computer science department. He was a professor at the University of Massachusetts from 1981 to 2001. He has been a visiting fellow at the Science and Engineering Research Council, UK from September 1987 to June 1988 at the University of Newcastle-upon-Tyne, UK and has also held visiting positions at the Technical University of Vienna, Austria from June 1988 to August 1988, and at the Indian Institute of Technology, Madras from September 1987 to June 1988.

He is a fellow of the Association for Computing Machinery and the Institute of Electrical and Electronics Engineers. He is a member of the board of the Very Large Databases Foundation, and is an advisory board member to TTTech Computertechnik AG, Vienna, Austria, Microsoft Research India, Bengaluru, India, the Technology Board of Tata Consultancy Services Limited.

He is a member of the Advisory Council of the Indian Institute of Information Technology, Hyderabad and Association for Computing Machinery Special Interest Group on Management of Data, New York, USA (ACM Sigmod). He received the Distinguished Alumnus Award from the Indian Institute of Technology, Madras in 2006 and has received the Doctor of Science (Honoris Causa) from the University of Sydney, Australia in May 2007.

He has been a member of our Board since 2001.

Mr. Prakash Telang
Independent Director



Mr. Prakash Telang is an Independent Director on our Board. Mr. Telang is the Managing Director - India Operations of Tata Motors. He is responsible for managing the entire operations for the Tata brand of commercial vehicles and passengers cars in India and international markets.

He also oversees the operations of the Company in international markets such as South Korea, Thailand, Spain and South Africa. Mr. Telang earned a Bachelor's degree in Mechanical