

SATYAM COMPUTER SERVICES LTD

Form F-3/A

May 06, 2005

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As filed with the Securities and Exchange Commission on May 6, 2005

Registration No. 333-122996

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**AMENDMENT NO. 3 TO  
FORM F-3  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

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**SATYAM COMPUTER SERVICES LIMITED**

*(Exact Name of Registrant as Specified in Its Charter)*

**Republic of India**  
*(State or Other Jurisdiction of  
Incorporation or Organization)*

**Not Applicable**  
*(Translation of Registrant's name into  
English)*

**Not Applicable**  
*(I.R.S. Employer  
Identification Number)*

**Satyam Technology Center  
Bahadurpally Village  
Qutbullapur Mandal, R.R. District-500855  
Hyderabad, Andhra Pradesh  
India  
Tel: 011-91-40-5523-3505**

*(Address and Telephone Number of Registrant's Principal Executive Offices)*

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**CT Corporation System  
111 Eighth Avenue  
New York, New York 10011  
Tel: (212)-894-8940**

*(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)*

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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after this Registration Statement is declared effective.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

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If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such dates as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

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The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

**PRELIMINARY PROSPECTUS DATED MAY 6, 2005, SUBJECT TO COMPLETION**

## Satyam Computer Services Limited

**13,043,480 American Depositary Shares**

**Representing 26,086,960 Equity Shares**

13,043,480 American Depositary Shares, or ADSs, representing 26,086,960 of our equity shares are being sold by the selling shareholders. Each ADS offered represents two equity shares of Satyam Computer Services Limited. We will not receive any of the proceeds from this offering.

Our outstanding ADSs are traded on the New York Stock Exchange under the symbol SAY. The last reported sale price of our ADSs on the New York Stock Exchange on May 2, 2005 was US\$21.70 per ADS. Our equity shares are traded in India on The Stock Exchange, Mumbai and The National Stock Exchange of India Limited. The closing price for our equity shares on The Stock Exchange, Mumbai on May 2, 2005 was US\$9.41 assuming an exchange rate of Rs. 43.46 per dollar.

**Investing in our ADSs involves certain risks, see Risk Factors beginning on page 9.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

	Per ADS	Total
Initial price to public	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds to selling shareholders, before expenses	\$	\$

The selling shareholders have granted the underwriters an option exercisable within seven days from the date of this prospectus to purchase up to an aggregate of an additional 1,956,520 ADSs, representing up to an additional 3,913,040 equity shares, from them at the initial price to the public, less the underwriting discounts and commissions.

The underwriters are offering the ADSs subject to various conditions. The underwriters expect to deliver the ADSs in book-entry form only through the facilities of The Depository Trust Company against payment in New York, New York on \_\_\_\_\_, 2005.

**Merrill Lynch  
International**

**JPMorgan**

**Citigroup**

**Bear, Stearns & Co. Inc.**

**Lehman Brothers**

**Gilford Securities Incorporated**

**Janney Montgomery Scott LLC**

Prospectus dated \_\_\_\_\_, 2005

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No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell or solicitation of an offer to buy only the ADSs offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information in this prospectus is current only as of its date.

**The offered ADSs may not be offered or sold, directly or indirectly, in India or to any resident of India, except as permitted by applicable Indian laws and regulations.**

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**CURRENCY OF PRESENTATION AND CERTAIN DEFINED TERMS**

In this prospectus, references to U.S. or United States are to the United States of America, its territories and its possessions. References to India are to the Republic of India. References to \$ , US\$ or dollars or U.S. dollars are to the legal currency of the United States and reference to Rs. or rupees or Indian rupees are to the legal currency of India. Our financial statements are presented in Indian rupees and translated into U.S. dollars and are prepared in accordance with United States Generally Accepted Accounting Principles, or U.S. GAAP. References to Indian GAAP are to Indian Generally Accepted Accounting Principles. References to a particular fiscal year are to our fiscal year ended March 31 of such year.

Unless otherwise stated in this prospectus or unless the context otherwise requires, references in this prospectus to we, our, us, Satyam and our company are to Satyam Computer Services Limited and its consolidated subsidiaries and other consolidated entities.

Except as otherwise stated in this document or for numbers derived from the financial statements, all translations from Indian rupees to U.S. dollars contained in this document have been based on the noon buying rate of Rs.43.62 per \$1.00 in the City of New York on March 31, 2005 for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the Indian rupee amounts have been, could have been or could be converted into U.S. dollars at such a rate or any other rate. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

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

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**SUMMARY**

*You should read the following summary together with the risk factors and the more detailed information about us and our financial results included elsewhere in this prospectus or incorporated by reference. See Incorporation of Documents by Reference.*

We are a global IT solutions provider, offering a comprehensive range of IT services to our customers, including application development and maintenance services, consulting and enterprise business solutions, extended engineering solutions, infrastructure management services and business process outsourcing, or BPO. We began providing IT services to businesses in 1988 and are currently the fourth largest Indian IT software and services company, based on the amount of export revenues generated during the fiscal year ended March 31, 2004. Our revenues grew to \$793.6 million in fiscal 2005 from \$414.5 million in fiscal 2002, representing a compound annual growth rate of 24.2%. For the same period, our net income grew from \$42.4 million to \$153.8 million. The number of our employees, whom we refer to as associates, grew from 9,532 as of March 31, 2002 to 20,690 as of March 31, 2005.

We provide services to customers from various industries including manufacturing, banking and financial services, insurance, healthcare, retail and transportation. We also provide services to customers in telecommunications, infrastructure, media and entertainment and semiconductors, which we refer to as TIMES. We leverage our global delivery model to deliver high quality, cost effective IT services to our customers located around the world.

In May 2001, we completed an offering of 16,675,000 ADSs (representing 33,350,000 equity shares) in the United States and elsewhere outside of India. On May 15, 2001, our ADSs were listed on the New York Stock Exchange, or the NYSE.

In June 2002, we established our majority-owned subsidiary, Nipuna Services Limited, or Nipuna, to provide BPO services. Nipuna offers product support, technical help desk, back-office transaction processing and customer care services in the areas of finance and accounting, human resources, claims administration and document management. Nipuna has recently added services such as research, analytics and animation to its portfolio of service offerings.

Over the past decade, there has been a significant increase in the use of professional IT firms to provide computing services worldwide. Global IT services spending is estimated to total \$400.0 billion in 2004 and is projected to grow at a compound annual growth rate of 6.4% to reach \$512.8 billion by 2008, according to International Data Corporation.

We believe the following aspects of our business help our customers address the challenges posed by today's evolving business and IT environments:

***Comprehensive range of services combined with specialized industry expertise.*** Our comprehensive range of end-to-end technology-based services encompasses application development and maintenance services, consulting and enterprise business solutions, extended engineering solutions, infrastructure management services, and BPO services. This range of services enables us to broaden our dialogue with potential customers, deepen our relationships with existing customers and diversify our revenue base. Our services are built on a foundation of a rich understanding of the industries in which our customers operate and the underlying technologies that drive those industries. Our industry-focused business units such as manufacturing, banking and financial services, insurance, TIMES, healthcare, retail and transportation allow us to understand the strategic issues facing our customers in each industry.

***Flexible, highly evolved delivery model.*** We provide our services through 20 development centers located in Australia, Canada, China, Hungary, India, Japan, Malaysia, Singapore, United Arab Emirates, United States and United Kingdom, as well as onsite teams operating at our customers' premises. Over the past decade, we have made substantial investments in our infrastructure, processes and systems allowing us to evolve our global delivery model to effectively integrate offshore, offsite, nearshore and onsite services and perform a greater volume of work at our offshore

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development centers. This delivery model seeks to provide customers with seamless solutions in reduced timeframes, enabling them to achieve operating efficiencies and realize significant cost savings.

***Established leadership position in consulting and enterprise business solutions.*** Our consulting and enterprise business solutions help customers optimize their operating costs, enhance the efficiency of their business processes and improve their overall competitiveness. These solutions span the development, implementation, integration and maintenance of various enterprise-wide applications. Our solutions are enhanced by our strategic alliances with more than 60 leading technology providers. Our highly evolved delivery model, coupled with our industry expertise and technology competencies, allows us to provide customers with a value proposition in consulting and enterprise solutions.

***Strong relationships with blue chip customers.*** We have long-standing relationships with large multinational corporations built on our successful execution of prior engagements. We believe that we have significantly more Fortune Global 500 and Fortune U.S. 500 corporations as customers, relative to our scale of revenue, as compared to other leading Indian IT services companies. Our track record of delivering comprehensive solutions based on demonstrated industry and technology expertise has helped in forging strong relationships with our major customers and gaining increased business from them. We have a history of high customer retention and derive a significant proportion of our revenues from repeat business.

***Track record of high quality execution.*** We are committed to achieving operational excellence in our processes and infrastructure. Our quality assurance programs form an integral part of our project management methodology and seek to ensure that we consistently deliver high quality services to our customers. We constantly benchmark our processes, people and infrastructure against globally recognized standards.

***Culture of innovation.*** We have a history of innovation that is facilitated by our entrepreneurial culture and our management's willingness to make strategic investments in growth markets. Our technology laboratories continue to develop and bring to market new solutions based on new technologies. We have also been innovative in our internal organization and have introduced industry leading practices in hiring, resource planning and knowledge sharing.

Our goal is to be a leading global provider of comprehensive IT solutions and services. To achieve this, we have developed a growth strategy based on the following:

leveraging our long-standing customer relationships;

cross-selling our comprehensive range of services;

continuing to focus on enterprise-wide business solutions by providing high quality value-added services;

expanding our presence in existing and new markets;

continuing to enhance our industry expertise;

attracting and retaining quality technical associates; and

selectively pursuing attractive technology alliances and acquisitions.

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We were incorporated under the laws of the Republic of India in 1987. Our principal executive offices are located at Bahadurpally Village, Qutbullapur Mandal, R.R. District, Hyderabad 500 855, India, and our telephone number at that address is (91) 40-5523-3505. Our website address is [www.satyam.com](http://www.satyam.com) and information contained on our website does not constitute a part of this prospectus.



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**The Offering**

ADSs offered by the selling shareholders	13,043,480 ADSs representing 26,086,960 equity shares, constituting approximately 8.2% of our issued and outstanding equity shares before and after this offering, excluding 1,350,360 shares held by Satyam Associate Trust.
Over-allotment option granted by the selling shareholders	The selling shareholders have granted the underwriters an option exercisable within seven days from the date of this prospectus to purchase up to an aggregate of an additional 1,956,520 ADSs, representing an additional 3,913,040 equity shares, from them at the initial price to the public, less the underwriting discounts and commissions.
Selling shareholders	See Principal and Selling Shareholders for more information on the selling shareholders in this offering.
The ADSs	Each offered ADS represents two equity shares, par value Rs.2 per share. The offered ADSs are evidenced by American Depositary Receipts, or ADRs. See Description of American Depositary Shares and Description of Equity Shares.
ADSs to be outstanding after this offering	30,054,557 (assumes no exercise of the underwriters' over-allotment option to purchase additional ADSs).
Equity shares to be outstanding before and after this offering	318,048,850 equity shares, including shares underlying the ADSs and excluding 1,350,360 shares held by Satyam Associate Trust.
Offering price	The offered ADSs are being offered at a price of \$ _____ per ADS.
Depository	Citibank N.A., New York.
Use of proceeds	We will not receive any of the proceeds from the sale of these ADSs.
Listing	We are listing the offered ADSs on the New York Stock Exchange, or NYSE. Our outstanding equity shares are traded in India on The Stock Exchange, Mumbai and The National Stock Exchange of India Limited.
NYSE symbol for ADSs	SAY.

**The Indian Invitation to Participate**

We have prepared and sent to all holders of our equity shares an invitation to participate in this offering by submitting their equity shares for sale in this offering pursuant to Indian regulations. Our invitation to participate has been mailed to holders of equity shares. Holders of ADSs are not eligible to participate in the transactions contemplated by the invitation to participate. We are not purchasing any equity shares in this transaction. Equity shares will be purchased solely by the underwriters from the selling shareholders for sale in this offering. Under the terms of the invitation to participate, the related

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letter of transmittal, escrow agreement and other documents, the shares to be sold by the selling shareholders will be held in escrow by Citibank, N.A., Mumbai, as escrow agent, until such time as they are required to be deposited with Citibank N.A., Mumbai, as custodian on behalf of Citibank N.A., New York, the Depositary, against the issuance of ADSs representing such shares and to be delivered to the underwriters under the terms of the underwriting agreement entered into by us, the underwriters and the selling shareholders. The successful completion of these transactions by us, the selling shareholders and the escrow agent is a condition precedent to the underwriters' obligation to purchase any ADSs in this offering.

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The following summary consolidated historical financial data should be read in conjunction with, and are qualified by reference to, our financial statements and the related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus and our other reports filed with the SEC which have been incorporated herein by reference. The statement of operations data for the five years ended March 31, 2005 and the balance sheet data as of March 31, 2005, 2004, 2003, 2002 and 2001 are derived from our consolidated audited financial statements including the notes, which have been prepared and presented in accordance with U.S. GAAP. The statement of operations data for the three years ended March 31, 2003 and the balance sheet data as of March 31, 2003, 2002 and 2001 is as restated to give effect to the restatement of shareholders' equity and net income to reflect the impact on deferred tax liabilities and income taxes of our equity in the losses of Sify. As of December 9, 2002, we ceased to hold a controlling interest in Sify Limited, or Sify, and subsequently changed the method of accounting for our interest in Sify from the consolidated accounting method to the equity method. Consequently, financial data as of March 31, 2005, 2004 and 2003 and for the years ended March 31, 2005 and 2004 reflect our interest in Sify accounted for under the equity method and are not comparable to the financial data as of March 31, 2002 and 2001 and for the years ended March 31, 2003, 2002 and 2001 which reflect our interest in Sify accounted for on a consolidated basis.

	Year Ended March 31,				
	2005	2004	2003	2002	2001
	(dollars in thousands, except per share and per ADS data, or as stated otherwise)				
<b>Statement of Operations Data</b>					
Revenues:					
IT services	\$ 786,684	\$ 565,028	\$ 458,336	\$ 413,906	\$ 310,307
BPO	6,913	1,293			
Software products		51	871	585	
Total revenues	793,597	566,372	459,207	414,491	310,307
Cost of revenues <sup>(1)</sup>	(506,776)	(343,596)	(275,219)	(240,304)	(208,121)
Gross profit	286,821	222,776	183,988	174,187	102,186
Operating expenses:					
Selling, general and administrative expenses <sup>(2)</sup>	(124,325)	(101,627)	(116,893)	(139,588)	(124,100)
Amortization of goodwill				(16,997)	(24,728)
Impairment of goodwill				(81,115)	
Impairment of other non-marketable investments			(3,299)		
Reversal of put option charge			19,843		
Total operating expenses	(124,325)	(101,627)	(100,349)	(237,700)	(148,828)

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	Year Ended March 31,				
	2005	2004	2003	2002	2001
	(dollars in thousands, except per share and per ADS data, or as stated otherwise)				
Operating income/(loss)	162,496	121,149	83,639	(63,513)	(46,642)
Interest income	22,339	20,309	7,158	3,806	5,732
Interest expense	(458)	(471)	(800)	(2,856)	(9,632)
Gain on sale of shares in associated companies/ other investments	66	2,652	830	45,594	
Gain/(loss) on foreign exchange transactions	(4,611)	(8,874)	(4,757)	10,813	5,816
Other income/(expenses), net	326	2,270	(1,746)	1,277	646
Income/(loss) before income taxes, minority interest and equity in earnings (loss) of associated companies	180,158	137,035	84,324	(4,879)	(44,080)
Income taxes	(25,304)	(22,544)	(9,769)	(769)	2,346
Minority interest			11,082	73,406	25,772
Income before equity in earnings/(losses) of associated companies	154,854	114,491	85,637	67,758	(15,962)
Equity in earnings (losses) of associated companies, net of taxes	(1,094)	(2,631)	(3,339)	(25,401)	(5,467)
Net income (loss)	\$ 153,760	\$ 111,860	\$ 82,298	\$ 42,357	\$ (21,429)
Earnings (loss) per share:					
Basic	\$ 0.49	\$ 0.36	\$ 0.26	\$ 0.14	\$ (0.08)
Diluted	0.48	0.35	0.26	0.14	(0.08)
Earnings (loss) per ADS:					
Basic	0.98	0.71	0.53	0.28	(0.16)
Diluted	0.96	0.71	0.52	0.28	(0.16)
Weighted average equity shares used in computing earnings per shares (in thousands):					
Basic	316,184	313,155	311,797	305,751	269,943
Diluted	323,569	317,057	318,658	307,113	269,943
Weighted average equity shares used in computing earnings per ADS:					
Basic	158,092	156,578	155,899	152,875	134,972
Diluted	161,785	158,529	159,329	153,556	134,972
Cash dividend per equity share	0.12	0.08	0.03	0.02	0.02
Cash dividend per ADS	0.24	0.17	0.06	0.02	

(1) Inclusive of stock-based compensation expense of \$775 thousand, \$853 thousand, \$1,591 thousand, \$7,212 thousand and \$31,336 thousand in fiscal 2005, 2004, 2003, 2002 and 2001 respectively.

(2) Inclusive of stock-based compensation expense of \$1,193 thousand, \$772 thousand, \$2,930 thousand, \$3,582 thousand, \$14,782 thousand in fiscal 2005, 2004, 2003, 2002 and 2001 respectively.

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	As at March 31,				
	2005	2004	2003	2002	2001
	(dollars in thousands)				
<b>Balance Sheet Data</b>					
Cash and cash equivalents	\$ 129,815	\$ 86,730	\$ 62,202	\$ 243,454	\$ 66,068
Investments in bank deposits	411,623	332,133	259,359		
Total assets	884,126	713,768	561,694	515,502	481,099
Total long-term debt, excluding current portion	1,137	1,826	1,738	2,712	9,625
Preferred stock of subsidiary	20,000	10,000			
Total shareholders' equity	767,924	633,889	487,716	394,364	202,752
Capital stock <sup>(1)</sup>	449,495	431,654	421,567	419,076	257,597

(1) Includes common stock and additional paid-in capital but excludes shares held by Satyam Associate Trust.

**SFAS 142 pro forma disclosure**

Effective April 1, 2002, Satyam adopted Statement of Financial Accounting Standards No. 142 ( SFAS 142 ), *Goodwill and Other Intangible Assets*. Due to the adoption of SFAS 142, Satyam ceased amortizing goodwill. The effect of this accounting change is reflected prospectively. The following pro forma disclosure presents the impact of SFAS 142 on net income/(loss), net income/(loss) per share, and the related tax effect had the standard been in effect for the years ended March 31, 2002 and 2001:

	Year Ended March 31	
	2002	2001
	(dollars in thousands except per share amounts)	
Reported net income/(loss)	\$ 42,357	\$ (21,429)
Add:		
Goodwill amortization	16,997	24,728
Amortization of excess of cost of investment over equity in net assets of associated companies	3,639	4,402
<b>Adjusted net income</b>	<b>\$ 62,993</b>	<b>\$ 7,701</b>
Basic and diluted earnings per share:		
As reported	\$ 0.14	\$ (0.08)
As adjusted	0.21	0.03

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**Recent Developments**

On April 21 2005, we announced that we intend to acquire Citisoft plc, or Citisoft, a specialist business and systems consulting firm that has focused on the investment management industry since 1986. Citisoft is a UK-based firm, with operating presences in London, Boston and New York. We intend to initially acquire 75% of the shares of Citisoft, and the remaining 25% in two equal tranches over the next three years.

We expect that this strategic acquisition will complement our existing IT service offerings within the banking, financial services and insurance industries. Citisoft is primarily involved in business and IT consulting at various stages in the investment management process, such as program or project management and business analysis or development. Services provided by Citisoft include systems and operations review and strategy, package evaluation and selection, implementation management, outsourcing of one or more business functions, feasibility studies and cost benefit analyses, in-house bespoke analysis and design, and systems integration.

We have agreed to pay up to \$38.7 million for the acquisition, including a performance-based payment of up to \$15.5 million over three years, conditional upon specified revenue and profit targets being met.

We expect to complete the acquisition in May 2005. However, completion of the acquisition is subject to satisfaction of various conditions precedent, including regulatory approvals, and as a result we cannot assure you that the transaction will be completed.

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**RISK FACTORS**

*Any investment in our ADSs involves a high degree of risk. You should carefully consider the following information about these risks, together with the other information contained in this prospectus, before you decide to buy our ADSs. If any of the following risks actually occur, our company could be seriously harmed. In any such case, the market price of our ADSs could decline, and you may lose all or part of the money you paid to buy our ADSs.*

**Risks Related to Our Overall Operations**

***Our revenues and profitability are difficult to predict and can vary significantly from period to period which could cause our share price to decline significantly.***

Our revenues and profitability have grown rapidly in recent years and may fluctuate significantly in the future from period to period. Therefore, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as an indication of our future performance. The quarterly fluctuation of revenues is primarily because we derive our revenues from fees for services generated on a project-by-project basis. Our projects vary in size, scope and duration. For example, we have some projects that employ several people for only a few weeks and we have other projects that employ over 100 people for six months or more. A customer that accounts for a significant portion of our revenue in a particular period may not account for a similar portion of our revenue in future periods. In addition, customers may cancel contracts or defer projects at any time for a number of different reasons. Furthermore, increasing wage pressures, employee attrition, pressure on billing rates, the time and expense needed to train and productively utilize new employees and changes in the proportion of services rendered offshore can affect our profitability in any period. There are also a number of factors, other than our performance, that are not within our control that could cause fluctuations in our operating results from period to period. These include (i) the duration of tax holidays or tax exemptions and the availability of other Government of India incentives; (ii) currency fluctuations, particularly when the rupee appreciates in value against the U.S. dollar, since the majority of our revenues are in U.S. dollars and a significant part of our costs are in rupees; and (iii) other general economic and political factors. As a result, our revenues and our operating results in a particular period are difficult to predict, may decline in comparison to corresponding prior periods regardless of the strength of our business. If this were to occur, the share price of our equity shares and our ADSs would likely decline significantly.

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

We have experienced significant growth in recent periods. In fiscal 2005 our total revenues increased by 40.1% as compared to fiscal 2004, and in fiscal 2004 our total revenues increased by 23.3% as compared to fiscal 2003. As of March 31, 2005, we had 20,690 employees (including employees of Nipuna), whom we refer to as associates, worldwide as compared to 14,456 associates as of March 31, 2004. In addition, we are continuing our geographical expansion. We have five offshore facilities in India and 15 overseas facilities located in Australia, Canada, China, Hungary, Japan, Malaysia, Singapore, United Arab Emirates, United Kingdom and United States. In addition, we have 17 sales and marketing offices located in Canada, Germany, Italy, the Netherlands, Spain, Sweden, United Kingdom and United States and 14 sales and marketing offices located in the rest of the world.

We expect our growth to place significant demands on our management and other resources and to require us to continue to develop and improve our operational, financial and other internal controls, both in India and elsewhere. In particular, continued growth increases the challenges involved in:

recruiting and retaining sufficiently skilled technical, marketing and management personnel;

providing adequate training and supervision to maintain our high quality standards;

preserving our culture and values and our entrepreneurial environment; and

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developing and improving our internal administrative infrastructure, particularly our financial, operational, communications and other internal systems.

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

***The current economic environment, pricing pressure and rising wages in India have negatively impacted our revenues and operating results.***

Spending on IT in most parts of the world has recently increased after a two-year decreasing trend due to a challenging global economic environment. We do experience pricing pressures from our customers, which can negatively impact our operating results. If economic growth slows, our utilization and billing rates for our associates could be adversely affected which may result in lower gross and operating profits.

Wage costs in India, including in the IT services industry, have historically been significantly lower than wage costs in the United States and Europe for comparably skilled professionals, which has been one of our competitive advantages. However, large companies are establishing offshore operations in India, resulting in wage pressures for Indian companies, which may prevent us from sustaining this competitive advantage and may negatively affect our profit margins. Wages in India are increasing at a faster rate than in the United States, which could result in increased cost of IT professionals, particularly project managers and other mid-level professionals. In addition, India has shown the highest average wage increases in the Asia-Pacific region in 2004, particularly in the technology sector. We may need to increase the levels of our employee compensation more rapidly than in the past to remain competitive with other employers, or seek to recruit in other low labor cost jurisdictions to keep our wage costs low. Compensation increases may result in a material adverse effect on our financial performance.

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

The IT services market is characterized by rapid technological change, evolving industry standards, changing customer preferences and new product and service introductions. Our future success will depend on our ability to anticipate these advances and develop new product and service offerings to meet customer needs and complement our offerings of end-to-end IT services. For example, we have invested significant resources in research and development efforts, such as in our enterprise business solution laboratory and grid computing laboratory, in order to continually develop capabilities to provide new services to our customers. Should we fail to develop such capabilities on a timely basis to keep pace with the rapidly changing IT market or if the services or technologies that we develop are not successful in the marketplace, our business and profitability will suffer and it is unlikely that we would be able to recover our research and development costs. Moreover, products, services or technologies that are developed by our competitors may render our services non-competitive or obsolete.

***Our revenues are highly dependent on customers primarily located in the United States and customers concentrated in certain industries, and economic slowdowns or factors that affect the economic health of the United States and our customers industries may affect our business.***

In fiscal 2005, 2004 and 2003, approximately 68.3%, 73.3% and 73.2%, respectively, of our total revenues were derived from the United States. For the same periods, we earned 29.2%, 32.0% and 33.0% of our IT revenues from the manufacturing industry and 17.8%, 18.3% and 21.3%, of our IT revenues from the banking and finance industry, respectively. If the current economic recovery in the United States does not continue, our customers may reduce or postpone their technology spending significantly, which may in turn lower the demand for our services and negatively affect our revenues and profitability. Further, any significant decrease in the growth of the manufacturing or banking and finance industries, or significant consolidation in these industries, or other industry segments on which we focus, may reduce the demand for our services and negatively affect our revenues and profitability.



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Recently, some countries and organizations have expressed concerns about a perceived association between offshore outsourcing and the loss of jobs. In the United States, in particular, there has been increasing political and media attention on these issues following the growth of offshore outsourcing. Any changes in existing laws or the enactment of new legislation restricting offshore outsourcing may adversely impact our ability to do business in the United States, which is the largest market for our services. In the last two years, some U.S. states have proposed legislation restricting government agencies from outsourcing their back office processes and IT solutions work to companies outside the United States or have enacted laws that limit or discourage such outsourcing. Such laws restrict our ability to do business with U.S. government-related entities. It is also possible that U.S. private sector companies working with these governmental entities may be restricted from outsourcing projects related to government contracts or may face disincentives if they outsource certain projects. Any of these events could adversely affect our revenues and profitability.

***We face intense competition in the IT services and BPO markets which could prevent us from attracting and retaining customers and could reduce our revenues.***

The markets for IT services and BPO are rapidly evolving and highly competitive, and we expect that competition will continue to intensify. We face competition in India and elsewhere from a number of companies, including:

consulting firms such as Accenture, BearingPoint, Capgemini and Deloitte Consulting;

divisions of large multinational technology firms such as Hewlett-Packard and IBM;

IT outsourcing firms such as Computer Sciences Corporation, Electronic Data Systems and IBM Global Services; and

offshore IT services firms such as Infosys Technologies Limited, Tata Consultancy Services Limited and Wipro Limited.

We also compete with software firms such as Oracle and SAP, service groups of computer equipment companies, in-house IT departments of large corporations, programming companies and temporary staffing firms. Nipuna, through which we provide BPO services, faces competition from firms like Progeon Limited and Wipro BPO, formerly known as Wipro Spectramind.

In addition, we have agreed not to compete with Nipuna as part of the investor rights and securities subscription agreements which we have entered into with Nipuna's two other investors. Pursuant to these agreements, we and our affiliates are restricted from engaging in activities that are or could directly or indirectly be competitive with the business of Nipuna. Such activities include among others providing BPO, soliciting existing or prospective customers of Nipuna to obtain the services offered by Nipuna from other service providers and investing in companies engaged in the same or similar business as Nipuna. These non-compete restrictions apply until the investors redeem all of their preference shares in Nipuna or their equity interest in Nipuna falls below 5% after an initial public offering. As a consequence, we currently offer and plan to continue to offer BPO services only through Nipuna. We cannot assure you that these non-compete restrictions will not adversely affect our ability to attract and retain customers in this competitive market or that they will not adversely affect our revenues. See Business BPO Services and Nipuna.

A significant part of our competitive advantage has historically been the cost advantage relative to service providers in the United States and Europe. Since wage costs in this industry in India are presently increasing at a faster rate than those in the United States and Europe, our ability to compete effectively will become increasingly dependent on our reputation, the quality of our services and our expertise in specific markets. Many of our competitors have significantly greater financial, technical and marketing resources and generate greater revenues than us, and we cannot assure you that we will be able to compete successfully with such competitors and will not lose existing customers to such competitors. We believe that our ability to compete also depends in part on a number of factors outside our control, including the ability of our competitors to attract, train, motivate and retain highly skilled technical associates, the price

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at which our competitors offer comparable services and the extent of our competitors' responsiveness to customer needs.

***Our revenues are highly dependent upon a small number of customers.***

We derive a significant portion of our revenues from a limited number of corporate customers. In fiscal 2005, 2004 and 2003, our largest customer together with its affiliates, accounted for 10.8%, 14.3% and 16.1%, respectively, of our total revenues. In fiscal 2005, 2004 and 2003, our second largest customer accounted for 7.4%, 9.9% and 8.7%, respectively, of our total revenues. In fiscal 2005, 2004 and 2003, our five largest customers accounted for 29.2%, 36.4% and 38.4%, respectively, of our total revenues. The volume of work performed for specific customers is likely to vary from year to year, particularly since we are usually not the exclusive outside service provider for our customers.

There are a number of factors other than our performance that could cause the loss of a customer and that may not be predictable. In certain cases, we have significantly reduced the services provided to a customer when the customer either changed its outsourcing strategy by moving more work in-house or replaced its existing software with packaged software supported by the licensor. Some customers could also potentially develop competing offshore IT centers in India and as a result, work that may otherwise be outsourced to us may instead be performed in-house. Reduced technology spending in response to a challenging economic or competitive environment may also result in lower revenues or loss of a customer. If we lose one of our major customers or one of our major customers significantly reduces its volume of business with us, our revenues and profitability could be reduced.

***Our fixed-price contracts expose us to additional risks, many of which are beyond our control, which may reduce the profitability of these contracts.***

As a core element of our business strategy, we offer a portion of our services on a fixed-price basis, along with a time-and-materials basis. In fiscal 2005, 2004 and 2003, we derived 34.2%, 31.7% and 27.5%, respectively, of our IT services revenues from fixed-price contracts. Although we use our software engineering processes and past project experience to reduce the risks associated with estimating, planning and performing fixed-price projects, we bear the risk of cost overruns, completion delays and wage inflation in connection with these projects. We may also have to pay damages to our customers for completion delays. Many of these project risks may be beyond our control. Our failure to accurately estimate the resources and time required for a project, future wage inflation and currency exchange rates, or our failure to complete our contractual obligations within the time frame committed could reduce the profitability of our fixed-price contracts.

***Our customers may terminate projects before completion or choose not to renew contracts, many of which are terminable at will, which could adversely affect our profitability.***

Our contracts with customers do not commit our customers to provide us with a specific volume of business and can typically be terminated by our customers with or without cause, with little or no advance notice and without penalty. Any failure to meet a customer's expectations could result in a cancellation or non-renewal of a contract. Additionally, our contracts with customers are typically limited to a specific project and not any future work. A number of our multi-year contracts are due for renewal in the coming fiscal year, and we cannot assure you that our customers will choose to renew such contracts for a similar or longer duration, on terms as favorable as their current terms or at all. Other than our performance, there are also a number of factors not within our control that could cause the loss of a customer. Our customers may demand price reductions, change their outsourcing strategy by moving more work in-house or to one of our competitors, or replace their existing software with packaged software supported by licensors, any of which could reduce our revenue and profitability.

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***A number of our customer contracts are conditioned upon our performance, which, if unsatisfactory, could result in less revenues than previously anticipated.***

We are considering the viability of introducing performance-based or variable-pricing contracts. Should we increase our use of value-based pricing terms, it will become more difficult for us to predict the revenues we will receive from our customer contracts, as such contracts would likely contain a higher number of contingent terms for payment of our fees by our customers. Our failure to meet contract goals or a customer's expectations in such performance-based contracts may result in lower revenues, and a less profitable or an unprofitable engagement.

***Some of our multi-year customer contracts contain certain provisions which, if triggered, could result in lower future revenues and profitability under the contract.***

Some of our multi-year customer contracts contain benchmarking provisions, most favored customer clause and/or provisions restricting personnel from working on projects of our customers' competitors. Benchmarking provisions allow a customer in certain circumstances to request a benchmark study prepared by an agreed upon third-party comparing our pricing, performance and efficiency gains for delivered contract services with that of an agreed list of other service providers for comparable services. Based on the results of the benchmarking study and depending on the reasons for any unfavorable variance, we may be required to make improvements in the services we provide or to reduce the pricing for services to be performed under the balance term of the contract, which may result in lower future revenues and profitability under the contract.

Most favored customer clauses generally provide that if, during the term of the contract, we were to offer similar services to any other customers on terms and conditions more favorable than those provided in such contract, we would be obligated to offer equally favorable terms and conditions to the customer. As pricing pressures increase, some customers may demand price reductions or other pricing incentives. Any pricing reduction agreed to in a subsequent contract may require us to offer equally favorable terms to other customers with whom we have a most favored contract under the remaining term of contracts with those customers which may result in lower future revenues and profitability.

A number of our customer contracts provide that, during the term of the contract and for a certain period thereafter ranging from six to twelve months, we may not provide similar services to any of their competitors using the same personnel. This restriction may hamper our ability to compete for and provide services to customers in the same industry, which may result in lower future revenues and profitability.

***We may be unable to attract skilled professionals in the competitive labor market.***

Our ability to execute projects and to obtain new customers depends largely on our ability to attract, train, motivate and retain highly skilled technical associates, particularly project managers, project leaders and other senior technical personnel. We believe that there is significant competition for technical associates who possess the skills needed to perform the services that we offer. An inability to hire and retain additional qualified personnel will impair our ability to bid for or obtain new projects and to continue to expand our business. Also, we cannot assure you that we will be able to assimilate and manage new technical associates effectively. In fiscal 2005, 2004 and 2003, we experienced associate attrition in the IT services segment at a rate of 16.5%, 17.5% and 15.6%, respectively. Any increase in our attrition rates, particularly the attrition rate of experienced software engineers, project managers and project leaders, could harm our growth strategy. We cannot assure you that we will be successful in recruiting and retaining a sufficient number of replacement technical associates with the requisite skills to replace those technical associates who leave. Further, we cannot assure you that we will be able to redeploy and retrain our technical associates to keep pace with continuing changes in evolving technologies and changing customer preferences. Should we be unable to successfully recruit, retain, redeploy or retrain our technical associates, we may become less attractive to potential customers and may fail to satisfy the demands of existing customers, which would result in a decrease in revenues and profitability.

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***We dedicate significant resources to develop international operations which may be more difficult to manage and operate.***

In addition to our offshore IT centers in India, we have established IT centers in Australia, Canada, China, Hungary, Japan, Malaysia, Singapore, United Arab Emirates, United Kingdom and United States and plan to open additional international facilities. Because of our limited experience in managing and operating facilities outside of India, we are subject to additional risks related to our international expansion strategy, including risks related to complying with a wide variety of national and local laws, restrictions on the import and export of certain technologies and multiple and possibly overlapping tax structures. In addition, we may face competition in other countries from companies that may have more experience with local conditions or with international operations generally. We may also face difficulties integrating new facilities in different countries into our existing operations, as well as integrating employees that we hire in different countries into our existing corporate culture.

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

As of March 31, 2005, we had contractual commitments of approximately \$8.8 million for capital expenditures, and we estimate spending a further \$50.0 million until March 2006. We may encounter cost overruns or project delays in connection with new facilities. These expansions will significantly increase our fixed costs. If we are unable to grow our business and revenues proportionately, our profitability will be reduced.

***Restrictions on immigration may affect our ability to compete for and provide services to customers in the United States and in other countries, which could hamper our growth and cause our revenues to decline.***

The vast majority of our employees are Indian nationals. Most of our projects require a portion of the work to be completed at the customer's location which is typically outside India. The ability of our associates to work in the United States, Europe and in other countries outside India depends on the ability to obtain the necessary visas and work permits. As of March 31, 2005, the majority of our associates located outside India were in the United States and held either H-1B visas, allowing the employee to remain in the United States during the term of the work permit and work as long as he or she remains an employee of the sponsoring firm, or L-1 visas, allowing the employee to stay in the United States only temporarily. Although there is no limit to new L-1 visas, there is a limit to the aggregate number of new H-1B visas that the U.S. Citizenship and Immigration Services, or CIS, may approve in any government fiscal year. In 2000, the United States temporarily increased the annual limit for H-1B visas to 195,000; however, this increase expired in 2003 and the limit was returned to 65,000 annually. Further, in response to the terrorist attacks in the United States, the CIS has increased its level of scrutiny in granting new visas. This may, in the future, also lead to limits on the number of L-1 visas granted. For example, the recent 2005 Appropriations Bill further precludes foreign companies from obtaining L-1 visas for employees with specialized knowledge: (1) if such employees will be stationed primarily at the worksite of another company in the U.S. and the employee will not be controlled and supervised by his employer, or (2) if the placement is essentially an arrangement to provide labor for hire rather than in connection with the employee's specialized knowledge. Immigration laws in the United States may also require us to meet certain levels of compensation and to comply with other legal requirements including labor certifications as a condition to obtaining or maintaining work visas for our associates working in the United States. The CIS announced on October 1, 2004 that it had received on the first day of the new government fiscal year sufficient applications to fill up all 65,000 visas that were available for the year. In November 2004, the United States Congress passed a measure that would increase the number of available H-1B visas for 2004 to 85,000. This legislation, when effective, is expected to increase the H-1B visa quota by approximately 20,000 visas but these visas would only be available to skilled workers who possess a Master's or higher degree from educational institutions in the United States. The increase is expected to be fully utilized and may not be extended to future years.

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

### ***We may engage in acquisitions, strategic investments, strategic partnerships or alliances or other ventures that may or may not be successful.***

We may acquire or make strategic investments in complementary businesses, technologies, services or products, or enter into strategic partnerships or alliances with third parties in order to enhance our business. For example, we have recently announced a proposed strategic acquisition of Citisoft plc (see Summary Recent Developments ). It is possible that we may not be able to identify suitable acquisition targets and candidates for strategic investments or partnerships, or if we do identify such targets or candidates, we may not be able to complete those transactions on terms commercially acceptable to us, or at all. The inability to identify suitable acquisition targets or investments or the inability to complete such transactions may affect our competitiveness and our growth prospects.

If we acquire a company, we may have difficulty in assimilating that company's personnel, operations, technology and software. In addition, the key personnel of the acquired company may decide not to work for us. In some cases, we may have difficulty in integrating the acquired products, services or technologies into our operations. These difficulties may disrupt our ongoing business, distract our management and employees and increase our expenses.

Other than the proposed Citisoft plc acquisition referred to above, as of the date of this prospectus, we have no agreements or understanding to enter into any material acquisition, investment, partnership, joint venture or alliance.

We may make strategic investments in early-stage technology start-up companies in order to gain experience in or exploit niche technologies. However, our investments may not be successful. The lack of profitability of any of our investments may have a material adverse effect on our operating results.

### ***System failure could disrupt our business.***

To deliver our services to our customers, we must maintain a high speed network of satellite, fiber optic and land lines and an active voice and data communications 24 hours a day between our main offices in Hyderabad, our other IT centers in India and globally and the offices of our customers worldwide. Any systems failure or a significant lapse in our ability to transmit voice and data through satellite and telephone communications could result in lost customers and curtailed operations which would reduce our revenue and profitability.

### ***We may be liable to our customers for damages caused by disclosure of confidential information or system failure.***

We are often required to collect and store sensitive or confidential customer and consumer data. Many of our customer agreements do not limit our potential liability for breaches of confidentiality. If any person, including any of our employees, penetrates our network security or misappropriates sensitive data, we could be subject to significant liability from our customers or from our customers' clients for breaching contractual confidentiality provisions or privacy laws. Unauthorized disclosure of sensitive or confidential customer and consumer data, whether through breach of our computer systems, system failure or otherwise, could damage our reputation and cause us to lose customers. Many of our contracts involve projects that are critical to the operations of our customers' businesses and provide benefits which may be

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difficult to quantify. Any failure in a customer's system or breaches of security could result in a claim for substantial damages against us, regardless of our alleged responsibility for such failure. Generally, we attempt to limit our contractual liability for consequential damages in rendering our services, however these limitations on liability may be unenforceable in some cases, or may be insufficient to protect us from liability for damages. In respect of some of our contracts, we sub-contract a part of the work to certain sub-contractors. We are liable to our customers for any breach or non-performance by our sub-contractors under the sub-contracts. We maintain general liability insurance coverage, including coverage for errors and omissions, however this coverage may not continue to be available on reasonable terms and may be unavailable in sufficient amounts to cover one or more large claims. Further, an insurer might disclaim coverage as to any future claim. A successful assertion of one or more large claims against us that exceeds our available insurance coverage or results in changes in our insurance policies, including premium increases or the imposition of a large deductible or co-insurance requirement, could adversely affect our operating results and profitability.

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

We are highly dependent on the senior members of our management team. Our future performance will be affected by any disruptions in the continued service of these persons. We do not maintain key man life insurance for any of the senior members of our management team or other key personnel, except for our chief executive officer. Competition for senior management in our industry is intense, and we may not be able to retain such senior management personnel or attract and retain new senior management personnel in the future. The loss of any member of our senior management team or other key personnel may have a material adverse effect on our business, results of operations and financial condition.

### ***Our insiders are significant shareholders, are able to control the election of our board and may have interests which conflict with those of our shareholders or holders of our ADSs.***

Our executive officers and directors, together with members of their immediate families, beneficially owned, in the aggregate approximately 9.4% of our outstanding equity shares as of March 31, 2005. As a result, acting together, this group has the ability to exercise significant control over most matters requiring our shareholders' approval, including the election and removal of directors and significant corporate transactions. These insider shareholders may exercise control even if they are opposed by our other shareholders. Without the consent of these insider shareholders, we could be delayed or prevented from entering into transactions (including the acquisition of our company by third parties) that may be viewed as beneficial to the Company and all of the shareholders.

### ***Our financial results are impacted by the financial results of entities that we do not control.***

As of March 31, 2005, we have a significant, non-controlling interests in Sify, Satyam Venture Engineering Services Private Limited, or Satyam Venture, and CA Satyam ASP Private Limited, or CA Satyam, that are accounted for under U.S. GAAP using the equity method of accounting. Under this method, we are obligated to report as Equity in earnings (losses) of associated companies, net of taxes a pro-rata portion of the financial results of any such company in our statement of operations even though we do not control such company but have the ability to exercise certain influence over their operating and financial policies. Thus, our reported results of operations can be significantly higher or lower depending on the results of Sify, Satyam Venture and CA Satyam or other companies in which we may make similar investments even though we may have only a limited ability to influence their activities. We may also be required to record additional impairment charges in their carrying value if we deem the investment to be impaired due to adverse events, many of which are outside of our control, on their business, results of operations and financial condition in future periods. Currently, we make estimates in the preparation of financial statements including the utility of goodwill. Changes in such estimates resulting from events, many of which are outside of our control, may result in the impairment of goodwill which would negatively impact our net income under U.S. GAAP. Such impact on net income may result in a reduction of the

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market value of our shares. Our financial statements do not reflect any amortization of goodwill in fiscal 2005, 2004 and 2003, respectively.

***The value of our interest in Sify and our subsidiaries may decline.***

As of March 31, 2005, we held 11,182,600 equity shares of Sify, representing 31.6% of its outstanding shares. Sify's ADSs are listed for trading on the Nasdaq National Market under the symbol SIFY; however, we do not know whether Sify will be able to retain this listing in the future. The market price of Sify's ADSs has been highly volatile, ranging from a high of \$452 per ADS to a low of \$0.88 per ADS from its initial public offering in October 1999 through March 31, 2005, and may continue to fluctuate widely. Any decline in the market price of Sify's ADSs is likely to cause the value of the equity shares of Sify which we hold to decline. We hold our interest in Sify in the form of equity shares for which there is no market and our ability to convert these equity shares into ADSs is restricted. Under a shareholders' agreement to which we are a party, mergers, acquisitions and sales of substantially all the assets of Sify require the approval of two other Sify shareholders, Softbank Asia Infrastructure Fund, or SAIF, and VentureTech Solutions Private Ltd., or VentureTech. Sify has not been profitable since its incorporation and may continue to incur significant losses and negative cash flows in the future. In addition, our Nipuna subsidiary has experienced losses during each year since its inception and it is likely that it will continue to experience such losses in the future.

***Stock-based compensation expenses may significantly reduce our net income under U.S. GAAP.***

Although Satyam has suspended, except in certain cases, all new grants of stock options as of October 1, 2004, our reported income under U.S. GAAP has been and will continue to be affected by the grant of warrants or options under our various employee benefit plans. Under the terms of our existing plans, some of which have outstanding obligations to grant options in future, employees are typically granted warrants or options to purchase equity shares at a substantial discount to the current market value. These grants require us to record non-cash compensation expenses under currently applicable U.S. GAAP, amortized over the vesting period of the warrants or options. Depending on the market value or fair value of our equity shares on the dates the outstanding grants were made and future grants are made, amortization of deferred stock-based compensation may contribute to reducing our operating income and net income under U.S. GAAP. Our subsidiaries and associated companies also have stock option schemes which have and will continue to generate stock-based compensation expenses and have and will reduce our operating income and net income.

***Our earnings will be adversely affected once we change our accounting policies with respect to the expensing of stock options.***

Currently we account for share-based compensation transactions using the intrinsic value method as prescribed by Accounting Principles Board, or APB, Opinion No. 25, *Accounting for Stock Issued to Employees*, and have adopted the pro forma disclosure provisions of the Statement of Financial Accounting Standard, or SFAS No. 123, *Accounting for Stock-Based Compensation*. On December 16, 2004, the FASB issued FAS 123R, *Share-Based Payment, an amendment of FASB Statements No. 123 and 95*, which requires that such transactions be accounted for using a fair-value-based method and recognized as expenses in our consolidated statement of operations. As of the required effective date, the standard requires that the modified prospective method be used, which requires that the fair value of new awards granted from the beginning of the year of adoption (plus unvested awards at the date of adoption) be expensed over the vesting period. In addition, the statement encourages the use of the binomial approach to value stock options, which differs from the Black-Scholes option pricing model that we currently use in the footnotes to our consolidated financial statements. Many companies have or are in the process of changing their accounting policies to expense the fair value of stock options. This change in the accounting policy with respect to the treatment of employee stock option grants will adversely affect our earnings and will have a significant impact on our consolidated statement of operations as we will be required to expense the fair value of our stock option grants rather than expensing the intrinsic value of

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stock options as is our current practice. FAS 123R will be applicable to Satyam for annual periods beginning after June 15, 2005 and currently we have not determined which transition method we will use and have not estimated the likely impact that FAS 123R will have on our results of operations.

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

Changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new U.S. Securities and Exchange Commission, or SEC, regulations, the NYSE, rules, Securities and Exchange Board of India, or SEBI, rules, and Indian stock market listing regulations are creating uncertainty for companies like ours. These new or changed laws, regulations and standards may lack specificity and are subject to varying interpretations. Their application in practice may evolve over time, as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such corporate governance standards.

In particular, our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal controls over financial reporting and our external auditors' audit of that assessment requires the commitment of significant financial and managerial resources. We consistently assess the adequacy of our internal controls over financial reporting, remediate any control deficiencies that may be identified, and validate through testing that our controls are functioning as documented. While we do not anticipate any material weaknesses or significant deficiencies, our independent auditors may be unable to issue unqualified attestation reports on management's assessment on the operating effectiveness of our internal controls over financial reporting.

Additionally, under revised corporate governance standards adopted by The Stock Exchange, Mumbai, or the BSE, and The National Stock Exchange of India Limited, or the NSE, which we collectively refer to as the Indian Stock Exchanges, we must comply with additional standards by December 31, 2005. These standards include a certification by our chief executive officer and chief financial officer that they have evaluated the effectiveness of our internal control systems and that they have disclosed to our auditors and our audit committee any deficiencies in the design or operation of our internal controls of which they may become aware, as well as any steps taken or proposed to resolve the deficiencies.

We are committed to maintaining high standards of corporate governance and public disclosure, and our efforts to comply with evolving laws, regulations and standards in this regard have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. In addition, the new laws, regulations and standards regarding corporate governance may make it more difficult for us to obtain director and officer liability insurance. Further, our board members, chief executive officer and chief financial officer could face an increased risk of personal liability in connection with their performance of duties. As a result, we may face difficulties attracting and retaining qualified board members and executive officers, which could harm our business. If we fail to comply with new or changed laws, regulations or standards of corporate governance, our business and reputation may be harmed.

### ***As a foreign private issuer, we are subject to different U.S. securities laws and rules than a domestic issuer, which may, among other things, limit the information available to holders of our securities.***

As a foreign private issuer, we are subject to requirements under the Securities Act of 1933, as amended, or Securities Act, and the Securities Exchange Act of 1934, as amended, or Exchange Act, which are different from the requirements applicable to domestic U.S. issuers. For example, our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions of Section 16 of the Exchange Act and the rules thereunder with respect to their purchases and sales of our ordinary shares and/or ADSs. The periodic disclosure required of foreign private issuers is more limited than the periodic disclosure required of domestic U.S. issuers and therefore there may be less



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publicly available information about us than is regularly published by or about U.S. public companies in the United States.

***Terrorist attacks or a war could adversely affect our business, results of operations and financial condition.***

Terrorist attacks, such as the attacks of September 11, 2001 in the United States, and other acts of violence or war, such as the continuing conflict in Iraq, have the potential to have a direct impact on our customers. To the extent that such attacks affect or involve the United States, our business may be significantly impacted, as the majority of our revenues are derived from customers located in the United States. In addition, such attacks may make travel more difficult, may make it more difficult to obtain work visas for many of our associates who are required to work in the United States, and may effectively curtail our ability to deliver our services to our customers. Such obstacles to operate our business may increase our expenses and negatively affect the results of our operations. Many of our customers visit several IT services firms, including their offshore facilities, prior to reaching a decision on vendor selection. Terrorist threats, attacks or war could make travel to our facilities more difficult for our customers and may delay, postpone or cancel decisions to use our services.

**Risks Related to Investments in Indian Companies**

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

***The Government of India has recently taken actions to curtail or eliminate tax benefits that we have historically benefited from.***

The statutory corporate income tax rate in India is currently 35.0%. This tax rate is presently subject to a 2.5% surcharge. The amount of tax and surcharge payable is further subject to a 2.0% education cess, resulting in an effective tax rate of 36.6%. We benefit from tax incentives provided to software entities such as an exemption from payment of Indian corporate income taxes until the earlier of fiscal 2009 or 10 consecutive years of operations for software development facilities designated as Software Technology Parks, or STP units. The benefits of this tax incentive have historically resulted in our effective tax rate being well below statutory rates. The exemption for our STP units was reduced from 100% to 90% for the fiscal 2003, and is expected to expire between fiscal 2006 and fiscal 2010. We also earn certain other foreign income and domestic income, which is taxable irrespective of the above tax exemption.

All facilities registered in the exemption program before March 31, 2001, which include all of our existing facilities in India and registrations for two new facilities which have not yet been constructed, will continue to benefit from this program under present law. Over time, as we construct additional facilities, however, the overall benefits of this tax program to our company will decrease with a consequential increase in our effective tax rate. When our tax holidays expire or terminate, our tax expense will materially increase, reducing our profitability. We cannot assure you as to what action the present or future governments of India will take regarding tax incentives for the IT industry.

In addition, the Finance Minister of India has recently proposed a fringe benefit tax that would be levied on employers. Under this fringe benefit tax, employers would be required to pay a tax of 30% (plus applicable cess and surcharge) on the value of the fringe benefits or privileges that are provided or deemed to be provided to employees on a collective, rather than individual, basis. In the event that the Government of India adopts this tax scheme, or any similar proposal, our tax expense may increase, and this could adversely affect our profitability.

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***Foreign investment restrictions under Indian law may adversely impact the value of our ADSs, including, for example, restrictions that limit your ability to reconvert equity shares into ADSs, which may cause our equity shares to trade at a discount or premium to the market price of our ADSs.***

Our equity shares are listed and traded on the Indian Stock Exchanges, and they may trade on these stock exchanges at a discount or premium to the ADSs traded on the NYSE, in part because of restrictions on foreign ownership of the underlying shares.

Our ADSs are freely convertible into our equity shares under the deposit agreement governing their issuance, or the Deposit Agreement. The Reserve Bank of India, or RBI, prescribes fungibility regulations permitting, subject to compliance with certain terms and conditions, the reconversion of equity shares to ADSs provided that such equity shares are purchased from an Indian Stock Exchange through stock brokers and the actual number of ADSs outstanding after such reconversion is not greater than the original number of ADSs outstanding. If you elect to surrender your ADSs and receive equity shares, you will only be able to trade those equity shares on an Indian Stock Exchange and, under present law, it is unlikely you will be permitted to reconvert those equity shares to ADSs. Additionally, investors who exchange ADSs for the underlying equity shares and are not holders of record will be required to declare to us details of the holder of record, and the holder of record will be required to disclose the details of the beneficial owner. Any investor who fails to comply with this requirement may be liable for a fine of up to Rs.1,000 for each day such failure continues. Such restrictions on fungibility of the underlying equity shares to ADSs may cause our equity shares to trade at a discount or premium to the ADSs.

The sale of equity shares underlying the ADSs by a person not resident in India to a resident of India does not require the prior approval of the RBI, provided such sales are effected through the Indian Stock Exchanges. Any sale of such underlying equity shares by a person not resident in India to a resident of India outside of the Indian Stock Exchanges can, however, be completed without prior RBI approval, provided such equity shares are transferred based on a pricing formula established by the Indian foreign exchange laws which set a maximum price requirement for sale of such equity shares.

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

South Asia has from time to time experienced instances of civil unrest and hostilities among neighboring countries, including between India and Pakistan. In recent years there have been military confrontations between India and Pakistan that have occurred in the region of Kashmir and along the India-Pakistan border. Military activity or terrorist attacks in the future could influence the Indian economy by disrupting communications and making travel more difficult and such political tensions could create a perception that investments in Indian companies involve higher degrees of risk. This, in turn, could have a material adverse effect on the market for securities of Indian companies, including our equity shares and our ADSs, and on the market for our services. In addition, as an international company, our offshore and onsite operations may be impacted by natural disasters such as earthquakes, tsunamis, disease and health epidemics. In December 2004, certain parts of India were severely affected by a tsunami triggered by an earthquake in the Indian Ocean. Though our operations were not affected by the disaster, we cannot guarantee that in the future our operations will not be affected by the effect such natural disasters may have on the economies of India and other countries in the region.

***Political instability could seriously harm business and economic conditions in India generally and our business in particular.***

During the past decade, the Government of India has pursued policies of economic liberalization, including significantly relaxing restrictions on the private sector. Nevertheless, the role of the Indian central and state governments in the Indian economy as producers, consumers and regulators has remained significant. The general elections in 2004 for the lower house of the Indian Parliament resulted in no party winning an absolute majority and a coalition government has been formed. We cannot assure you that these liberalization policies will continue in the future. Government corruption scandals and protests

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against privatization could slow down the pace of liberalization and deregulation. The rate of economic liberalization could change, and specific laws and policies affecting technology companies, foreign investment, currency exchange rates and other matters affecting investment in our securities could change as well. A significant change in India's economic liberalization and deregulation policies could disrupt business and economic conditions in India generally and our business in particular.

***Currency exchange rate fluctuations may affect the value of our ADSs and our financial condition.***

Our functional currency is the Indian rupee, although we transact a major portion of our business in U.S. dollars and several other currencies and accordingly face foreign currency exposure through our sales in the United States and elsewhere and purchases from overseas suppliers in U.S. dollars and other currencies. Historically, we have held a substantial majority of our cash funds in rupees. Accordingly, changes in exchange rates may have a material adverse effect on our revenues, other income, cost of services sold, gross margin and net income, which may in turn have a negative impact on our business, operating results and financial condition.

The exchange rate between the rupee and the U.S. dollar has changed substantially in recent years and may fluctuate substantially in the future. In fiscal 2005, 2004 and 2003, our U.S. dollar-denominated revenues represented 81.8%, 84.5% and 81.2%, respectively, of our total revenues. We expect that a majority of our revenues will continue to be generated in U.S. dollars for the foreseeable future and that a significant portion of our expenses, including personnel costs as well as capital and operating expenditures, will continue to be denominated in rupees. Consequently, our results of operations will be adversely affected to the extent that the rupee appreciates against the U.S. dollar. Depreciation of the rupee will result in foreign currency translation losses in respect of foreign currency borrowings, if any.

We have sought to reduce the effect of exchange rate fluctuations on our operating results by purchasing foreign exchange forward and option contracts to cover a portion of outstanding accounts receivable. As of March 31, 2005 and 2004, we had outstanding forward and option contracts in the amount of \$301.5 million and \$44.5 million, respectively. This increase is primarily attributable to our decision to actively hedge our foreign currency exposure given the recent volatility of the Indian rupee against the U.S. dollar. We may not be able to purchase contracts adequate to insulate ourselves from foreign exchange currency risks. Additionally, the policies of the RBI may change from time to time which may limit our ability to hedge our foreign currency exposures adequately.

Fluctuations in the exchange rate between the rupee and the U.S. dollar will also affect the U.S. dollar conversion by our Depository of any cash dividends paid in rupees on the equity shares represented by the ADSs. In addition, fluctuations in the exchange rate between the Indian rupee and the U.S. dollar will affect the U.S. dollar equivalent of the Indian rupee price of our equity shares on the Indian Stock Exchanges. As a result, these fluctuations are likely to affect the prices of our ADSs. These fluctuations will also affect the dollar value of the proceeds a holder would receive upon the sale in India of any equity shares withdrawn from our Depository under the deposit agreement. We cannot assure you that holders of ADSs will be able to convert rupee proceeds into U.S. dollars or any other currency or with respect to the rate at which any such conversion could occur. In addition, our market valuation could be seriously harmed by the devaluation of the rupee if U.S. investors analyze our value based on the U.S. dollar equivalent of our financial condition and results of operations.

***Our ability to acquire companies organized outside India as part of our growth strategy depends on the approval of the Government of India and/or the RBI and failure to obtain this approval could negatively impact our business.***

We have developed a growth strategy based on, among other things, expanding our presence in existing and new markets and selectively pursuing joint venture and acquisition opportunities. Foreign exchange laws in India presently permit Indian companies to acquire or invest in foreign companies without any prior governmental approval if the transaction amount does not exceed 100% of the net worth of the foreign company as of the date of its most recent audited balance sheet. If consideration for the

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transaction is paid out of the proceeds of an American Depositary Receipt, or ADR, or Global Depositary Receipt, or GDR, sale, Indian exchange control laws do not impose any investment limits. Acquisitions in excess of the 100% net worth threshold require prior RBI approval. It is possible that any required approval from the RBI may not be obtained. Our failure to obtain approvals for acquisitions of companies organized outside India may restrict our international growth, which could negatively affect our business and prospects.

***If we are unable to protect our intellectual property rights, or if we infringe on the intellectual property rights of others, our business may be harmed.***

The laws of India do not protect intellectual property rights to the same extent as the laws in the United States. Further, the global nature of our business makes it difficult for us to control the ultimate destination of our products and services. The misappropriation or duplication of our intellectual property could curtail our operations or reduce our profitability.

We rely upon a combination of non-disclosure and other contractual arrangements and copyright, trade secret and trademark laws to protect our intellectual property rights. Ownership of software and associated deliverables created for customers is generally retained by or assigned to our customers, and we do not retain an interest in such software and deliverables.

We have applied for the registration of Satyam and other related marks as trademarks in India, the United States and in other jurisdictions where we carry on business. We currently require our technical associates to enter into non-disclosure and assignment of rights agreements to limit use of, access to and distribution of confidential and proprietary information. We cannot assure you that the steps taken by us in this regard will be adequate to prevent misappropriation of confidential and proprietary information or that we will be able to detect unauthorized use and take appropriate steps to enforce our intellectual property rights.

Although we believe that our services and products do not infringe upon the intellectual property rights of others, we cannot assure you that such a claim will not be asserted against us in the future. Assertion of such claims against us could result in litigation, and we cannot assure you that we would prevail in such litigation or be able to obtain a license for the use of any infringed intellectual property from a third party on reasonable commercial terms.

We expect that the risk of infringement claims against us will increase if more of our competitors are able to obtain patents for software products and processes. Any such claims, regardless of their outcome, could result in substantial cost to us and divert management's attention from our operations. In the future, litigation may be necessary to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Any infringement claim or litigation against us could therefore result in substantial costs and diversion of resources.

***Indian laws limit our ability to raise capital outside India and may limit the ability of others to acquire us, which could prevent us from operating our business or entering into a transaction that is in the best interests of our shareholders.***

Presently, Indian technology companies such as ours are able to raise capital outside of India without the prior approval of any Indian governmental authority through an ADR or GDR issuance or an issuance of convertible debt securities, subject with respect to convertible debt issuances to a limit of \$500 million in any fiscal year. Changes to Indian foreign exchange laws may create restrictions on our capital raising abilities. For example, a limit on the foreign equity ownership of Indian technology companies may constrain our ability to seek and obtain additional equity investment by foreign investors. In addition, these restrictions, if applied to us, may prevent us from entering into certain transactions, such as an acquisition by a non-Indian company, which might otherwise be beneficial for us and the holders of our equity shares and ADSs.

**Table of Contents*****Conditions in the Indian securities market may affect the price or liquidity of our equity shares and our ADSs.***

The Indian securities markets are smaller and more volatile than securities markets in more developed economies. The Indian Stock Exchanges have in the past experienced substantial fluctuations in the prices of listed securities and the price of our equity shares has been especially volatile. The high and low prices of our shares on the BSE from fiscal 2001 until the latest practicable date are set forth in the table below.

Fiscal Year	High		Low	
	Rs.	\$ equivalent	Rs.	\$ equivalent
2001	902.0	19.3	179.0	3.8
2002	331.2	6.8	111.0	2.3
2003	291.9	6.1	175.1	3.7
2004	391.0	9.0	127.3	2.9
2005	442.0	10.1	250.0	5.7
2006 (through May 2, 2005)	432.0	9.9	364.4	8.4

On May 2, 2005, the closing price of our shares on the BSE was Rs.408.9 (\$9.41). For comparison purposes, these prices have been adjusted to give effect to our August 25, 2000 five-for-one stock split. The prices of our shares have been translated into U.S. dollars based on the noon-buying rate as certified by the Federal Reserve Bank of New York on the last date of each period presented.

The Indian Stock Exchanges have also experienced problems that have affected the market price and liquidity of the securities of Indian companies. These problems have included temporary exchange closures, the suspension of stock exchange administration, broker defaults, settlement delays and strikes by brokers. In addition, the governing bodies of the Indian Stock Exchanges have, from time to time, restricted securities from trading, limited price movements and restricted margin requirements. Moreover, from time to time, disputes have occurred between listed companies and stock exchanges and other regulatory bodies, which in some cases may have had a negative effect on market sentiment. Similar problems could occur in the future and, if they do, they could harm the market price and liquidity of our equity shares and our ADSs.

***It may be difficult for you to enforce any judgment obtained in the United States against us or our affiliates.***

We are incorporated under the laws of the Republic of India. Many of our directors and key managerial personnel and some of the experts named in this document reside outside the United States. In addition, virtually all of our assets and the assets of many of these persons are located outside the United States. As a result, you may be unable to:

- (i) effect service of process upon us outside India or these persons outside the jurisdiction of their residence; or
- (ii) enforce against us in courts outside of India or these persons outside the jurisdiction of their residence, judgments obtained in United States courts, including judgments predicated solely upon the federal securities laws of the United States.

We have been advised by our Indian counsel, Crawford Bayley & Co., that the United States and India do not currently have a treaty providing for reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the United States on civil liability, whether or not predicated solely upon the federal securities laws of the United States, would not be enforceable in India. However, the party in whose favor such final judgment is rendered may bring a new suit in a competent court in India based on a final judgment which has been obtained in the United States. If and to the extent Indian courts were of the opinion that fairness and good faith so required, it would, under

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current practice, give binding effect to the final judgment which had been rendered in the United States unless such a judgment was founded on a claim which breached the laws of India.

### ***You may be subject to Indian taxes arising out of capital gains on the sale of the underlying equity shares.***

Generally, capital gains, whether short-term or long-term, arising from the sale of the underlying equity shares in India are subject to Indian capital gains tax. For the purpose of computing the amount of capital gains subject to tax, Indian law specifies that the cost of acquisition of the equity shares will be deemed to be the share price prevailing on the BSE or the NSE on the date the Depository advises the custodian to redeem receipts in exchange for underlying equity shares. The period of holding of such equity shares, for determining whether the gain is long-term or short-term, commences on the date of the giving of such notice by our Depository to the custodian. With effect from October 1, 2004, any gains realized on the sale of listed equity shares held for more than 12 months to an Indian resident, or a non-resident investor in India, will not be subject to Indian capital gains tax if the securities transaction tax has been paid on the transaction. Investors are advised to consult their own tax advisors and to consider carefully the potential tax consequences of an investment in our ADSs.

### ***There may be less company information available in Indian securities markets than securities markets in other countries.***

There is a difference between the level of regulation and monitoring of the Indian securities markets and the activities of investors, brokers and other participants and that of markets in the United States and other developed economies. SEBI is responsible for improving disclosure and other regulatory standards for the Indian securities markets. SEBI has issued regulations and guidelines on disclosure requirements, insider trading and other matters. There may, however, be less publicly available information about Indian companies than is regularly made available by public companies in developed economies.

## **Risk Related to our ADSs and this Offering**

### ***Historically, our ADSs have traded at a significant premium to the trading prices of our underlying equity shares, a situation which may not continue.***

Historically, our ADSs have traded on the NYSE at a substantial premium to the trading prices of our underlying equity shares on the Indian Stock Exchanges. Please see the section entitled "Market Price Information" for the underlying data. We believe that this price premium has resulted from the relatively small portion of our market capitalization represented by ADSs, restrictions imposed by Indian law on the conversion of equity shares into ADSs, and an apparent preference for some investors to trade U.S. dollar-denominated securities. The completion of the transactions described in this prospectus will significantly increase the number of our outstanding ADSs. Further, over time, some of the restrictions on the issuance of the ADSs imposed by Indian law have been relaxed and we expect that other restrictions may be relaxed in the future. As a result, the historical premium enjoyed by ADSs as compared to equity shares may be reduced or eliminated due to this offering or similar transactions in the future, a change in Indian law permitting further conversion of equity shares into ADSs or changes in investor preferences.

### ***You may be restricted in your ability to exercise preemptive rights under Indian law and thereby may suffer future dilution of your ownership position.***