SATYAM COMPUTER SERVICES LTD
Form 20-F
June 29, 2004

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Item

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 20-F

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

OR

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

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from _____ to _____

For the fiscal year ended March 31, 2004 **Commission file number 001-15190**

Satyam Computer Services Limited

(Exact Name of Registrant as Specified in Its Charter)

N/A
(Translation of Registrant s Name Into English)

Republic of India
(Jurisdiction of Incorporation or Organization)

Satyam Technology Center
Bahadurpallay Village
Qutbullapur Mandal, R.R. District-500855
Hyderabad, Andhra Pradesh
India
(91) 40-5523 3505
(Address and Telephone Number of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act: None

Securities registered or to be registered pursuant to Section 12(g) of the Act:
American Depositary Shares, each represented by two Equity Shares, par value Rs.2 per share.
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report: 314,564,030 equity shares, including 33,639,972 underlying equity shares for 16,819,986 ADSs, were issued and outstanding as of March 31, 2004.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

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

Item 17 o Item 18 þ

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CURRENCY OF PRESENTATION AND CERTAIN DEFINED TERMS

Unless the context otherwise requires, references herein to we, us, the company, SAY or Satyam are to Sat Computer Services Limited, a limited liability company organized under the laws of the Republic of India, and its consolidated subsidiaries. References to U.S. or the United States are to the United States of America, its territories and its possessions. References to India are to the Republic of India. We are a leading Indian information technology services company which is traded on the New York Stock Exchange under the symbol SAY as well as the major Indian stock exchanges. Satyam is a trademark owned by Satyam Computer Services. Sify.com, SatyamOnline, Satyam: Net , satyamonline.com and Satyam iway are trademarks used by our associate company, Sify Limited, or Sify , for which registration applications are pending in India. All other trademarks or tradenames used in this Annual Report on Form 20-F, or Annual Report , are the property of their respective owners.

In this Annual Report, references to $, Dollars or U.S. dollars are to the legal currency of the United States, and references to Rs., rupees or Indian rupees are to the legal currency of India. References to a particular fiscal year ar our fiscal year ended March 31 of such year.

For your convenience, this Annual Report contains translations of some Indian rupee amounts into U.S. dollars which should not be construed as a representation that those Indian rupee or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Indian rupees, as the case may be, at any particular rate, the rate stated below, or at all.

Except as otherwise stated in this Annual Report, all translations from Indian rupees to U.S. dollars contained in this Annual Report have been based on the noon buying rate in the City of New York on March 31, 2004 for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York. The noon buying rate on March 31, 2004 was Rs. 43.40 per $1.00.

Information contained in our websites, including our corporate website, www.satyam.com, is not part of this Annual Report.

FORWARD-LOOKING STATEMENTS MAY PROVE INACCURATE

IN ADDITION TO HISTORICAL INFORMATION, THIS ANNUAL REPORT CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE SUBJECT TO RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE REFLECTED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN THE SECTION ENTITLED ITEM 3. KEY INFORMATION RISK FACTORS , ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS AND ELSEWHERE IN THIS ANNUAL REPORT. YOU ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH REFLECT MANAGEMENT S ANALYSIS ONLY AS OF THE DATE OF THIS ANNUAL REPORT. IN ADDITION, YOU SHOULD CAREFULLY REVIEW THE OTHER INFORMATION IN THIS ANNUAL REPORT AND IN OUR QUARTERLY REPORTS AND OTHER DOCUMENTS FILED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, OR SEC, FROM TIME TO TIME. OUR FILINGS WITH THE SEC ARE AVAILABLE ON ITS WEBSITE, WWW.SEC.GOV.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Selected Financial Data

You should read the following selected consolidated historical financial data in conjunction with our financial statements and the related notes and Item 5. Operating and Financial Review and Prospects included elsewhere in this Annual Report. The statement of operations data for the fiscal years ended March 31, 2000, 2001, 2002, 2003 and 2004 and the balance sheet data as of March 31, 2000, 2001, 2002, 2003 and 2004 are derived from our consolidated audited financial statements including the notes, included elsewhere in this report, prepared in accordance with U.S. GAAP for the fiscal years ended March 31, 2000, 2001, 2002, 2003 and 2004. As of December 9, 2002, we ceased to hold a controlling interest in Sify and have accounted for our interest in Sify using the equity method. Consequently, financial data for the years ended March 31, 2003 and 2004 are not comparable with prior periods.

	Years ended March 31,				
	2000	**2001**	**2002**	**2003**	**2004**
	(As restated)	**(As restated)**	**(As restated)**	**(As restated)**	
	(in thousands ($), except per share data and as stated otherwise)				
Statement of operations Data					
Revenues:					
Information technology services	164,455	310,307	413,906	458,336	565,028
BPO					1,293
Software products			585	871	51
Total revenues	164,455	310,307	414,491	459,207	566,372
Cost of revenues(1)	(90,449)	(208,121)	(238,996)	(272,688)	(343,596)
Gross Profit	74,006	102,186	175,495	186,519	222,776

Operating expenses:					
Selling, general and administrative expenses(2)	(69,592)	(124,100)	(140,896)	(119,424)	(101,627)
Amortization of goodwill	(5,043)	(24,728)	(16,997)		
Impairment of goodwill			(81,115)		
Impairment of non-marketable investments				(3,299)	

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	Years ended March 31,				
	2000	2001	2002	2003	2004
	(As restated)	(As restated)	(As restated)	(As restated)	
	(in thousands ($), except per share data and as stated otherwise)				
Reversal of put option charge				19,843	
Total Operating expenses	(74,635)	(148,828)	(239,008)	(102,880)	(101,627)
Operating income/(loss)	(629)	(46,642)	(63,513)	83,639	121,149
Interest income	2,625	5,732	3,806	7,158	20,309
Interest expense	(11,290)	(9,632)	(2,856)	(800)	(471)
Gain on sale of shares in Sify			45,594		2,652
Gain on sale of shares in Satyam GE				830	
Gain/(loss) on foreign exchange transactions	1,072	5,816	10,813	(4,757)	(8,874)
Other income/(expenses), net	(19)	646	1,277	(1,746)	2,270
Income (loss) before income taxes, minority interest and equity in earnings (loss) of associated companies	(8,241)	(44,080)	(4,879)	84,324	137,035
Income taxes	(365)	2,346	(769)	(9,769)	(22,544)
Minority interest	2,785	25,772	73,406	11,082	
Equity in earnings (losses) of associated companies, net of taxes	135	(5,467)	(25,401)	(3,339)	(2,631)
Net Income (loss)	(5,686)	(21,429)	42,357	82,298	111,860
Earnings (loss) per share					
Basic	(0.02)	(0.08)	0.14	0.26	0.36
Diluted	(0.02)	(0.08)	0.14	0.26	0.35
Earnings (loss) per ADS					
Basic	(0.04)	(0.16)	0.28	0.53	0.71
Diluted	(0.04)	(0.16)	0.28	0.52	0.71
Weighted average equity shares used in computing earnings per share (in thousands)					
Basic	264,720	269,943	305,751	311,797	313,155

Diluted	264,720	269,943	307,113	318,658	317,057
Weighted average equity shares used in computing earnings per ADS:					
Basic	132,360	134,972	152,875	155,899	156,578
Diluted	132,360	134,972	153,556	159,329	158,529
Cash dividend per equity share	0.01	0.02	0.02	0.03	0.08
Cash dividend per ADS	0.03	0.03	0.04	0.06	0.17

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	Years ended March 31,				
	2000	2001	2002	2003	2004
	(As restated)	(As restated)	(As restated)	(As restated)	
	(in thousands ($), except per share data and as stated otherwise)				
Other data					
Net cash provided by (used in)					
Operating activities	14,115	5,935	116,371	98,540	89,211
Investing activities	(83,619)	(137,775)	(40,360)	(271,959)	(60,152)
Financing activities	251,664	14,212	110,747	(12,145)	(11,461)
Capital Expenditure	40,847	84,764	34,157	10,989	16,745
Number of information technology services technical associates	4,473	7,798	7,898	9,086	13,182

(1) Inclusive of deferred stock based compensation expense of $ 13,356 in fiscal 2000, $31.3 million in fiscal 2001, $7.2 million in fiscal 2002, $1.6 million in fiscal 2003 and $ 853 thousand in fiscal 2004

(2) Inclusive of deferred stock based compensation expense of $ 3,575 in fiscal 2000, $14.8 million in fiscal 2001,$3.6 million in fiscal 2002, $29 million in fiscal 2003 and $ 772 thousand in fiscal 2004.

	As at March 31,				
Balance sheet data	2000	2001	2002	2003	2004
	(As restated)	(As restated)	(As restated)	(As restated)	
			In thousand ($)		
Cash and cash equivalents	192,304	66,068	243,454	62,202	86,730
Total Assets	412,559	481,099	515,502	568,843	713,768
Total Long term debt (excluding current portion)	50,050	9,625	2,712	1,738	1,826
Total Shareholder s equity	170,048	202,752	394,364	487,716	633,889
Capital Stock	205,234	269,135	422,674	423,850	433,398

Restatement of Previously Reported Amounts

Satyam has restated beginning shareholder s equity as of March 31, 2001 and shareholder s equity and net income as of and for the years ended March 31, 2003 and 2002, to reflect the impact on deferred tax liabilities and income taxes of Satyam s equity in the losses of Sify.

Following table summarizes the effect on the Income statement during the each of the years restated:

	During the year ended March 31,			
	2000	2001	2002	2003

		($ in thousands)		
Net Income as previously reported	(6,940)	(27,912)	25,892	79,772
Income tax benefit	1,254	6,483	16,465	2,526
Net Income as restated	(5,686)	(21,429)	42,357	82,298

Following table summarizes the effect on the Balance sheet for each of the years restated:

	As at March 31,			
	2000	**2001**	**2002**	**2003**
		($ in thousands)		
Shareholder s equity as previously reported	168,474	$194,695	$369,842	$460,668
Reduction in deferred tax liabilities	1,574	8,057	24,522	27,048
Shareholder s equity as restated	170,048	202,752	394,364	487,716

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Risk Factors

Any investment in our ADSs involves a high degree of risk. You should consider carefully the following information about these risks, together with the other information contained in this Annual Report, 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

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

We have experienced significant growth in recent periods. Our total revenues increased 23.3% in fiscal 2004 as compared to fiscal 2003. As of March 31, 2004, we had 14,456 employees, whom we refer to as associates, worldwide as compared to 9,838 associates as of March 31, 2003. We expect our growth to place significant demands on our management and other resources and will 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; and

preserving our culture and values and our entrepreneurial environment.

The value of our interest in Sify may decline.

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 ADSs from its initial public offering in October 1999 through May 31, 2004, 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 founding and may continue to incur significant losses and negative cash flows in the future.

Deferred stock compensation expenses may significantly reduce our net income under U.S. GAAP.

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, employees were 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. We expect to recognize amortization of deferred stock based compensation expense in respect of our three Associate Stock Option Plans, ASOP, ASOP-B and ASOP ADS, in the approximate amounts of $7.3 million in fiscal 2005 and $0.6 million in fiscal 2006 based on the price of our equity shares on March 31, 2004 and in connection with both granted and ungranted warrants and options on that date. Depending on the market value of our equity shares on the dates future grants are made, amortization of deferred stock based compensation expense with respect to ungranted warrants may cause the expected amounts to change. The size of our stock compensation expenses has contributed, and may continue to contribute to negative operating income and negative net income for purposes of U.S. GAAP. We recognized deferred stock based compensation of $0.8 million

under our ASOP, ASOP B and ASOP ADS Plans in fiscal 2004 and $1.6 million was amortized and charged to earnings.

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

As at March 31, 2004, we have a significant, non-controlling interests in Sify, Satyam Venture Engineering Services Private Limited and CA Satyam ASP Private Limited 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 losses (gains) of associates a pro rata portion of the financial results of any such company in our statement of operations even though we do not control the other company but have the ability to exercise significant influence over their operating and financial policies. Thus, our reported results of operations can be significantly increased or decreased depending on the results of Sify, Satyam Venture Engineering Services Private Limited and CA Satyam ASP Private Limited 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.

Impairment of goodwill on account of our investments may impact our net income under U.S. GAAP.

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 market value of our shares.

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 2004, our largest customer, General Electric Company and its affiliates, accounted for 14.3% of our information technology, or IT services revenues (excluding inter-segment revenues) and 14.3% of our total revenues. In fiscal 2004, our second largest customer, State Farm Mutual Automobile Insurance Co. accounted for 9.9% of our IT services revenues (excluding inter-segment revenues) and 9.9% of our total revenues. During fiscal 2004 and fiscal 2003, our five largest customers accounted for 36.5% and 38.4%, respectively, of our IT services revenues (excluding inter-segment revenues) and 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. As a result, if we were to lose one of our major customers or have it significantly reduce its volume of business with us, our profitability could be reduced.

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 the United States, United Kingdom, Japan, Dubai, Australia, Singapore, Malaysia and other countries and plan to open additional international facilities. Our lack of experience with facilities outside of India subjects us to risk with regard to foreign regulation and overseas facilities management. Increasing the number of IT centers and the scope of operations outside of India subjects us to a number of risks, including administrative difficulties, currency exchange rate fluctuations, restrictions against the repatriation of earnings, overlapping taxes and cost overruns and delays.

System failure could disrupt the lines of communication our business depends on.

To deliver our services to our customers, we must maintain active voice and data communications 24 hours a day between our main offices in Hyderabad, our other IT centers and the offices of our customers worldwide. Any significant loss of our ability to transmit voice and data through satellite and telephone communications could result in lost customers and curtailed operations which would reduce our 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, in large part, 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

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possess the skills needed to perform the services 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 2004 and fiscal 2003, we experienced associate attrition at a rate of 17.5% and 15.6% respectively. Any increase in our attrition rates, particularly the rate of attrition of experienced software engineers and project managers and leaders, would 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 re-train our technical associates to keep pace with continuing changes in IT, evolving technologies and changing customer preferences. Historically, wage costs in the Indian IT services industry have been significantly lower than wage costs in the United States for comparably skilled technical associates. However, in recent years, wage costs in the Indian IT services industry have been increasing at a faster rate than those in the United States, driven in part by demand for Indian technical associates overseas. In the long-term, wage increases may make us less competitive unless we are able to continue increasing the efficiency and productivity of our professionals and the prices of our services.

U.S. immigration restrictions could limit our ability to expand our U.S. operations.

Our professionals working onsite at a customer s premises in the United States are typically required to obtain visas. Although there is no limit to new L-1 petitions, there is a limit to the number of new H-1B petitions that are approved in any government fiscal year which on October 1, 2003 was reduced from 195,000 workers to 65,000 per year. In years in which this limit is reached, we may be unable to obtain H-1B visas necessary to bring critical Indian technical associates to the United States on an extended basis. Changes in existing U.S. immigration laws that make it more difficult for us to obtain visas could impair our ability to compete for and provide services to customers.

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 continue to offer a portion of our services on a fixed-price basis, rather than on a time-and-materials basis. During fiscal 2004 and fiscal 2003, we derived 31.7% and 27.5%, respectively, of our total 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. Many of these risks may be beyond our control. Our failure to estimate accurately the resources and time required for a project, future rates of 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.

We may be liable to our customers for damages resulting from a system failure.

Many of our contracts involve projects that are critical to the operations of our customers businesses and provide benefits that may be difficult to quantify. Any failure in a customer s system could result in a claim for substantial damages against us, regardless of our responsibility for such failure. Although we attempt to limit our contractual liability for damages arising from negligent acts, errors, mistakes or omissions in rendering our services, we cannot assure you that the limitations of liability set forth in our service contracts will be enforceable in all instances or will otherwise protect us from liability for damages. We do not maintain liability insurance to cover losses from such claims for damages. Assertions of one or more large claims against us could result in lost customers, and could increase our costs and reduce our profitability.

We face intense competition in the IT services market which could reduce our revenues and prevent us from maintaining our customers.

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

Indian IT services companies, such as Infosys Technologies Limited, Wipro Limited and Tata Consultancy Services;

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U.S. IT services companies, such as Computer Sciences Corporation, Electronic Data Systems, Accenture, IBM, Cambridge Technology Partners and Keane Inc; and

Other international, national, regional and local firms from a variety of market segments, including major international accounting firms, systems consulting and implementation firms, applications software firms, service groups of computer equipment companies, general management consulting firms, programming companies and temporary staffing firms.

We expect that future competition will increasingly include firms with operations in other countries, potentially including countries with lower personnel costs than those prevailing in India. 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 at which our competitors offer comparable services and the extent of our competitors responsiveness to customer needs.

We may be restricted from acquiring non-Indian companies which could adversely affect our growth strategy.

We have developed a growth strategy based on, among other things, expanding our presence in existing and new markets and selectively pursuing attractive joint venture and acquisition opportunities. Under Indian law, an Indian company is usually required to obtain the approval of the Reserve Bank of India, or RBI, and/or the government of India to acquire a non-Indian company. If we are unable to obtain such approvals or are delayed in obtaining them, we may not be able to fully execute our growth strategy, which could adversely affect our operations.

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

Our quarterly operating results have historically fluctuated and may fluctuate significantly in the future. This is primarily because we derive our revenue 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 only several people for 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. 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, and may not meet the expectations of securities analysts or investors. If this were to occur the share price of our equity shares and our ADSs would likely decline significantly.

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.

Any failure to meet a customer s expectations could result in a cancellation or non-renewal of a contract. 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, which could significantly reduce our revenues. Additionally, our contracts with customers typically are limited to a specific project and not any future work. There are also a number of factors other than our performance and 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 replace their existing software with packaged software supported by licensors, any of which could reduce our profitability.

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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.

Conflicts in South Asia and terrorist attacks in the United States, South Asia and around the world could adversely affect the economy 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 April 1999, India and Pakistan conducted long-range missile tests. Since May 1999, military confrontations between India and Pakistan have occurred in the Himalayan region of Kargil and other border areas. In October 1999, the leadership of Pakistan changed as a result of a coup led by the military. In September 2001, terrorist attacks were conducted in the United States, which caused various adverse consequences, including adverse economic consequences. In addition, in October 2001 the United States commenced military operations against various targets located in Afghanistan. In December 2001, terrorist attacks were conducted on the Indian Parliament building resulting in heightened diplomatic and military tension between India and Pakistan. In early 2003, the United States and United Kingdom jointly conducted military operations against Iraq. These events are widely believed to have provoked a significant slow-down in worldwide economic activity. Events of this nature could influence the Indian and/or United States economy, from which the majority of our revenues are derived, and could have a material adverse effect on the market for securities of Indian companies, including our ADSs, and the market for our services.

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 to the lower house of the Indian Parliament have just been completed. No party has won absolute majority and a coalition government has been formed again. We cannot assure you that these liberalization policies will continue in the future. Government corruption scandals and protests 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.

Foreign investment restrictions under Indian law may adversely impact the value of our ADSs, including, for example, restrictions that limit your ability to convert 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 Stock Exchange, Mumbai (formerly known as the Stock Exchange, Bombay), the National Stock Exchange of India Limited and the Hyderabad Stock Exchange Limited 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.

Under prior Indian laws and regulations, our depositary could not accept deposits of outstanding equity shares and issue ADRs evidencing ADSs representing such equity shares without prior approval of the Government of India. The RBI has announced fungibility regulations permitting, under limited circumstances, the conversion of ADSs to equity shares and the reconversion of equity shares to ADSs provided that 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, likely will not 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

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may be liable for a fine of up to Indian Rs.1,000 for each day such failure continues. Such restrictions on foreign ownership of the underlying equity shares may cause our equity shares to trade at a discount or premium to the ADSs.

Except for limited circumstances, the RBI must approve the sale of equity shares underlying ADSs by a non-resident of India to a resident of India. Since currency exchange controls are in effect in India, the Reserve Bank of India will approve the price at which equity shares are transferred based on a specified formula, and a higher price per share may not be permitted. Additionally, except in certain limited circumstances, if an investor seeks to convert the rupee proceeds from a sale of equity shares in India into foreign currency and then repatriate that foreign currency from India, he or she will have to obtain an additional Reserve Bank of India approval for each transaction. We cannot assure our ADS holders that any required approval from the RBI or any other government agency can be obtained on any terms or at all.

Currency exchange rate fluctuations may affect the value of our ADSs.

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 2004 and fiscal 2003, our U.S. dollar-denominated revenues represented 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. In fiscal 2004, our foreign currency gains were approximately $49.5 million while it was $16.6 million in fiscal 2003. Fluctuations in the exchange rate between the rupee and the U.S. dollar will also affect the U.S. dollar conversion by the depositary 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 Stock Exchange, Mumbai, the National Stock Exchange and the Hyderabad Stock Exchange, which we refer to collectively as 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 the depositary 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.

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

We have historically benefited from significant tax incentives provided under Indian tax laws. The principal applicable incentives are:

(i) a tax deduction for all profits derived from exporting computer software and services; and

(ii) a 10-year tax holiday in respect of income derived from the operation of software development centers designated as Software Technology Parks under Indian tax legislation.

As a result, the majority of our income is not subject to Indian tax and, accordingly, our effective tax rate is far below the Indian statutory income tax rate of 35% plus an applicable surcharge. The Software Technology Park tax exemption scheme has been modified effective as of April 1, 2001. All facilities registered in the program before March 31, 2001, which include all of our existing facilities in India and registrations for 2 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 resulting increase in our effective tax rate. We cannot assure you as to what action the present or future governments of India

will take regarding tax incentives for the IT industry.

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

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We are incorporated under the laws of the Republic of India and 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 current practice, give binding effect to the final judgment which had been rendered in the United States unless such a judgment contravened principles of public policy of India.

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 Stock Exchange, Mumbai from 2000 until the present are set forth in the table below.

	High		**Low**	
Year	**Rs.**	**$ equivalent**	**Rs.**	**$ equivalent**
2000	1445.99	31.84	291.50	6.42
2001	429.70	9.46	111.00	2.44
2002	331.15	7.29	189.75	4.18
2003	381.00	8.39	127.30	2.80
2004 (Until May 31)	391.00	8.61	250.00	5.50

On May 31, 2004, the closing price of our shares on the Stock Exchange, Mumbai was Rs. 313.60 ($ 6.90). For comparison purposes, these prices have been adjusted to give effect to our September 1, 1999 two-for-one stock split and our August 25, 2000 five-for-one stock split and an exchange rate of Rs. 45.42 per $1.00 as on May 28, 2004 has been used.

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. Further, 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.

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The laws of India may not adequately protect our intellectual property rights.

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 is 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 employees 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 commercially reasonable 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.

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 on 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 Stock Exchange, Mumbai or the National Stock Exchange on the date the Depositary 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 the Depositary to the custodian. Investors are advised to consult their own tax advisers 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 developed 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. The Securities and Exchange Board of India, or 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 our Trading Market

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

Under the Companies Act, 1956 of India, or the Companies Act, a company incorporated in India must offer its holders of equity shares preemptive rights to subscribe and pay for a proportionate number of shares to

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maintain their existing ownership percentages before the issuance of any new equity shares, unless the preemptive rights have been waived by adopting a special resolution by holders of three-fourths of the shares which are voted on the resolution. As U.S. holders of ADSs represent 10.69% of our outstanding equity shares, you may be unable to exercise preemptive rights for equity shares underlying ADSs unless a registration statement under the Securities Act of 1933, as amended, or the Securities Act, is effective with respect to the rights or an exemption from the registration requirements of the Securities Act is available. Our decision to file a registration statement will depend on the costs and potential liabilities associated with any given registration statement as well as the perceived benefits of enabling the holders of our ADSs to exercise their preemptive rights and any other factors that we deem appropriate to consider at the time the decision must be made. We may elect not to file a registration statement related to preemptive rights otherwise available by law to you. In the case of future issuances, the new securities may be issued to our Depositary, which may sell the securities for your benefit. The value, if any, our Depositary would receive upon the sale of such securities cannot be predicted. To the extent that you are unable to exercise preemptive rights granted in respect of the equity shares represented by your ADSs, your proportional interests in our company would be reduced.

Holders of ADSs may be restricted in their ability to exercise voting rights.

At our request, the depositary bank will mail to you any notice of shareholders meeting received from us together with information explaining how to instruct the depositary bank to exercise the voting rights of the securities represented by ADSs. If the depositary bank timely receives voting instructions from you, it will endeavor to vote the securities represented by your ADSs in accordance with such voting instructions. However, the ability of the depositary bank to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities on deposit. We cannot assure you that you will receive voting materials in time to enable you to return voting instructions to the depositary bank in a timely manner. Securities for which no voting instructions have been received will not be voted.

Under Indian law, subject to the presence in person at a stockholder meeting of persons holding equity shares representing a quorum, all resolutions proposed to be approved at that meeting are voted on by a show of hands unless a stockholder present in person and holding at least 10% of the total voting power or on which an aggregate sum of not less than Rs.50,000 has been paid-up, at the meeting demands that a poll be taken. Equity shares not represented in person at the meeting, including equity shares underlying ADSs for which a holder has provided voting instructions to the depositary bank, are not counted in a vote by show of hands. As a result, only in the event that a stockholder present at the meeting demands that a poll be taken will the votes of ADS holders be counted. Securities for which no voting instructions have been received will not be voted on a poll.

As a foreign private issuer, we are not subject to the SEC s proxy rules, which regulate the form and content of solicitations by United States-based issuers of proxies from their stockholders. To date, our practice has been to provide advance notice to our ADS holders of all stockholder meetings and to solicit their vote on such matters through the depositary, and we expect to continue this practice. The form of notice and proxy statement that we have been using does not include all of the information that would be provided under the SEC s proxy rules.

An active or liquid trading market for our ADSs is not assured.

We cannot predict the extent to which an active, liquid public trading market for our ADSs will exist. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. The lack of an active, liquid trading market could result in the loss of market makers, media attention and analyst coverage. If there is no longer a market for our equity shares, or if we fail to continue to meet eligibility requirements, we may be required to delist from the New York Stock Exchange and this may cause our stock prices to decrease significantly. In addition, if there is a prolonged decline in the price of our equity shares, we may not be able to issue equity securities to fund our growth, which would cause us to limit our growth or to incur higher cost funding, such as short-term or long-term debt.

Liquidity of a securities market is often a function of the volume of the underlying shares that are publicly held by unrelated parties. Although you are entitled to withdraw the equity shares underlying the ADSs from the depositary at any time, there is no public market for our equity shares in the United States.

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The future sales of securities by our company or existing shareholders may harm the price of our ADSs or our equity shares.

The market price of our ADSs or our equity shares could decline as a result of sales of a large number of ADSs or equity shares or the perception that such sales could occur. Such sales also might make it more difficult for us to sell ADSs or equity securities in the future at a time and at a price that we deem appropriate. As of May 31, 2004, we have an aggregate of 314,958,768 equity shares outstanding, which includes underlying equity shares of 33,652,880 for 16,826,940 ADSs. All ADSs are freely tradable, other than ADSs purchased by our affiliates. The remaining equity shares outstanding may be sold in the United States only pursuant to a registration statement under the Securities Act or an exemption from the registration requirements of the Securities Act, including Regulation S.

Forward-looking statements contained in this Annual Report may not be ealized.

We have included statements in this document which contain words or phrases such as may, will, will likely result, believe, expect, will continue, anticipate, estimate, intend, plan, contemplate, seek to, futu project, should and similar expressions or variations of such expressions, that are forward-looking statements. Actual results may differ materially from those suggested by the forward-looking statements due to risks or uncertainties associated with our expectations with respect to, but not limited to, our ability to implement our strategy and our growth and expansion.

In addition, other factors that could cause results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to, general economic and political conditions in India, Southeast Asia, and other countries which have an impact on our business activities, changes in Indian and foreign laws, regulations and taxes, changes in competition and other factors beyond our control, including the factors described in this Risk Factors section. We do not intend to update any of the forward-looking statements after the date of this Annual Report to conform such statements to actual results.

ITEM 4. INFORMATION ON THE COMPANY

History and Development

Our IT professionals work onsite, offshore or offsite to provide customized IT solutions for companies in several industry sectors. Our development centers in India, United States, United Kingdom, Japan, Dubai, Australia, Singapore, Malaysia and other countries serve over 300 global companies, of which 101 are Fortune Global 500 corporations. Our marketing network spans 45 countries, across 6 continents.

The full legal name of our company is Satyam Computer Services Limited. Satyam was organized as a limited liability company under the laws of the Republic of India pursuant to the provisions of the Indian Companies Act on June 24, 1987. Our registered office is located at Mayfair Center, SP Road, Secunderabad 500 003, Andhra Pradesh, India. Our principal place of business is the Satyam Technology Center located at Bahadurpally Village, Qutbullapur Mandal, R.R. District 500 855, Hyderabad, Andhra Pradesh, India, telephone number (91) 40-5523 3505. Our agent for service in the United States is CT Corporation System, 111 8th Avenue, New York, New York 10011, telephone number 1 (212) 894-8940. Our operations are primarily conducted in India and majority of our revenues are derived from the United States.

We effected a two-for-one stock split (in the form of stock dividend) of our equity shares in September 1999 and a five-for-one stock split of our equity shares in August 2000.

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 a price of $9.71 per ADS. We received approximately $152.7 million, net of underwriting discounts, commissions and other costs of this offering. On May 15, 2001, our ADSs were listed on the New York Stock Exchange.

Our principal capital expenditures for the fiscal years 2004, 2003 and 2002 were comprised mainly of expansion of infrastructure facilities in India and abroad. Our capital expenditures amounted to $16.7 million in

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fiscal 2004, $11.0 million in fiscal 2003 and $34.2 million in fiscal 2002. In fiscal 2004 and fiscal 2003, capital expenditures were incurred mainly for the purchase of computers and other electrical equipment. In fiscal 2002, our capital expenditures were incurred mainly for expansion of offshore facilities in acquisition/long lease of land in Bangalore and expansion of facilities in Hyderabad and Chennai.

Business Overview

We are a global professional IT services company. We offer a comprehensive range of services, including software development, system maintenance, packaged software integration, and engineering design services. We use our global infrastructure to deliver value-added services to our customers to address IT needs in specific industries and to facilitate eBusiness initiatives. We began providing IT services to businesses in 1988 and as of March 31, 2004 we had 13,120 technical associates servicing over 300 customers worldwide. In addition to our core business of providing IT services, we have also selectively invested in related businesses.

We recognized the importance of the Internet to India and, in December 1995, created Sify Limited (formerly Satyam Infoway Limited), which we believe is the largest integrated Internet, network and electronic commerce services company in India, offering end-to-end solutions with a comprehensive range of products delivered over a common Internet backbone infrastructure. Sify s shares are listed only in the United States and are quoted on the Nasdaq National Market under the symbol SIFY . In February 2002, we acquired Sify s software services business for approximately $6.9 million in a transaction approved by Sify s shareholders and subjected to an independent valuation. The objective of this acquisition was to permit us to focus on our core business of software services and Sify to focus on Internet Services. During the year ended March 31, 2003, due to the sale of new shares by Sify to Softbank Asia Infrastructure Fund, or SAIF, and VentureTech Solutions Private Ltd. or VentureTech, our ownership interest in Sify was reduced from 52.51% to 37.15%. As a result of this reduced ownership interest, we deconsolidated Sify on December 9, 2002 and have since accounted for our interest in Sify using the equity method. VentureTech invested an additional $1.8 million in Sify in April 2003, and our ownership interest was further reduced to 36.0%. Further, during the year ended March 31, 2004, we completed the sale of one million equity shares in Sify Ltd. through the latter s sponsored ADS program for a consideration of $ 3.4 million (net of tax). Consequent to this sale, our ownership interest was further reduced to 32.04%.

We owned 100% of the outstanding stock of VisionCompass Inc., or VCI, which had developed and marketed our software product, VisionCompass. Following our decision to discontinue the operations of VisionCompass so as to focus on our core business of IT services, VCI was formally dissolved on March 24, 2004.

On June 5, 2002 we formed Nipuna Services Limited or Nipuna, a wholly owned subsidiary in Secunderabad, Andhra Pradesh, India to provide various services connected with business process outsourcing. As of March 31, 2004, we had invested $4.0 million in Nipuna.

Industry Overview

In May 2003, Gartner Dataquest forecasted that the worldwide IT services market would grow from $536.3 billion in 2002 to $727.4 billion in 2007, representing an annual compound growth rate of 6.3%. We believe the growth of this industry is driven by the following factors and trends:

Increased importance of IT to businesses. In today s increasingly competitive business environment, companies have become dependent on technology not only to conduct day-to-day operations, but also as a strategic tool to enable them to re-engineer business processes, restructure organizations and react quickly to competitive, regulatory and technological changes. As systems continually become more complex, companies increasingly turn to external IT service providers to develop and implement new technologies and integrate them with existing applications in which a company may have already made a considerable investment.

Impact of the Internet and the emergence of eBusiness. Businesses are increasingly using the Internet to interact with new and existing customers and create new revenue opportunities. Business conducted electronically over the Internet, or eBusiness, extends beyond Internet-based applications, such as eCommerce websites and corporate intranets, to include packaged software tools such as customer and supply chain management software. eBusiness initiatives are often large and difficult to manage and must keep pace with

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constantly evolving business processes and technological innovations. In addition, managing and upgrading existing systems has also become more critical given the importance of these systems to eBusiness initiatives. Internal IT departments often do not have the appropriate resources or breadth of skills necessary to execute these initiatives. As a result, companies increasingly turn to outside service providers to design, integrate, implement and maintain their eBusiness applications.

Emergence of a high-quality IT services industry in India. India has emerged as a destination for companies seeking to engage IT service providers in a variety of areas, including eBusiness and software design, development, integration and system maintenance. India s National Association of Software and Service Companies, or NASSCOM estimates that export revenue generated from the software and service industry in India was approximately $12.2 billion in fiscal 2003 and is expected to reach $50.0 billion by fiscal 2008. The key factors contributing to this rapid growth include the availability of a large pool of highly skilled, English-speaking engineers and professionals, the ability to produce high quality software applications, low personnel costs relative to the United States and a time difference which permits work to be done during non-business hours in the United States and Europe.

We believe that India ranks second only to the United States as the country with the largest population of English-speaking technical personnel. According to the NASSCOM Strategic Review 2004, educational institutions in India produce approximately 290,000 engineering students each year. Given the shortage of technical labor in the United States and other developed economies, the availability of people could be a competitive advantage for Indian IT services companies. Also, the English speaking ability of Indian technical engineers and professionals facilitates interaction with customers in the United States and Europe and is a significant advantage compared to non-English speaking countries which also offer IT services.

Indian companies have developed high-quality methodologies. A January 2002 NASSCOM survey of international quality standards of the top 300 Indian IT services companies showed that 216 had acquired ISO 9000 or SEI or other certifications and 58 more companies were in the process of acquiring the same. According to NASSCOM, currently 36 Indian companies have received a level five assessment under the Software Engineering Institute s Capability Maturity Model, or SEI-CMM, developed by the Carnegie Mellon University. Level five is the highest level attainable under the SEI-CMM standards, which assess an organization s quality management system and systems engineering processes and methodologies. The level five certification process involves periodically subjecting our management system and systems engineering processes and methodologies to stringent third party review and verification. Some of our customers look to an SEI-CMM certification as a threshold indication of the quality of our processes and methodologies.

Need for IT service providers who can provide a range of services worldwide. Many companies today need a wide range of IT services, from high value-added services such as the integration and implementation of eBusiness and packaged software applications to lower-end services such as system maintenance and the re-engineering of older applications. As a result, companies often seek a service provider that can understand and integrate a wide spectrum of emerging technologies with existing systems and which offers a comprehensive range of services from software design and development to system maintenance. In addition, as companies become global, they increasingly require IT support on a worldwide basis. In the eBusiness environment, service providers need to have a close relationship with customers given the complexity and time sensitive nature of eBusiness.

We believe there is a need for full service IT service providers that have expertise in both existing systems and new Internet-based technologies, access to a large pool of highly-skilled technical personnel and the ability to cost-effectively service customers on a worldwide basis.

Our Business

We believe the following aspects of our business help us to address the challenges faced by our customers in the current IT environment.

Comprehensive range of services. We provide our customers the ability to meet all of their IT needs from one service provider. Our understanding of both existing systems and new technologies allows us to assist our customers in the management and maintenance of established systems and the development and integration of

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new technologies. We also help them understand their IT needs and work with them to develop an appropriate strategy to address these needs.

Global delivery model. We provide our services through our offshore centers located in India, our offsite centers located in the United States, United Kingdom, Japan, Dubai, Australia, Singapore, Malaysia, and other countries and onsite teams operating on our customers premises. Through this global network, we can provide a flexible delivery mix that is tailored to meet our customers specific needs. In addition, our global network of centers allow us to service our customers on a 24-hour basis and thereby shorten the time required to complete projects. Our onsite teams and offsite centers allow us to respond quickly to customer requests, to interact closely with the customer to develop IT services where the customers specifications are not clearly defined and to market services tailored to meet the needs of specific geographic markets.

In-depth industry knowledge. We have developed significant industry expertise in insurance, financial services, manufacturing and telecommunications. This allows us to better understand and address the IT needs of customers within a particular industry. Our technical associates include experienced project managers and software engineers with substantial experience in providing IT services to a particular industry. We have also hired business specialists who possess the industry knowledge our company needs to better understand the requirements of our customers in these sectors and assist our software engineers in proactively designing IT services. We believe our customers benefit from our ability to design and develop applications and services tailored to address industry-specific needs.

Adherence to high quality standards. We have a large pool of highly trained technical associates that allows us to provide high quality services tailored to meet our customers needs. As of March 31, 2004, 49% of our technical associates had bachelors degrees in engineering, and 51% had masters degrees in engineering, technology or computer applications and bachelors degrees in science and others. Each new technical associate must participate in a three to six-month software engineering training program and all technical associates are expected to undertake between 40 and 80 hours per year of development training. In addition, we have implemented strict quality control programs which form an integral part of our project management methodology to ensure we provide high quality services to our customers. We have a company-wide quality management system which satisfies the ISO 9001 TickIT and received a level five assessment under the SEI-CMM standards. Among other things, our system involves a rigorous review of software development processes, testing of all work, measurement and analysis of key quality metrics and regular internal quality audits. Our adherence to this system ensures that our customers receive timely delivery of consistent and high-quality services.

Strategy

Our main goal is to be a leading worldwide provider of comprehensive IT services. We intend to accomplish our goal by.

Continuing to focus on eBusiness and high-value added services. To better service our customers in all key industry segments, we intend to continue to focus on and expand our eBusiness offerings and our other high-value added services, such as packaged software integration and engineering design services. To continue to differentiate our services and achieve recognition as a leading worldwide provider of comprehensive IT services, we intend to broaden our range of Internet-based applications as new technologies become available.

Leveraging our existing customer base. Our goal is to build long-term stable business relationships with our customers to generate consistent revenues. With our existing customers, we plan to continue to expand the scope and range of the services we provide by extending our capabilities into new and emerging technologies and by understanding our customers businesses. In fiscal 2004 and fiscal 2003, we generated 84.0% and 84.0%, respectively, of our IT services revenues (excluding inter-segment revenues) from customers who were customers in the prior year. To further strengthen our relationships and broaden the scope and range of the services we provide to existing

customers, our senior corporate executives have specific relationship management responsibilities for our largest customers. In fiscal 2003, we appointed approximately 30 relationship managers to further our relations with our major customers.

Expanding our presence in existing markets and penetrating new geographic markets. We plan to expand our presence in our existing markets and to establish a presence in new geographic markets throughout Europe

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and the Asia-Pacific region. We intend to accomplish this by leveraging our existing global customer base to serve them in other geographic locations. In fiscal 2003, we opened additional sales and marketing offices in Europe, the Asia-Pacific region and Canada and offsite centers in Australia, China and Malaysia to help us gain better access to new customers. We also plan to continue to hire local employees to staff and manage our offsite centers. We believe that the use of locally hired technical associates and managers working from offsite centers will enable us to increase our share of the local market and compete more effectively with local IT service providers.

Continuing to enhance our specific industry expertise. We aim to have an in-depth understanding of targeted industries in order to identify customer needs in those industries and be able to proactively design and offer tailored IT services to address those needs. By focusing on targeted industries, we believe we can develop services that are reusable within an industry and thereby lower our cost of delivering those services. We intend to enhance our health care, government and retail IT services capabilities by hiring additional specialists with expertise in these industries.

Attracting and retaining quality technical associates and augmenting their training. To attract, retain and motivate our technical associates, we plan to continue to provide an environment that rewards entrepreneurial initiative and performance, including competitive salaries and benefits as well as incentives in the form of cash bonuses and stock options. We also intend to continue to devote significant resources to training our technical associates through our Satyam Learning Center in a variety of software languages and computer platforms.

Enhancing our capabilities through joint ventures, technology alliances and acquisitions. We plan to continue to broaden our network of joint ventures and technology alliances with technology providers, customers, and IT service providers, particularly in markets in which we are not currently involved. We enter into these joint ventures and alliances to acquire expertise in high-end software products and emerging technologies, to add qualified personnel, to gain access to additional customers to invest in companies which service niche markets. We will also consider acquiring companies to gain ownership of specific technologies and to exploit other synergies with our existing business. While we currently have not identified any specific candidates, we regularly engage in discussions and negotiations relating to potential investment, joint ventures, technology alliances and acquisitions in the ordinary course of our business.

IT Services

We offer a comprehensive range of IT services based on existing and emerging technologies that are tailored to meet the specific needs of our customers. Our IT services include:

Software development. We design, develop and install software for a variety of IT systems. Our applications range from single-platform, single-site systems to multi-platform, multiple-site systems. A project may involve the development of new applications or new functions for existing software applications. Each development project typically involves all aspects of the software development process, including definition, prototyping, design, pilots, programming, testing, installation and maintenance.

System maintenance. We provide maintenance services for large software systems, which may include modifications and enhancements to the system and product support. We also assist customers in migrating to new technologies while extending the useful life of existing systems. Projects may involve re-engineering software to migrate applications from mainframe to client/server architectures or to migrate from existing operating systems to UNIX or Windows NT. For companies with extensive proprietary software applications, implementing such technologies may require rewriting and testing millions of lines of software code. We perform most of the maintenance work at our offshore facilities using satellite links to our customer s system. In addition, we maintain a small team on the customer s premises to coordinate support functions.

Packaged software integration. We work with providers of packaged software in the areas of enterprise resource planning, customer relationship management and supply chain management to install and integrate these packages with our customers existing computer systems and with various Internet applications as required to address the eBusiness needs of our customers. These packaged software applications help enable companies to strengthen relationships with their customers and business partners, create new revenue opportunities, enhance operating efficiencies and improve communications. We also customize this software to meet the specific needs of our customers and provide ongoing maintenance and support services. We have established

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alliances with providers of enterprise resource planning systems, such as Oracle and SAP. We have also established alliances with other companies who supply customer relationship or supply chain management systems and eBusiness applications for building on-line businesses. In addition, we offer our customers applications in the areas of business and customer intelligence, data-mining and data-warehousing to enable them to analyze trends.

Engineering design services. We provide engineering design services using computer aided design, modeling and engineering tools. Our engineering design services include component design, product and process analysis, and simulations and range from basic drawing changes to complex designs. In addition, our services may involve customizing the latest computer aided design, modeling and engineering software to specific user requirements.

Delivery of IT Services

We offer our customers flexible delivery alternatives through our offshore centers located in India, through offsite centers which we have established in our major markets and through onsite teams operating at the customers premises.

Offshore centers. We typically assign a team of technical associates to visit a customer s premises and determine the scope and requirements of a particular project. Some members of the initial team remain onsite to facilitate direct liaison with the customer, while others return to India to establish and supervise a larger project team of suitably qualified technical associates to implement the project. Typically 20% of a project team will be on site depending on the nature and complexity of the project. Projects completed in our offshore centers in India contributed 43.9% and 47.0% to our IT services revenues in fiscal 2004 and fiscal 2003, respectively.

We have also entered into arrangements with several customers where an entire project team is assigned to a single customer. Such teams, called dedicated offshore centers, work from our facilities in India and are staffed and managed by us. Once the project priorities are established by the customer, we, in conjunction with the customer s IT department, manage the execution of the project. When needed, our dedicated offshore centers will have equipment specific to the customer, or will have a separate work area with its own security protocols. We have an established dedicated offshore centers for, among others, General Electric Appliances Products LLP, and Ford Motor Company.

Offsite centers. We believe that a key success factor in meeting our customers needs is our physical presence near the customer. Accordingly, we have expanded and improved the offshore development model by establishing offsite centers in our major markets. In the United States, we currently operate offsite centers located in Atlanta, Georgia; Chicago, Illinois; Parsippany, New Jersey; and Santa Clara, California. Outside of the United States, we have offsite centers located in Tokyo, Japan; Basingstoke, U.K.; Singapore; Sydney, Australia; Dubai, Malaysia and other countries. We believe our offsite centers allow us to respond quickly to customer requests, to interact closely with the customer to develop IT services where the customer s specifications are not clearly defined and to market services tailored to meet the needs of specific geographic markets. In addition, we staff our offsite centers with locally-hired managers, marketers and technical associates which we believe enable us to compete more effectively with local IT service providers.

Onsite teams. Some customers require the presence of our project teams at their premises, particularly for mission critical or high-end projects. The customer s team and our project team collaborate to develop IT services that meet the customer s specifications.

Projects completed at onsite and offsite centers contributed 56.1% of our IT services revenues in fiscal 2004 and 53.0% in fiscal 2003.

As of March 31, 2004, 3,456 of our technical associates worked in our customers premises and offsite centers compared to 2,386 as of March 31, 2003.

Quality and project management

We believe that quality is a culture, expressed in the way we interact and cater to the needs of our clients, and in the products and processes we deliver to them. So while we have met several external quality parameters, we are even more stringent about setting and meeting our own exacting standards.

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To minimize disruptions and financial loss in the event of a disaster or disruption to our business operations, we have implemented a business continuity management system. This integrated enterprise wide process explores possible failure scenarios, assesses their impact on our business and puts in place appropriate controls to mitigate and manage the risks.

Our global Business Continuity Center in Singapore is designed to ensure that our clients receive seamless and uninterrupted support in case we are unable to provide our services from India or elsewhere and equips us with an alternate site for our critical projects when required. We are the first major Indian software company to establish such operations in Singapore. We chose Singapore as the site for this center based on its excellent connectivity to the rest of the world, low risk profile and new visa scheme to facilitate disaster recovery and business continuity operations.

Our multiple international locations provide us with numerous options for alternate sites in any eventuality. Our business continuity plans, backed by redundant network connectivity and replication/back-up facilities, are intended to ensure a high level of preparedness.

During fiscal 2003, we launched a new initiative known as ORBIT 5 (Organizational and Business Transformation), aimed at transforming the efficiency of our processes to deliver a higher standard and service.

The ORBIT 5 initiative aims not only to achieve and maintain our processes and sub-processes at the highest level but also to help us to create world-class infrastructure and systems.

To further improve our business processes, we have also adopted the iSTRIVETM methodology. This methodology involves systematic data gathering and statistical analysis to enable us pinpoint errors in our processes.

Customers

We market our services primarily to companies in the United States, Europe, the Middle East and the Asia-Pacific region. Our strategy is to seek new customers and at the same time secure additional engagements from existing customers by providing high quality services and by being responsive to customer needs. The strength of our relationships has resulted in significant recurring revenue from existing customers. We generated $ 474.8 million, $385.0 million and $348.4 million in IT services revenues in fiscal 2004, fiscal 2003 and fiscal 2002 respectively, from customers who were customers in the prior fiscal year. We also derive a significant proportion of our IT services revenues from a limited number of customers. Our largest customer, General Electric Company and its affiliates, accounted for 14.3%, 16.2% and 18.3%, of our IT services revenues (excluding inter-segment revenues) and 14.3%, 16.1% and 18.3%, of our total revenues in fiscal 2004, fiscal 2003 and fiscal 2002 respectively. During the same periods, our second largest customer, accounted for 9.9%, 8.7% and 6.9% respectively, of our IT services revenues (excluding inter-segment revenues) and 9.9%, 8.7% and 6.9% respectively, of our total revenues. Our five largest customers accounted for 36.5%, 38.4% and 38.5% of our IT services revenues (excluding inter-segment revenues) and 36.4%, 38.4% and 38.4% of our total revenues in fiscal 2004, fiscal 2003 and fiscal 2002 respectively.

Sales and Marketing

We sell and market our services through 22 sales and marketing offices spread across the globe. We target our efforts towards Fortune 500 & Global 1000 corporations. Our sales efforts are complemented by our marketing team, which assists in brand building, Alliance management and other corporate level marketing efforts. Our sales efforts are largely decentralized and conducted within each of our business segments. As of March 31, 2004, we had 199 sales (including pre-sale, support) and marketing employees.

Joint Ventures and Alliances

We have in the past entered into, and plan to continue to enter into, joint ventures and alliances with technology providers, customers, and IT service providers, particularly in markets in which we are not currently involved. We

enter into these joint ventures and alliances to gain access to additional customers, to acquire expertise in high-end software products and emerging technologies, to add qualified personnel and to make investments in companies engaged in providing services to niche markets.

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Competition

The IT services industry is highly competitive and served by numerous national, regional and local firms, all of which are either existing or potential competitors of our company. Our primary India based competitors include Infosys Technologies Limited, Wipro Limited and Tata Consultancy Services. Our primary U.S. based competitors include Computer Sciences Corporation, Electronic Data Systems, Accenture, Cambridge Technology Partners and Keane Inc. Generally, our competitors include participants from a variety of market segments, including major international accounting firms, systems consulting and implementation firms, applications software firms, service groups of computer equipment companies, general management consulting firms, programming companies and temporary staffing firms. Many of these competitors have substantially greater financial, technical and marketing resources and greater name recognition than us. We believe that the principal competitive factors in the IT services industry include the range of services offered, technical expertise, responsiveness to customer needs, speed in delivering IT services, quality of service and perceived value. We believe that we compete favorably with respect to these factors. There are relatively few barriers to entry into our markets such that we may face additional competition from new entrants into our markets. In addition, there is a risk our customers may elect to increase their internal IT resources to satisfy their IT services needs.

Communications Infrastructure

A key component of our IT services delivery model is the linking of a customer s onsite system with our offsite and offshore centers through a privately owned Frame Relay Network consisting of satellite and fiber communications links. Our data and voice network, SatyamNet, connects our facilities worldwide through a high speed network with a backbone of satellite, fiber optic and land lines. Video Conferencing facilities are available at multiple locations to improve customer interaction. SatyamNet allows projects to progress and software applications to be installed without the need for extensive attendance at the customer s premises. Similarly, day-to-day maintenance of a customer s system can be carried out largely from one or more offsite or offshore centers with only a few maintenance professionals required to be stationed at the customer s premises. We lease dedicated telecommunication lines from VSNL, TATA, BHARATI and Software Technology Park of India which permit data communication between our facilities in India and the MCI, SPRINT and AT&T communication networks to connect to our customers facilities abroad. All of our Indian satellite and fiber links terminate at our U.S. communication hubs in Vienna, Virginia and Parsippany, New Jersey. From the Vienna and Parsippany communication hubs, we connect our offshore centers in India to our offsite centers in the United States through high speed networks and to customers systems through leased lines, the Internet, the customer s own network or a network operated by third parties. These two locations act as back-up telecommunications centers for each other to help ensure that the connectivity to our customer premises is always available.

In December 2001, we completed a major upgrade of SatyamNet to enhance and optimize network efficiency across all operating locations. This upgrade has enhanced our aggregate links capacity by more than 100.0% in different bandwidths, which cater to the networking requirements of approximately 7,000 workstations across various geographic locations. We currently lease two 2Mbps Fiber Optic links from Hyderabad and Chennai and three 512 Kbps international links (one fiber and the other two satellite) and one 64 kbps international satellite link. The aggregate bandwidth is 9.5 Mbps and consists of both fiber and satellite links to take care of media redundancy. In addition, we have 1 Mbps committed information rate high speed links aggregating to 6 Mbps connecting various cities in India. Our intra-city links are connected by 2048 kbps lines to multiple locations through multiple providers, thus providing high availability and complete redundancy. We are connected with the United Kingdom by a 256 K dedicated leased circuit and also connected to Australia and Singapore by a 128 K link framed leased circuit from our U.S. office hubs. We have also added redundant Internet Mail and Name Resolution servers in our U.S. offices as a part of our disaster recovery infrastructure.

During business hours, the average loading of SatyamNet is currently approximately 40% of total capacity, with sudden bursts in usage reaching approximately 50%. Our network has extra capacity available to service new

customers in the immediate future and to permit sudden bursts of data transfer and other contingent uses. The network utilization is monitored using a centralized management software, and the utilization reports are

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shared with senior associates on a weekly basis. When the utilization reaches 60%, the process for enhanced BW is activated.

We have not experienced any significant downtime in our communications network during the past three years. To help minimize the likelihood of downtime in our voice and data communications network, we have built redundancy and alternative pathways into our network. For example, most of our communications take place over international links. Each office that has its own international link also has a inter-city link to another nearby office, which provides an alternative pathway for international communications if the office s own international link breaks down. We have also provided ISDN links as a back-up for the intra-city links.

The terms of our customer contracts often impose particular confidentiality and security standards. We have independently established a system of security measures to protect our computer systems from security breaches and computer viruses that may attempt to gain access to our communications network. We maintain a firewall at the entry point of the network which checks incoming data for viruses and unauthorized access before they are transmitted on SatyamNet. All traffic received at our facilities in India is again checked for viruses, with contaminated files quarantined. We have implemented a two tier virus protection, which includes arrangements with two virus protection vendors as a preventive countermeasure against computer viruses. Our backup process which includes daily, weekly and monthly backups. Backup tapes are stored at different locations to ensure maximum protection against losses. We have been accredited with BS7799 / ISO 17799 certification by Ministry of Information Technology, Government of India, for all our locations in India in recognition of our high standards of network security and business continuity practices.

Premises and Equipment

Our corporate headquarters, the Satyam Technology Center, is located in Hyderabad, India. We own this facility, which provides a modern workspace for approximately 1,400 software engineers in two buildings covering an aggregate area of approximately 209,300 square feet, which are linked to our other facilities through our SatyamNet. The Satyam Technology Center also has recreational facilities and housing for up to 500 associates and covers an area of approximately 153,000 square feet. The State of art Auditorium / Convention center with 250 seat capacity, first of its kind in South India, has been constructed at our Satyam Technology Center to host meetings with large number of participants, gatherings and for live interactive sessions.

We have additional software technology centers located in Bangalore, Bhubaneshwar, Chennai, Hyderabad and Pune, with facilities aggregating approximately 885,500 square feet. We own the facilities in Bhubaneshwar and lease our other facilities with terms ranging from six years to nine years. Each facility is equipped with computers, servers, telecommunications lines and back-up electricity generation facilities sufficient to ensure an uninterrupted power supply.

During the fiscal 2004, we constructed a new facility with a built up area of 1,00,000 square feet on our own 23 acre campus located in Electronic City, Phase II Bangalore, India.

In addition to the offshore centers in India, we operate offsite centers in major markets to establish a local presence closer to our customers.

Research and Development

Our research and development efforts are focused on development services required by our existing customers or as needed to attract new customers. As of March 31, 2004, we employed 41 associates dedicated to our research and development activities. In addition, a number of our management and other operational personnel are also involved in research and development activities. We expect to continue to invest some of our resources in research and development. We have spent approximately $ 633 thousand in fiscal 2004, $1.4 million in fiscal 2003, $2.2 million in

fiscal 2002 on company-sponsored research and development activities.

Intellectual Property

Ownership of software and associated deliverables created for customers is generally retained by or assigned to the customer, and we do not usually retain an interest in such software or deliverables. We also develop software products and software tools which are licensed to customers and remain our property. We rely

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upon a combination of non-disclosure and other contractual arrangements and copyright, trade secret, patent and trademark laws to protect our proprietary rights in technology. 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 our proprietary information. The source code for our proprietary software is generally protected as trade secrets and as unpublished copyright works. We have applied for the registration of Satyam as trademarks in India and United States. We generally apply for trademarks and service marks to identify our various service and product offerings. Although we believe that our services and products do not infringe the intellectual property rights of others, we cannot assure you that such a claim will not be asserted against us in the future.

Seasonality

Our IT services business is not affected by seasonality.

Government Regulation

Regulation of our business by the Indian government affects our business in several ways. We benefit from certain tax incentives promulgated by the Government of India, including a ten-year tax holiday from Indian corporate income taxes for the operation of most of our Indian facilities and a partial taxable income deduction for profits derived from exported IT services under Indian tax laws. As a result of these incentives, our operations have been subject to relatively insignificant Indian tax liabilities. We have also benefited from the liberalization and deregulation of the Indian economy by the successive Indian governments since 1991. Further, there are restrictive parts of Indian law that effect our business, including the fact that we are generally required to obtain approval from the Reserve Bank of India and/or the Ministry of Finance of the Government of India to acquire companies organized outside India, and we are generally required, subject to some exceptions, to obtain approval from relevant government authorities in India in order to raise capital outside India. Finally, the conversion of our equity shares into ADSs is governed by guidelines issued by the Reserve Bank of India.

Please see Item 10. Additional Information , as well as Item 3. Key Information Risk Factors for additional information on the effects of governmental regulation of our business.

BPO Services

On June 05, 2002, we formed Nipuna Services Limited or Nipuna, a wholly-owned subsidiary in Secunderabad, Andhra Pradesh, India to provide various services connected with business process outsourcing. As of March 31, 2004, we had invested $4.0 million in Nipuna.

Nipuna completed its first full year of operations with 10 active customers. At present, Nipuna is offering support in the areas of production back office, health care insurance, IT help desk, finance and accounts, customer contact and data management. Nipuna had 503 employees as of March 31, 2004. Nipuna s Hyderabad facility is capable of hosting 550 employees, and an additional facility in Bangalore capable of hosting 350 employees will be operational in fiscal 2005. Nipuna reported revenue of US$2.4 million in fiscal 2004.

In October 2003, Nipuna issued 45,669,999 0.05% convertible redeemable cumulative preference shares of par value Rs 10 ($0.22) per share to each of Olympus Capital and Intel Capital at an issue price of $0.22 per share, in exchange for an aggregate consideration of $10 million. A similar amount will be invested in the second phase, making a total investment of US$20 million. These preference shares are to be mandatory converted / redeemed into equity shares on or before June 2007 based on certain provisions in the agreement relating to revenues and profits earned up to March 31, 2006. If not converted or early converted at the option of the investors based on certain triggering events, these convertible preference shares are redeemable on maturity in June 2007 at a redemption premium, which could range in between 7.5% to 13.5% per annum.

The investors are entitled to receive dividends from the preference shares at the rate of 0.05% per cent per annum. The dividend on the preference shares for the period ended March 31, 2004 is payable.

We have guaranteed payment of all sums payable by Nipuna to the investors on redemption of the preference shares. Further, we are required to subscribe to Convertible Debentures amounting to US$20 million based on certain provisions in the agreement. These convertible debentures shall bear an interest rate equal to

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the prime lending rate of the State Bank of India prevailing at the time of issuance and are convertible upon the election of Nipuna into Ordinary Shares at any time.

Satyam Computer Services, Nipuna and the two investors have also entered into a Warrant Agreement whereby Nipuna agrees to issue to the investors warrants in consideration of and based upon the referral revenues received by Nipuna or its subsidiaries at any time during the period commencing from the date of initial closing and ending in June 2007 from business referred to Nipuna or its subsidiaries by an Investor or its Affiliates. The investors have rights to purchase from Nipuna Ordinary Shares which, upon issuance, would constitute 7.5% of the then outstanding equity share capital of the Company on a fully diluted basis during the exercise period at the price per share then in effect.

Software Products

Through our wholly owned subsidiary in the United States, VisionCompass Inc., or VCI, we developed VisionCompass, a software product for use as a management tool to assess and help improve business performance. Following our decision to discontinue the operations of VisionCompass so as to focus on our core business of IT services, VCI was formally dissolved on March 24, 2004.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of the financial condition and results of operations of our company should be read in conjunction with the financial statements and the related notes included elsewhere in this document. This discussion contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please see "Item 3.-Risk Factors.

Restatement of Previously Reported Amounts

Satyam has restated beginning shareholder s equity as of March 31, 2001 and shareholder s equity and net income as of and for the years ended March 31, 2003 and 2002, to reflect the impact on deferred tax liabilities and income taxes of Satyam s equity in the losses of Sify. Such impact was not previously recognized. Satyam recognized a deferred tax liability of US$ 36.92 million as at March 31, 2001 for the outside basis difference between the book carrying value and tax basis of its investment in Sify. This outside basis difference was generated from the increase in the book carrying value of Satyam s investment in Sify resulting from Sify s issuance of its shares to third parties. In subsequent periods, Satyam recognized its equity in the losses of Sify as a reduction in the book carrying value of its investment and as a charge to the income statement. However, Satyam did not recognize the tax benefit resulting from the decrease in the outside basis difference deferred tax liability.

The effects of these adjustments are as follows:

	As at March 31,		
	2003	**2002**	**2001**
	($ in thousands)		
Shareholder s equity as previously reported	$460,668	$369,842	$194,695
Reduction in deferred tax liabilities	27,048	24,522	8,057

Shareholder s equity as restated	$487,716	$394,364	$202,752

	For the year ended March 31,	
	2003	**2002**
	($ in thousands)	
Net income as previously reported	$ 79,772	$ 25,892
Income tax benefit	2,526	16,645
Net income as restated	$ 82,298	$ 42,357

The significant effects of this restatement are disclosed in Note 22 to the accompanying financial statements and in Item 3 Selected Financial Data.

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Overview

We are the fourth largest provider of IT services in India, based on the amount of export revenues generated during our fiscal year ended March 31, 2004. We offer a comprehensive range of services, including software development, system maintenance, packaged software integration, engineering design services, and business process outsourcing, or BPO. We use our global infrastructure to deliver value-added services to our customers to address IT needs in specific industries and to facilitate e-Business initiatives. Our total revenues increased by 23.3% to $566.4 million in fiscal 2004 from $459.2 million in fiscal 2003 and 10.8% to $459.2 million in fiscal 2003 from $414.5 million in fiscal 2002. Our reportable operating segments are divided into IT services, BPO and software products.

On June 5, 2002, we formed a wholly-owned subsidiary, Nipuna Services Limited, or Nipuna, to provide various services connected with business process outsourcing.

We own 100% of the outstanding stock of VisionCompass Inc., or VCI, which had developed and marketed our software product, VisionCompass. However, keeping in view the business and economic conditions, the relative size and managerial time, we decided to discontinue the operations of VisionCompass so as to focus on our core business of IT services. VCI was formally dissolved on March 24, 2004. We have applied for one patent in the United States related to VisionCompass which we intend to pursue despite closure of VCI operations as this product remains in use by customers. VisionCompass shall be continued to be marketed by Satyam.

Consolidation of Subsidiaries

As of March 31, 2004, we had invested $28.0 million in VCI and $16.3 million in five of our other subsidiaries. Since its inception in January 1999 VCI incurred significant operating losses and negative cash flows. As of March 31, 2004 the cumulative net losses incurred were $27.5 million by VCI and $17.6 million by our other five subsidiaries. The results of VCI and our other subsidiaries are reflected in our consolidated audited financial statements under U.S. GAAP.

Satyam Manufacturing Technologies, Inc.

On March 28, 2003, we acquired Northrop Grumman s 24% interest in Satyam Manufacturing Technologies Inc., or SMTI and SMTI became our 100% owned subsidiary. We issued Northrop Grumman a non interest bearing unsecured promissory note with a principal amount of $3.5 million payable in four quarterly installments from April 01, 2003 to January 01, 2004 in payment of the purchase price. The amount was fully paid during fiscal 2004.

Our Investment in Associated Companies

Our investments in business entities in which we do not have control, but have the ability to exercise significant influence over operating and financial policies (generally 20-50 percent ownership), are referred to as associated companies and are accounted for by the equity method.

The following table gives details regarding our percentage holding, carrying value and share of earnings / (losses) of our associated companies for the years ended March 31, 2004 and 2003.

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Name of associated company	2004 % holding	2004 Share of earnings/ (losses) during the year	2004 Carrying value as at year end	2003 % holding	2003 Share of earnings/ (losses) during the year	2003 Carrying value as at year end
			($ millions)		($ millions)	
Sify*	32.0	$ (2.2)	$ 22.3	37.2	$(1.3)	$ 27.1
Satyam Venture	50.0	0.0	1.2	50.0	0.2	1.2
CA Satyam	50.0	(0.4)	0.8	50.0	(0.1)	1.3
Satyam GE					0.3	
Cricinfo**					(2.0)	
Refco-Sify**					(0.3)	
Placements.com**					(0.1)	
Total		**$ (2.6)**	**$ 24.3**		**$(3.3)**	**$ 29.6**

* Sify accounted using the equity method from December 10, 2002. Share of losses for the period from December 10, 2002 to March 31, 2003

** Associated companies of Sify. Share of losses for the period April 01, 2002 to December 09, 2002. Subsequently included in share of losses of Sify.

Sify

We continue to be the single largest shareholder of Sify, which provides Internet services in India, even though our ownership interest in Sify was reduced from 37.2% as at March 31, 2003 to 32.0% as at March 31, 2004.

The holding in Sify reduced from 37.2% as at March 31, 2003 to 35.0% as at July 31, 2003 due to Sify s private placements to Softbank Asia Infrastructure Fund, or SAIF, and VentureTech Solutions Private Ltd, or VentureTech, in December 2002, May 2003 and July 2003. Subsequent to December 9, 2002, we have accounted for our interest in Sify under the equity method of accounting, as we no longer hold a controlling interest in Sify. We are under no future obligation to provide additional funds to Sify and would be unwilling to do so.

On June 23, 2003, Sify s shareholders approved sponsoring the sale of its 4,600,200 unlisted Indian equity shares through a secondary issue of Sify s American Depository Shares, or ADS. In September 2003, we sold 1,000,000 Indian equity shares out of our total holding of 12,182,600 Indian equity shares in Sify at a sale price of $4.40 (Rs.198.90) per share as determined by Sify based on the recommendation of the lead manager to the sponsored ADS program. The difference between the carrying value of the investment in Sify as of September 30, 2003 and the sale

proceeds amounting to US$2.6 millon has been accounted for as a gain during the year ended March 31, 2004 in the statement of operations. As are result of this transaction, our ownership interest in Sify was reduced from 35.0% to its current level of 32.0%.

Satyam Venture

On October 28, 2000, we entered into an agreement with Venture Industries to form an equally held joint venture company Satyam Venture Engineering Services Private Limited or Satyam Venture. We hold 50% of Satyam Venture and have invested $0.8 million for our share in the joint venture. Satyam Venture is engaged in providing engineering solutions, software development and customization services specifically for the automotive industry worldwide.

CA Satyam

On December 29, 2000, we entered into an agreement with Computer Associates International, Inc. to form an equally held joint venture company, CA Satyam ASP Private Limited or CA Satyam. We hold 50% of CA Satyam. As per the agreement, both we and Computer Associates have invested $1.5 million each in the joint venture. CA Satyam is engaged in providing a portfolio of information and knowledge management solutions that are intended to enhance employee productivity and organizational agility.

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Satyam GE

On June 30, 2002, we completed the transfer of 50% of the shares of Satyam GE Software Services Private Limited, or Satyam GE, to GE Pacific (Mauritius) Limited, or GEPL for a consideration of approximately $4.0 million. Our interest in Satyam GE was accounted for using the equity method until June 30, 2002. During fiscal 2003, we recorded a gain of $830 thousand in the statement of operations for Satyam GE, the excess of consideration received for the share sale over the carrying value as of June 30, 2002.

Deferred Stock-based Compensation

We have 3 associate stock option plans: our Associated Stock Option Plan, or ASOP, established in May 1998; our Associated Stock Option Plan B, or ASOP B, established in May 1999; and our Associated Stock Option Plan ADS, or ASOP ADS, established in May 1999.

ASOP

The aspects of the ASOP differ significantly from typical U.S. stock option plans. We established a controlled associate welfare trust called the Satyam Associate Trust, to administer the ASOP, and issued warrants to purchase 13.0 million equity shares of Satyam Computer Services. To give our associates the benefit of our stock split in September 1999, the Trust exercised its warrants to acquire our shares before the split using the proceeds from bank loans. The Trust periodically grants eligible associates warrants to purchase equity shares held by or reserved for issuance by the Trust. The warrants may vest immediately or may vest over a period ranging from two to three years, depending on the associate s length of service and performance. Upon vesting, employees have 30 days in which to exercise their warrants. Each warrant issued by the Trust currently entitles the associate holding the warrant to purchase 10 equity shares of our company at a price of Rs.450 ($10.4), plus an interest component associated with the loan the Trust assumed, for the conversion of the warrants it held. The interest component is computed based on a fixed vesting period and a fixed interest rate. This exercise price has been substantially below the market price of our shares at the time the warrants have been granted by the Trust. Neither we nor the Trust may increase the exercise price of the warrants.

We account for the ASOP as a fixed plan in accordance with Accounting Principles Board Opinion No. 25. Under U.S. GAAP, the difference between the exercise price and the market price on the date the warrants are granted to associates is required to be treated as a non-cash compensation charge and amortized over the vesting period of the equity shares underlying the warrants. Under U.S. GAAP, in fiscal 2004, 2003 and 2002, we recognized deferred stock-based compensation of $776 thousand, $1.7 million and $1.2 million, and $1.6 million, $3 million and $10.5 million was amortized and charged to earnings, respectively. As of March 31, 2004, warrants (net of forfeited and cancelled) to purchase 11,370,520 equity shares have been granted to associates pursuant to ASOP, and warrants to purchase 11,312,320 equity shares have been exercised. As of March 31, 2004, the Trust held warrants to purchase 1,629,480 equity shares that had not yet been granted to associates pursuant to the ASOP but are expected to be granted in the future. Under current accounting rules, we expect to recognize amortization of deferred stock-based compensation expense in respect of our ASOP in the approximate amounts of $6.1 million in fiscal 2005 and $0.6 million in fiscal 2006 based on the price of our equity shares on March 31, 2004 and in connection with both granted and ungranted warrants on such date. Depending on the market value of our equity shares on the dates future grants are made, amortization of deferred stock-based compensation expense with respect to ungranted warrants may cause the expected amounts to change.

ASOP B

The ASOP B is substantially similar to the ASOP and is administered by a committee of our board of directors. The Securities and Exchange Board of India, or SEBI, guidelines state the exercise price as the average of the two

weeks high and low price of the share preceding the date of grant of option on the stock exchange on which the shares of the company are listed . However as per our special resolution in the last AGM, we opted for higher of the following, a) the closing price of the shares on the date of the meeting of the Compensation Committee convened to grant the stock options, on the stock exchange where highest volumes are traded; or b) the average of the two weeks high and low price of the share preceding the date of grant of option on the stock exchange on which the shares of the company are listed.. Under U.S. GAAP, in fiscal 2004, fiscal 2003 and fiscal 2002, we recognized deferred stock-based compensation of $(14) thousand, $(11)

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thousand and $6 thousand and $27 thousand, $58 thousand and $68 thousand was amortized and charged to earnings, respectively. As of March 31, 2004, options (net of forfeited and cancelled) to purchase 18,932,219 equity shares have been granted to associates under this plan and warrants to purchase 1,421,738 equity shares have been exercised. We expect to recognize amortization of deferred stock-based compensation expense in respect of these granted options in the approximate amounts of $1.2 thousand in fiscal 2005 and $nil in fiscal 2006. Under current accounting rules, we expect that the exercise prices of options granted in the future under the ASOP B will generally be not less than the fair market value of the underlying shares and therefore we do not expect to incur significant compensation expense. We also account for the ASOP B as a fixed option plan.

ASOP ADS

Under ASOP ADS, we periodically issue grants to eligible associates to purchase ADSs. As of March 31, 2004, warrants (net of forfeited and cancelled) for 1,326,418 ADSs representing 2,652,836 equity shares have been granted to associates under the ASOP ADS, and warrants to purchase 144,986 ADSs representing 289,972 equity shares have been exercised. The warrants issued under ASOP ADS could be at a price per option which is not less than 90% of the value of one ADS as reported on NYSE (fair market value) on the date of grant converted into Indian Rupees at the rate of exchange prevalent on the day of grant. We account for the ASOP ADS as a fixed option plan. We expect that the exercise prices of options granted in the future under the plan will not be less than the fair market value of the underlying ADSs and therefore we do not expect to incur compensation expense with respect to those future grants under current accounting rules.

On March 31, 2004, the Financial Accounting Standards Board (FASB or the Board) issued an exposure draft (the ED) entitled *Share-Based Payment.* If the ED is adopted by the Board, the final standard will eliminate the guidance of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25) and amend FASB Statement No. 123, *Accounting for Stock Based Compensation* (FAS 123) and FASB Statement No. 95, *Statement of Cash Flows* (FAS 95). The ED requires that all public companies report share-based compensation expense at the grant date fair value of the related share-based awards. If this requirement goes into effect, it will represent a significant change in practice of accounting for deferred stock based compensation for the company.

Revenues

Our revenues are generated from professional services fees and product development provided through three segments, IT services, BPO and software products. Management evaluates performance based on stand-alone revenues and net income for these segments.

Up to March 31, 2003, Satyam provided segmental disclosures based on three business groups: IT services, internet services and software products. Pursuant to the above change in the operating segments, figures for our internet services segment for fiscal 2003 and fiscal 2002 have been included in IT service segment.

Currently our executive management evaluates Satyam s operating segments based on the following three-business groups:

IT services, providing a comprehensive range of services, including software development, packaged software integration, system maintenance, engineering design services and internet services. We provide our customers the ability to meet all of their information technology needs from one service provider. Our e-Business services include designing, developing integrating and maintaining Internet-based applications, such as e-Commerce websites and implementing packaged software applications such as customer or supply chain management software applications. We also assist our customers to make their existing computing systems accessible over the Internet. We offer our customers flexible delivery alternatives through our offshore centers located in India,

through offsite centers which we have established in our major markets and through onsite teams operating on the customers premises.

BPO, providing services covering human resources, finance & accounting, customer contact (voice, mail and chat), and transaction processing (industry-specific offerings). We provide outsourcing solutions to varied industries like insurance and healthcare, banking and financial services, transportation and tourism, manufacturing and automotive, telecom and media, energy and utilities and retail.

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Software products. Through VCI, we developed VisionCompass, a software product for use as a management tool to assess and help improve business performance. On April 24, 2003, we decided to discontinue VCI s operations and focus on our core business of providing IT services. VC was formally dissolved on March 24, 2004.

The following table sets forth the total revenues for our three business segments for the years ended March 31, 2004, 2003, and 2002 (in millions, except percentages):

	2004		2003		2002	
Segment	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
IT Services	565.4	99.6%	458.3	99.8%	413.9	99.8%
BPO	2.4	0.4				
Software Products	0.1	0.0	1.1	0.2	0.9	0.2
Total	**567.9**	**100.0%**	**$459.4**	**100.0%**	**$414.8**	**100.0%**

Our total revenues increased by 23.6% to $567.9 million in fiscal 2004 from $459.4 million in fiscal 2003 and 10.8% to $459.4 million in fiscal 2003 from $414.8 million in fiscal 2002. Our top two customers accounted for 24.2% of our revenues in fiscal 2004 down from 24.9% of our revenues in fiscal 2003. Additionally, our top 5 customers accounted for 36.4% of our revenues in fiscal 2004 as compared to 38.4% in fiscal 2003. Our worldwide technical headcount increased to 13,450 as of March 31, 2004 compared to 9,086 as of March 31, 2003, while the number of our technical associates offshore increased by 3,294 and technical associates onsite increased by 1,070 during this period.

IT services

Our IT services revenues (excluding inter-segment revenues) represented 99.8%, 99.8% and 99.9% of our total revenues in fiscal 2004, 2003 and 2002 respectively. These revenues increased by 23.3% to $565.0 million in fiscal 2004 from $458.3 million in fiscal 2003 and 10.7% to $458.3 million in fiscal 2003 from $413.9 million in fiscal 2002. This growth of $106.7 million in revenue during fiscal 2004 was primarily the result of an increase in business from existing customers and the generation of new business from new customers. We added 108 and 100 customers during the year including 20 and 23 from the Fortune 500 list during the fiscal 2004 and 2003 respectively.

BPO

Nipuna, which commenced its operations in June 2002, generated revenues of $2.4 million in fiscal 2004 of which $1.1 million was from inter-segment revenues. Nipuna had 503 employees as on March 31, 2004.

Software products

Revenues from software products to date have been immaterial.

Expenses

Cost of revenues. Cost of revenues increased by 24.8% to $343.6 million in fiscal 2004 from $275.2 million in fiscal 2003. Cost of revenues represented 60.7% of revenues in fiscal 2004 and 59.9% in fiscal 2003. Inter-segment cost of revenues were $1.4 million in fiscal 2004 as compared to $nil in fiscal 2003 and have not been allocated to the

individual components that make up cost of revenues.

The increase in cost of revenues by $68.4 million to $343.6 million in fiscal 2004 from $275.2 million in fiscal 2003 was attributable primarily to increases in associate compensation and benefits expenses and traveling expenses. Associate compensation and benefit expenses increased 36.2% to $256.0 million or 45.2% of revenue in fiscal 2004 from $187.9 million in fiscal 2003. The increase in the associate compensation and benefits is due to: (1) increase in the total number of technical associates by 4,364 to 13,450 in fiscal 2004 from 9,086 in fiscal 2003; (2) increase in number of onsite technical associates by 1,070 to 3,456 in fiscal 2004 from 2,386 in fiscal 2003 for which we pay a higher compensation; and (3) On account of salary increments (approximately 17%) given to associates during the year.. Traveling expenses increased 22.9% to $31.7 or 5.6% of revenue in fiscal 2004 from $25.8 million in fiscal 2003. These increases were partly compensated by a

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decrease in deferred stock-based compensation, communication expenses and depreciation expense. Deferred stock-based compensation expense decreased by 46.5% to $0.9 million or 0.2% of revenues in fiscal 2004 from $1.6 million or 0.3% of revenues in fiscal 2003. Communication expense decreased by 60.0% to $5.1 million or 0.9% of revenues in fiscal 2004 from $12.9 million or 2.8% of revenues in fiscal 2003 on account of communication expenses of SIFY being included in fiscal 2003. Subsequent to December 09, 2002, our ownership interest in Sify was accounted using the equity method due to our reduced owner ship interest. Depreciation expense decreased by 8.8% to $20.1 million or 3.5% of revenues in fiscal 2004 from $22.1 million or 4.8% of revenues in fiscal 2003.

Gross profit. Our gross profit was $222.8 million for fiscal 2004, representing an increase of 21.1% over gross profit of $184.0 million for fiscal 2003.As a percentage of total revenues, gross profit decreased to 39.3% for fiscal 2004 from 40.1% for fiscal 2003.This decrease was attributable to the factors as explained in the cost of revenues above.

Selling, general and administrative expense. Selling, general and administrative expenses decreased 13.1% to $101.6 million in fiscal 2004 from $116.9 million in fiscal 2003. Selling, general and administrative expenses represented 17.9% of revenues in fiscal 2004 as compared to 25.5% of revenues in fiscal 2003. This decrease was a result primarily of decreases in traveling expenses, deferred stock-based compensation expense, depreciation expense and other expenses. These decreases were partially offset by increase in associate compensation and benefits, communication expenses and professional charges. Traveling expenses decreased 14.3% to $8.7 million or 1.5% of revenues in fiscal 2004 from $10.1 million or 2.2% of revenues in fiscal 2003. Depreciation expense decreased 70.5% to $4.1 million or 0.7% of revenues in fiscal 2004 from $13.8 million or 3.0% of revenues in fiscal 2003. The decrease is primarily due to depreciation of $9.7 million of Sify included in fiscal 2003. Subsequent to December 09, 2002, our ownership interest in Sify was accounted using the equity method due to our reduced owner ship interest.

Operating income (loss). Our operating income was $121.1 million for fiscal 2004, representing an increase of 44.9% over the operating income of $83.6 million for fiscal 2003. As a percentage of revenues, operating income increased to 21.4% for fiscal 2004, from an operating income of 18.2% for fiscal 2003. This increase was due to (i) decrease in selling, general and administrative expense from 25.5% of revenue in fiscal 2003 to 17.9% of revenues in fiscal 2004 and (ii) impairment of other non-marketable investments of 0.7% of revenues during fiscal 2003. This increase was partially offset by increase in cost of revenue from 59.9% of revenues in fiscal 2003 to 60.7% of revenues in fiscal 2004 and due to reversal of put option charge in fiscal 2003 which was 4.3% of revenue in fiscal 2003.

Interest income. Interest income increased to $20.3 million in fiscal 2004 from $7.2 million in fiscal 2003. This increase in interest was due to (i) increase in bank deposits from $268.5 million at the end of fiscal 2003 to $338.5 million at the end of fiscal 2004 and (ii) transfer of deposits placed in overseas banks to Indian banks yielding higher interest.

Net income. Our net income was $111.9 million for fiscal 2004, representing an increase of 35.9% over net income of $82.3 million for fiscal 2003. As a percentage of total revenues, net income increased to 19.7% for fiscal 2004 from 18% for fiscal 2003. This was primarily due to increase in operating income and increase in interest income. Operating income increased from $83.6 million or 18.2% of revenue in fiscal 2003 to $121.1 million or 21.4% of revenue in fiscal 2004. Interest income increased from $7.2 million or 1.6% of revenue in fiscal 2003 to $20.3 million or 3.6% of revenue in fiscal 2004. These increases were offset by decrease in minority interest in losses of subsidiaries and increase in income tax expense. Minority interest in losses of subsidiaries decreased from $11.1 million or 2.4% of revenue in fiscal 2003 to $nil in fiscal 2004. Income tax expense increased from $9.7 million or 2.1% of revenue in fiscal 2003 to $22.5 million or 4.0% of revenue in fiscal 2004. This increase in income tax expense was primarily due to increase in tax of $8.9 million on income from United States.

Foreign Currency Transactions / Translation

In fiscal 2004 and fiscal 2003, 84.5% and 81.2%, respectively, of our total revenues were generated in U.S. dollars. A significant amount of our expenses were incurred in Indian Rupees and the balance was primarily incurred in U.S. dollars, European currencies and Japanese yen. Our functional currency and the functional currency for our subsidiaries located in India is the Indian rupee; however, the Japanese yen, U.S. dollars,

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Sterling pounds and Singapore dollars are the functional currencies of our foreign subsidiaries located in Japan, the U.S., the U.K. and Singapore, respectively. The translation of such foreign currencies into U.S. dollars (our reporting currency) is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using monthly simple average exchange rates prevailing during the reporting periods. Adjustments resulting from the translation of functional currency financial statements to reporting currency are accumulated and reported as other comprehensive income, a separate component of shareholders equity.

Risk management policy

Our functional currency is the Indian Rupee, although we transact a major portion of our business in US dollars and accordingly face foreign currency exposure through our sales in the United States. Accordingly, we are exposed to substantial risk on account of adverse currency movements in global foreign exchange markets. The exchange rate between the rupee and the dollar has changed substantially in recent years and may fluctuate substantially in the future.

We manage risk on account of foreign currency fluctuations through treasury operations. Our risk management strategy is to identify risks we are exposed to, evaluate and measure those risks, decide on managing those risks, regular monitoring and reporting to management. The objective of our risk management policy is to minimize risk arising from adverse currency movements by managing the uncertainty and volatility of foreign exchange fluctuations by hedging the risk to achieve greater predictability and stability. Our risk management policies are approved by senior management and include implementing hedging strategies for foreign currency exposures, specification of transaction limits; specifying authority and responsibility of the personnel involved in executing, monitoring and controlling such transactions.

We purchase forward foreign exchange contracts to mitigate the risk of changes in foreign exchange rates on cash flows denominated in certain foreign currencies. We enter into forward foreign exchange contracts where the counter party is generally a bank. We consider the risks of non-performance by the counter party as non-material. These foreign forward exchange contracts mature between one and nine months. These contracts do not qualify for hedge accounting under SFAS 133, as amended. Any derivative that is either not a designated hedge, or is so designated but is ineffective per SFAS 133, is marked to market and recognized in earnings.

The following table gives details in respect of Satyam s outstanding foreign exchange forward contracts:

	As of March 31,	
	2004	2003
	(in thousands)	
Aggregate Contracted Principal amounts of Forward exchange contracts (sell)	$44,500	$4,000
Gains on outstanding foreign exchange forward contracts	435	43

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 Indian rupees. Consequently, our results of operations will be affected to the extent the rupee appreciates/depreciates against the U.S. dollar. The average exchange rate of rupee to US dollar for fiscal 2004 was 45.95 against 48.42 for fiscal 2003. At the end of fiscal 2004, rupee appreciated to 43.40 against 47.53 at the end of fiscal 2003. As a result, loss on foreign exchange transactions was $ 8.9 million in fiscal 2004 as compared to a loss of $4.8 million in fiscal 2003.

As of May 31, 2004, we had outstanding foreign exchange contracts worth $108.8 million with maturity dates over next ten months to cover the risks of dollar to Rupee fluctuations.

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Results of Operations

The following tables set forth selected operating data as value of revenues by segment (including inter-segment revenues) for the periods indicated:

	Year ended March 31, 2004				
	IT services	**BPO**	**Software products**	**Consolidation**	**Total**
			(in thousands)		
Statement of Operations Data:					
Revenues external customers	$ 565,028	$ 1,293	$ 51		$ 566,372
Inter segment revenue	405	1,097	72	$ (1,574)	
Total Revenues	565,433	2,390	123	(1,574)	566,372
Cost of revenues	(343,072)[1]	(1,932)		1,408	(343,596)
Gross profit	**222,361**	**458**	**123**	**(166)**	**222,776**
Operating expenses:					
Selling, general and administrative expenses	(96,959)[2]	(4,513)	(321)	166	(101,627)
Total operating expenses	(96,959)	(4,513)	(321)	166	(101,627)
Operating income (loss)	**125,402**	**(4,055)**	**(198)**		**121,149**
Interest income	20,272	36	1		20,309
Interest expense	(457)	(14)			(471)
Gain on sale of shares of Sify	2,651	1			2,652
Gain/(loss) on foreign exchange transactions	(8,869)	(5)			(8,874)
Other income/(expense), net	2,369	(101)	2		2,270
Income (loss) before income taxes, minority interest and equity in earnings (losses) of associated companies	**141,368**	**(4,138)**	**(195)**		**137,035**
Income taxes	(22,542)	(2)			(22,544)
Equity in earnings (losses) of associated companies, net of taxes	(2,631)				(2,631)
Net income (loss)	**$ 116,195**	**$(4,140)**	**$ (195)**		**$ 111,860**

Depreciation	24,006	388	3		24,397
Deferred stock-based compensation	1,625				1,625

1 Inclusive of deferred stock-based compensation expenses of $853 thousand.
2 Inclusive of deferred stock-based compensation expenses of $772 thousand.

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	Year ended March 31, 2003				
	IT services	BPO	Software products	Consolidation	Total
			(in thousands)		
Statement of Operations Data:					
Revenues external customers	$ 458,336		$ 871		$ 459,207
Inter segment revenue			253	$ (253)	
Total Revenues	458,336		1,124	(253)	459,207
Cost of revenues	(275,170)[3]		(49)		(275,219)
Gross profit	**183,166**		**1,075**	**(253)**	**183,988**
Operating expenses:					
Selling, general and administrative expenses	(116,303)[4]		(843)	253	(116,893)
Impairment of other non marketable investments	(3,299)				(3,299)
Reversal of put option charge	19,843				19,843
Total operating expenses	(99,759)		(843)	253	(100,349)
Operating income	**83,407**		**232**		**83,639**
Interest income	7,158				7,158
Interest expense	(800)				(800)
Gain on sales of shares in Satyam GE	830				830
Gain/(loss) on foreign exchange transactions	(4,757)				(4,757)
Other income/(expense), net	(1,746)				(1,746)
Income (loss) before income taxes, minority interest and equity in earnings (losses) of associated companies	**84,092**		**232**		**84,324**
Income taxes	(9,769)				(9,769)
Minority interest	11,082				11,082
Equity in earnings (losses) of associated companies, net of taxes	(3,339)				(3,339)
Net income (loss)	**$ 82,066**		**$ 232**		**$ 82,298**
Depreciation	$ 33,501		$ 75		$ 33,576

Deferred stock-based compensation	$ 4,521	$ 4,521

[3] Inclusive of deferred stock-based compensation expenses of $1,591 thousand.
[4] Inclusive of deferred stock-based compensation expenses of $2,930 thousand.

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	Year ended March 31, 2002				
	IT services	BPO	Software products	Consolidation	Total
			(in thousands)		
Statement of Operations Data:					
Revenues external customers	$ 413,906		$ 585		$ 414,491
Inter segment revenue	18		284	$ (302)	
Total Revenues	413,924		869	(302)	414,491
Cost of revenues	(240,145)[5]		(177)	18	(240,304)
Gross profit	**173,779**		**692**	**(310)**	**174,187**
Operating expenses:					
Selling, general and administrative expenses	(136,550)[6]		(3,322)	284	(139,588)
Amortization of goodwill	(16,997)				(16,997)
Impairment of goodwill	(81,115)				(81,115)
Total operating expenses	(234,662)		(3,322)	284	(237,700)
Operating income (loss)	**(60,883)**		**(2,630)**		**(63,513)**
Interest income	3,806				3,806
Interest expense	(2,856)				(2,856)
Gain on sales of shares in Sify	45,594				45,594
Gain/(loss) on foreign exchange transactions	10,813				10,813
Other income/(expense), net	1,277				1,277
Income (loss) before income taxes, minority interest and equity in earnings (losses) of associated companies	**(2,249)**		**(2,630)**		**(4,879)**
Income taxes	(769)				(769)
Minority interest	73,406				73,406
Equity in earnings (losses) of associated companies, net of taxes	(25,401)				(25,401)
Net income (loss)	$ **44,987**		$ **(2,630)**		$ **42,357**
Depreciation	$ 37,102		$ 384		$ 37,486
Deferred stock-based compensation	$ 10,794				$ 10,794

5 Inclusive of deferred stock-based compensation expenses of $7,212 thousand.
6 Inclusive of deferred stock-based compensation expenses of $3,582 thousand.

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The following tables set forth selected operating data as a percentage of revenues by segment (including inter-segment revenues) for the periods indicated:

	Year ended March 31, 2004			
	IT services	**BPO**	**Software products**	**Total**
Statement of Operations Data:				
Revenues external customers	99.9%	54.1%	41.5%	100.0%
Inter segment revenue	0.1	45.9	58.5	
Total Revenues	100.0	100.0	100.0	100.0
Cost of revenues	(60.7)[7]	(80.8)		(60.7)
Gross profit	39.3	19.2	100.0	39.3
Operating expenses:				
Selling, general and administrative expenses	(17.1)[8]	(188.8)	(261.0)	(17.9)
Total operating expenses	(17.1)	(188.8)	(261.0)	(17.9)
Operating income (loss)	**22.2**	**(169.6)**	**(161.0)**	**21.4**
Interest income	3.6	1.5	0.8	3.6
Interest expense	(0.1)	(0.6)		(0.1)
Gain on sales of shares in Sify	0.5			0.5
Gain/(loss) on foreign exchange transactions	(1.6)	(0.2)		(1.6)
Other income/(expense), net	0.4	(4.2)	1.6	0.4
Income (loss) before income taxes, minority interest and equity in earnings (losses) of associated companies	25.0	(173.1)	(158.6)	24.2
Income taxes	(4.0)	(0.1)		(4.0)
Equity in earnings (losses) of associated companies, net of taxes	(0.5)			
Net income (loss)	**20.5%**	**(173.2)%**	**(158.6)%**	**19.7%**
Depreciation	4.2%	16.2%	2.4%	4.3%
Deferred stock-based compensation	0.3%			0.3%

[7] Inclusive of deferred stock-based compensation expenses of 0.2% of IT services revenue.
[8] Inclusive of deferred stock-based compensation expenses of 0.1% of IT services revenue.

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	Year ended March 31, 2003			
	IT services	**BPO**	**Software products**	**Total**
Statement of Operations Data:				
Revenues external customers	100.0%		77.5%	100.0%
Inter segment revenue			22.5	
Total Revenues	100.0		100.0	100.0
Cost of revenues	(60.0)[9]		(4.4)	(59.9)
Gross profit	**40.0**		**95.6**	**40.1**
Operating expenses:				
Selling, general and administrative expenses	(25.4)[10]		(75.0)	(25.5)
Impairment of other non marketable investments	(0.7)			(0.7)
Reversal of put option charge	4.3			4.3
Total operating expenses	(21.8)		(75.0)	(21.9)
Operating income	**18.2**		**20.6**	**18.2**
Interest income	1.6			1.6
Interest expense	(0.2)			(0.2)
Gain on sales of shares in Satyam GE	0.2			0.2
Gain/(loss) on foreign exchange transactions	(1.0)			(1.0)
Other income/(expense), net	(0.4)			(0.4)
Income (loss) before income taxes, minority interest and equity in earnings (losses) of associated companies	**18.4**		**20.6**	**18.4**
Income taxes	(2.1)			(2.1)
Minority interest	2.4			2.4
Equity in earnings (losses) of associated companies, net of taxes	(0.7)			(0.7)
Net income (loss)	**18.0%**		**20.6%**	**18.0%**
Depreciation	7.3%		6.7%	7.3%
Deferred stock-based compensation	1.0%		0.0%	1.0%

[9] Inclusive of deferred stock-based compensation expenses of 0.3% of IT services revenue.

[10] Inclusive of deferred stock-based compensation expenses of 0.7% of IT services revenue.

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	Year ended March 31, 2002			
	IT services	**BPO**	**Software products**	**Total**
Statement of Operations Data:				
Revenues external customers	100.0%		67.3%	100.0%
Inter segment revenue	0.0		32.7	
Total Revenues	100.0		100.0	100.0
Cost of revenues	(58.0)[11]		20.4	(58.0)
Gross profit	**42.0**		**79.6**	**42.0**
Operating expenses:				
Selling, general and administrative expenses	33.0)[12]		(382.3)	(33.7)
Amortization of goodwill	(4.1)			(4.1)
Impairment of goodwill	(19.6)			(19.6)
Total operating expenses	(56.7)		(382.3)	(57.4)
Operating income (loss)	**(14.7)**		**(302.6)**	**(15.3)**
Interest income	0.9			0.9
Interest expense	(0.7)			(0.7)
Gain on sale of shares of Sify	11.0			11.0
Gain/(loss) on foreign exchange transactions	2.6			2.6
Other income/(expense), net	0.3			0.3
Income (loss) before income taxes, minority interest and equity in earnings (losses) of associated companies	**(0.6)**		**(302.6)**	**(1.2)**
Income taxes	(0.2)			(0.2)
Minority interest	17.7			17.7
Equity in earnings (losses) of associated companies, net of taxes	(6.1)			(6.1)
Net income (loss)	**10.8%**		**(302.6)%**	**10.2%**
Depreciation	9.0%		44.2%	9.0%
Deferred stock-based compensation	2.6%			2.6%

11 Inclusive of deferred stock-based compensation expenses of 1.7% of IT services revenue.

12 Inclusive of deferred stock-based compensation expenses of 0.9% of IT services revenue.

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Comparison of fiscal 2004 and 2003

The following year on year comparison is based on our reportable segments.

IT Services:

Our principal business is providing IT services and we provide our customers with the ability to meet all of their IT needs from one service provider.

Revenues

Our IT services revenues (excluding inter-segment revenues) represented 99.8%, 99.8% and 99.9% of our total revenues in fiscal 2004, 2003 and 2002 respectively. These revenues increased by 23.3% to $565.0 million in fiscal 2004 from $458.3 million in fiscal 2003 and 10.7% to $458.3 million in fiscal 2003 from $413.9 in fiscal 2002.

This growth of $106.7 million or 23.3% in IT services revenue fiscal 2004 was primarily the result of an increase in business from existing customers and the generation of new business from new customers. Revenues from existing customers increased 23.3% to $474.8 million in fiscal 2004 from $385.0 million in fiscal 2003. Revenues from new business increased by 23.1% to $90.2 million in fiscal 2004 from $73.3 million in fiscal 2003. We added 108 and 100 customers during the year including 20 and 23 from the Fortune 500 list during the fiscal 2004 and 2003 respectively. The revenue share of Fortune 500 customers was 60.4%, both in fiscal 2004 and 2003.

IT services revenues and gross profits are affected by the rate at which associates are utilized. We calculate utilization rates on a monthly basis, based on the ratio of the actual number of hours billed by technical associates in such month to the total number of billable hours. For purposes of such calculation, we assume that an associate is 100.0% utilized if he works 157 hours per month. Utilization rates for IT services were 81.4% and 80.4% in fiscal 2004 and fiscal 2003, respectively. The utilization rate increased on account of new business and increase in business from existing clients.

Revenues by technology

The following table presents our IT services revenues (excluding inter-segment revenues) by type of IT service offering (in millions, except percentages).

	2004		2003		Change 2004 over 2003	
	Amount	%	Amount	%	Amount	%
Software development	$268.1	47.4%	$214.1	46.7%	$ 54.0	25.2%
System maintenance	132.0	23.4	108.6	23.7	23.4	21.5
Packaged software integration	144.0	25.5	94.3	20.6	49.7	52.7
Engineering design services	20.9	3.7	15.6	3.4	5.3	34.0
Internet services			25.7	5.6	(25.7)	-100.0
Total IT services	**$565.0**	**100.0%**	**$458.3**	**100.0%**	**$106.7**	**23.3%**

During fiscal 2004, revenues from packaged software integration has shown significant growth of 52.7%,

followed by engineering design services and software development, which grew by 34% and 25.2% respectively. We expect these trends to continue in the near future.

Our ownership interest in Sify has been accounted using the equity method since December 10, 2002. As a result, revenues from internet services were Nil in fiscal 2004 as compared to $ 25.7 million in fiscal 2003.

Revenues by contract type

The following table gives the composition of IT services revenues (excluding inter-segment revenues) by type of contract (in millions, except percentages).

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	2004		2003	
	Amount	**%**	**Amount**	**%**
Time and material basis	$386.1	68.3%	$332.2	72.5%
Fixed-price basis	178.9	31.7	126.1	27.5
Total IT services	**$565.0**	**100.0%**	**$458.3**	**100.0%**

Our revenues are generated principally from IT services provided on either a time-and-material or a fixed-price basis. Revenues from IT service provided on a time-and-material basis are recognized in the period that services are performed. Revenues from IT services provided on a fixed-price basis are recognized under the percentage of completion method of accounting when the work executed can be reasonably estimated. The percentage of completion estimates are subject to periodic revisions and the cumulative impact of any revision in the estimates of the percentage of completion is reflected in the period in which the changes become known. Although from time to time we have revised our project completion estimates, to date such revisions have not materially affected our reported revenues.

Revenues from IT services (excluding inter-segment revenues) provided on a time-and-materials basis increased to 68.3% from 72.5% in fiscal 2003 and revenues from fixed-price basis increased to 31.7% from 27.5% in fiscal 2003.

The increase in fiscal 2004 for fixed bid contracts is primarily due to shift in type of contracts from time-and-material to fixed bid since based on current market trends majority of the customers prefer to enter in to fixed price contracts. We expect that revenue from fixed bid contract will continue to increase in fiscal 2005 since current market trend indicate customer preference towards fixed price contracts.

Revenues based on offshore and onsite / offsite

The following tables gives the composition of revenues from IT services (excluding inter-segment revenues) based on the location where services are performed (in millions, except percentages).

	2004		2003	
	Amount	**%**	**Amount**	**%**
Off shore	$248.2	43.9%	$215.2	47.0%
Onsite/off-sites	316.8	56.1	243.1	53.0
Total IT services	**$565.0**	**100.0%**	**$458.3**	**100.0%**

We provide our IT services through our offshore centers located throughout India, through our onsite teams on customer s premises and through our offsite centers in United States, United Kingdom, Japan, Australia, Singapore, Malaysia, Dubai, Germany, Canada and China.

Offshore IT services revenues consist of revenues from IT services work conducted in our offshore centers and onsite work conducted at customers premises which is related to offshore work. Offshore IT services revenues do not include revenues from offsite centers or onsite work which is not related to any offshore work.

We charge higher rates and incur higher compensation expenses for work performed by our onsite teams on a customer s premises or at our offsite centers as compared to work performed at our offshore centers in India. Services performed by our onsite teams or at our offsite centers typically generate higher revenues per capita but at a lower gross margin than the same amount of services performed at our offshore centers in India.

The onsite percentage increased as a result of new engagements during fiscal 2004, since in the early stages of new engagements we require extensive interactions with customers to understand the business scenario and create the right process and the methodology before we move the work offshore at the most appropriate time. Revenues from new customers increased by 23.1% to $90.2 million in fiscal 2004 from $73.3 million in fiscal 2003. During fiscal 2003, revenues from new customers increased by 11.9% to $73.3 million from $65.5 million in fiscal 2002.

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We have set up a Global Business Continuity Center in Singapore and a Global Solution Center in Malaysia as an integral part of our business continuity plan. With development centers spread across 15 cities across the globe, we have the ability to commence work at a number of alternate sites in case of an emergency.

Revenues based on geography

The following table gives the composition of our revenues based on the location of our customers (in millions, except percentages).

	2004		2003	
	Amount	**%**	**Amount**	**%**
North America	$413.9	73.3%	$335.1	73.1%
Europe	77.5	13.7	53.3	11.6
Japan	11.1	2.0	10.5	2.3
India	16.0	2.8	27.8	6.1
Rest of the World	46.5	8.2	31.6	6.9
Total	**$565.0**	**100.0%**	**$458.3**	**100.0%**

Of the total increase of $106.7 million in revenue in fiscal 2004, $78.8 million increased in North America followed by $24.2 million in Europe. Revenue in rest of the world increased by $14.9 million and in Japan by $0.6 million. This was partly offset by a decrease in revenue in India by $11.8 million. Revenues in India included revenue from internet services of $nil in fiscal 2004 and $23.1 million in fiscal 2003. This decline in revenues in India is due to Sify ceasing to be our subsidiary w.e.f. December 10, 2002.

Our increased business in the North America and Europe was due to new clients and additional business from existing customers. We expect that most of our revenues will be generated in North America, followed by Europe, in fiscal 2005.

Cost of Revenues. Cost of revenues increased by 24.7% to $343.1 million in fiscal 2004 from $275.2 million in fiscal 2003. Cost of revenues represented 60.7% of IT services revenues in fiscal 2004 and 60.0% in fiscal 2003. This increase by $67.9 million was attributable primarily to increases in associate compensation and benefits expenses and traveling expenses. This increase was partially offset by decrease in depreciation expense and other expenses. Associate compensation and benefits expenses increased by 36.3% to $256.1 million, or 45.3% of revenues, in fiscal 2004 from $187.9 million, or 41% of revenues, in fiscal 2003. The increase in the associate compensation and benefits is due to: (1) increase in the total number of technical associates by 4,096 to 13,182 in fiscal 2004 from 9,086 in fiscal 2003; (2) increase in number of onsite technical associates by 1,038 to 3,444 in fiscal 2004 from 2,386 in fiscal 2003 for which we pay a higher compensation; (3) an increase of existing salaries by 17% in fiscal 2004. Traveling expenses increased 21.4% to $31.3 million, or 5.5% of revenues, in fiscal 2004 from $25.8 million, or 5.6% of revenues, in fiscal 2003. These increases were partly compensated by a decrease in deferred stock based compensation, communication expenses and depreciation expense. Deferred stock-based compensation decreased by 46.5% to $0.9 million in fiscal 2004 from $1.6 million in fiscal 2003 as a majority of options granted had a vesting date till March 2003. Communication expense decreased by 60.0% to $5.1 million or 0.9% of revenues in fiscal 2004 from $12.9 million or 2.8% of revenues in fiscal 2003 due to communication expenses of SIFY being included in

fiscal 2003. Our ownership interest in Sify has been accounted using the equity method since December 10, 2002. Depreciation expense decreased 8.8% to $20.1 million, or 3.6% of revenues, in fiscal 2004 from $22.1 million, or 4.8% of revenues, in fiscal 2003.

Selling, general and administrative expenses. Selling, general and administrative expenses decreased 16.6% to $97.0 million in fiscal 2004 from $116.3 million in fiscal 2003. Selling, general and administrative expenses represented 17.1% of revenues in fiscal 2004 and 25.4% in fiscal 2003. This decrease was attributable primarily to decrease in depreciation, traveling expenses, deferred stock-based compensation and other expenses. Depreciation decreased 73.3% to $3.7 million or 0.6% of revenue in fiscal 2004 from $13.7 million or 3.0% of revenue in fiscal 2003. The decrease is primarily due to depreciation of $9.7 million included in fiscal 2003, pertaining to Sify s assets up to December 9, 2002 after which ceased it to be our subsidiary. Traveling expenses decreased 18.2% to $8.3 million or 1.5% of revenue in fiscal 2004 from $10.1 million or 2.2% of revenue in fiscal 2003. Deferred stock-based compensation expense decreased 73.7% to $0.8 million or 0.1% of revenue in fiscal 2004 from $2.9 million or 0.6% of revenue in fiscal 2003. Other expenses primarily comprised

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of rent, power and fuel, repairs and maintenance and training and development. Other expenses decreased 14% to $34.5 million or 6.1% of revenue in fiscal 2004 from $40.2 million or 8.8% of revenue in fiscal 2003. This decrease was partially offset by increase in marketing expense by 12.7% to $10.3 million in fiscal 2004 from $9.2 million.

Operating income (loss). Our operating income was $125.4 million for fiscal 2004, representing an increase of 50.3% over the operating income of $83.4 million for fiscal 2003. As a percentage of revenues, operating income increased to 22.2% for fiscal 2004, from 18.2% for fiscal 2003. This increase was due to (i) decrease in selling, general and administrative expense from 25.4% of revenue in fiscal 2003 to 17.1% of revenues in fiscal 2004 and (ii) impairment of other non-marketable investments of $3.3 million or 0.7% of revenues during fiscal 2003. This increase was partially offset by increase in cost of revenue from 60.0% of revenues in fiscal 2003 to 60.7% of revenues in fiscal 2004 and due to reversal of put option charge in fiscal 2003 which was $19.8 million or 4.3% of revenue in fiscal 2003.

Interest income. Interest income increased to $20.3 million in fiscal 2004 from $7.2 million in fiscal 2003.This increase in interest was due to (i) increase in bank deposits from $268.5 million at the end of fiscal 2003 to $338.5 million at the end of fiscal 2004 and (ii) transfer of deposits placed in overseas banks to Indian banks yielding higher interest.

Gain on sale of shares in Sify. In September 2003, we sold 1,000,000 of our 12,182,600 Sify equity shares through Sify s sponsored ADS program. The sale transaction was privately negotiated and closed at a sale price of $4.35 (Rs.198.9) per share.The difference between the carrying value of the investment in Sify as of September 30, 2003 and the sales proceeds amounting to $2.6 million has been accounted for as a gain during the year ended March 31, 2004, in the statement of operations.

Gain/(loss) on foreign exchange transactions. In fiscal 2004 and fiscal 2003, 84.5% and 80.6%, respectively, of our revenues were generated in U.S. dollars. The average exchange rate of rupee to US dollar for fiscal 2004 was 45.23 against 45.8 for fiscal 2003. As at March 31, 2004, the rupee appreciated to 43.40 to $1.00 against 47.53 as at March 31, 2003. On account of rupee appreciation, our loss on foreign exchange transactions was $8.9 million in fiscal 2004 as compared to a gain of $4.8 million in fiscal 2003.

Other income/ (expenses), net. Other income increased to $2.4 million in fiscal 2004 as compared to other expense of $1.7 million in fiscal 2003. This increase in other income was primarily due to increase in gains on forward exchange contracts to $2.4 million in fiscal 2004 from $56 thousand in fiscal 2003.

Income taxes. Income taxes were $22.5 million in fiscal 2004 as compared to $9.8 million in fiscal 2003. This increase in income taxes is primarily due to increase in income taxable in United States.

Minority Interest. Minority interest in losses of subsidiaries decreased to $nil in fiscal 2004 from $11.1 million in fiscal 2003. This is primarily because our ownership interest in SIFY has been accounted using the equity method since December 10, 2002..

Equity in earnings (losses) of associated companies. Equity losses of associated companies were $2.6 million in fiscal 2004 as compared to $3.3 million in fiscal 2003. This decrease was primarily due to reduced holding in Sify from 37.2% as at March 31, 2003 to 32.0% as at March 31, 2004.

Net income. Our net income was $116.2 million for fiscal 2004, representing an increase of 41.6% over net income of $82.1 million for fiscal 2003. As a percentage of total revenues, net income increased to 20.5% for fiscal 2004 from 18.0% for fiscal 2003. This increase in net income was primarily due to decrease in selling, general and administration expenses from 40.0% of revenue in fiscal 2003 to 39.3% of revenue in fiscal 2004, impairment of other

non-marketable investments of $3.3 million or 0.7% of revenue in fiscal 2003, increase in interest income from 1.6% of revenue in fiscal 2003 to 3.6% of revenue in fiscal 2004 and increase in other income/(net of expenses) from (0.4)% of revenue in fiscal 2003 to 0.4% of revenue in fiscal 2004. This increase in net income was offset by decrease in gross profit from 40.0% of revenue in fiscal 2003 to 39.3% of revenue in fiscal 2004, reversal of put option charge of 4.3% of revenue in fiscal 2003 and increase in loss on foreign exchange transactions from 1.0% of revenue to 1.6% of revenue in fiscal 2004.

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BPO

On June 05, 2002, we formed Nipuna Services Limited or Nipuna, a wholly owned subsidiary in Secunderabad, Andhra Pradesh, India to provide various services connected with business process outsourcing. As of March 31, 2004, we had invested $4.0 million in Nipuna.

Software products

In fiscal 2004, VCI has generated revenues of $123 thousand of which $72 thousand was from inter-segment revenues. VCI generated a net loss of $0.2 million in fiscal 2004. Revenues from software products to date have been immaterial. The net loss of $0.2 million in fiscal 2004 as compared to the net profit of $0.2 million in fiscal 2003 was primarily due to the decrease in revenue to $123 thousand in fiscal 2004 as compared to $1.1 million in fiscal 2003. This was compensated by decrease in selling, general and administration expenses, to $321 thousand in fiscal 2004 as compared to $843 thousand in fiscal 2003.

Keeping in view the business and economic conditions, the relative size and managerial time, we decided to discontinue the operations of VCI so as to focus on our core business of IT services. VC was formally dissolved on March 24, 2004.

Comparison of fiscal 2003 and 2002

Revenues

Revenues increased by 10.8% to $459.2 million in fiscal 2003 from $414.5 million in fiscal 2002. Our top two customers accounted for 24.9% of the total revenues in 2003 up from 25.2% of the total revenues in 2002. Additionally, our top 5 customers accounted for 38.4% of the revenues, both in 2003 and 2002.

IT Services. IT services revenues (including inter-segment revenues) increased 10.7% to $458.3 million in fiscal 2003 from $413.9 million in fiscal 2002, of which $nil and $18 thousand represented inter-segment revenues in fiscal 2003 and 2002, respectively. All revenues discussed in this sub-section relate only to IT services revenues generated from external customers and exclude inter-segment revenues generated from services provided by Satyam Computer Services to its subsidiaries and vice-versa.

Software Products. Revenues from software products to date have been immaterial.

Cost of revenues. Cost of revenues increased 14.5% to $275.2 million in fiscal 2003 from $2403 million in fiscal 2002. This increase was attributable primarily to increases in associate compensation and benefits expenses and traveling expenses. These increases were primarily compensated by a decrease in other expenses. Associate compensation and benefits expenses increased 29.3% to $187.9 million, or 41.0% of revenues, in fiscal 2003 from $145.4 million, or 35.1% of revenues, in fiscal 2002. Traveling expenses increased 47.2% to $25.8 million, or 5.6% of revenues, in fiscal 2003 from $17.5 million, or 4.2% of revenues, in fiscal 2002. Other expenses were primarily comprised of cost of direct supplies, deferred stock-based compensation expense and communication expenses. Other expenses decreased 29.1% to $39.4 million, or 8.6% of revenues, in fiscal 2003 from $55.6 million, or 13.4% of revenues, in fiscal 2002. Deferred stock-based compensation expense decreased 78.0% to $1.6 million, or 0.3% of revenues, in fiscal 2003 from $7.2 million, or 1.7% of revenues, in fiscal 2002. Communication expenses decreased 30.8% to $12.8 million, or 2.8% of revenues, in fiscal 2003 from $18.5 million, or 4.5% of revenues, in fiscal 2002. Inter-segment cost of revenues were $nil in fiscal 2003 as compared to $18 thousand in fiscal 2002 and have not been allocated to the individual components that make up cost of revenues. Cost of revenues represented 59.9% of revenues in fiscal 2003 and 58.0% in fiscal 2002.

Gross profit. Our gross profit was $183.9 million for fiscal 2003, representing an increase of 5.6% over gross profit of $174.2 million for fiscal 2002. As a percentage of total revenues, gross profit reduced to 40.1% for fiscal

2003 from 42.0% for fiscal 2002.

Selling, general and administrative expenses. Selling, general and administrative expenses decreased 16.3% to $116.9 million in fiscal 2003 from $139.6 million in fiscal 2002. This decrease was a result primarily of decrease in associate compensation and benefits, deferred stock-based compensation expense, professional charges, depreciation expense and other expenses. Compensation and benefits expenses decreased 17.2% to

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$36.8 million, or 8.0% of revenues, in fiscal 2003 from $44.4 million, or 10.7% of revenues, in fiscal 2002. Deferred stock-based compensation expense decreased 18.2% to $2.9 million, or 0.6% of revenues, in fiscal 2003 from $3.6 million, or 0.9% of revenues, in fiscal 2002. Professional charges decreased 33.2% to $8.0 million, or 1.7% of revenues, in fiscal 2003 from $11.9 million, or 2.9% of revenues, in fiscal 2002. Depreciation expense decreased 12.8% to $13.8 million, or 3.0% of revenues, in fiscal 2003 from $15.8 million, or 3.8% of revenues, in fiscal 2002. Other expenses decreased 13.2% to $55.4 million, or 12.1% of revenues, in fiscal 2003 from $63.8 million, or 15.4% of revenues, in fiscal 2002. Inter-segment selling, general and administrative expenses were $253 thousand in fiscal 2003 as compared to $284 thousand in fiscal 2002 and have not been allocated to the individual components that make up selling, general and administrative expenses. Selling, general and administrative expenses represented 25.5% of revenues in fiscal 2003 as compared to 33.7% of revenues in fiscal 2002.

Operating income (loss). Operating income increased to $83.6 million in fiscal 2003 as compared to an operating loss of $63.5 million in fiscal 2002. During fiscal 2002, operating expenses comprised of $98.1 million due to amortization and impairment of goodwill. Also, gross profit increased by $9.8 million from 174.2 million in fiscal 2003 to $184.0 million in fiscal 2004; selling, general and administration expenses decreased by $22.7 million from $139.6 million in fiscal 2003 to $116.9 million in fiscal 2004.

Net income (loss). Net income was $82.3 million in fiscal 2003 as compared to a net income of $42.4 million in fiscal 2002.

IT Services

Revenues. IT services revenues (including inter-segment revenues) increased 10.7% to $458.3 million in fiscal 2003 from $413.9 million in fiscal 2002, of which $nil and $18 thousand represented inter-segment revenues in fiscal 2003 and 2002, respectively. All revenues discussed in this sub-section relate only to IT services revenues generated from external customers and exclude inter-segment revenues generated from services provided by Satyam Computer Services to its subsidiaries and vice-versa.

Revenues by technology

The following table presents our IT services revenues (excluding inter-segment revenues) by technology of IT service offering (in millions, except percentages).

	2003		2002		Change 2003 over 2002	
Type of IT service offering	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Software development	$214.1	46.7%	$195.5	47.2%	$ 18.6	9.5%
System maintenance	108.6	23.7	110.2	26.6	(1.6)	(1.5)
Packaged software integration	94.3	20.6	53.0	12.8	41.3	77.9
Engineering design services	15.6	3.4	18.6	4.5	(3.0)	(16.1)
Internet services	25.7	5.6	36.6	8.9	(10.9)	(29.8)
Total IT services	**$458.3**	**100.0%**	**$413.9**	**100.0%**	**$ 44.4**	**10.7%**

Revenues by contract type

The following table gives the composition of IT services by type of contract (in millions, except percentages).

	2003		2002	
Type of IT service offering	**Amount**	**%**	**Amount**	**%**
Time and material basis	$332.2	72.5%	$331.3	80.0%
Fixed price basis	126.1	27.5	82.6	20.0
Total IT services	**$458.3**	**100.0%**	**$413.9**	**100.0%**

Our revenues are generated principally from IT services provided on either a time-and-material or a fixed-price basis. Revenues from IT service provided on a time-and-material basis are recognized in the period that services are performed. Revenues from IT services provided on a fixed-price basis are recognized under the

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percentage of completion method of accounting when the work executed can be reasonably estimated. The percentage of completion estimates are subject to periodic revisions and the cumulative impact of any revision in the estimates of the percentage of completion is reflected in the period in which the changes become known. Although from time to time we have revised our project completion estimates, to date such revisions have not materially affected our reported revenues.

Revenues based on offshore and onsite / off site

The following tables give the composition of revenues from IT services based on the location where services are performed (in millions, except percentages).

	2003		2002	
	Amount	**%**	**Amount**	**%**
Offshore	$215.2	47.0%	$216.6	52.3%
Onsite/off-sites	243.1	53.0	197.3	47.7
Total IT services	**$458.3**	**100.0%**	**$413.9**	**100.0%**

Offshore IT services revenues consist of revenues from IT services work conducted in our offshore centers and onsite work conducted at customers premises which is related to offshore work. Offshore IT services revenues do not include revenues from offsite centers or onsite work which is not related to any offshore work.

We charge higher rates and incur higher compensation expenses for work performed by our onsite teams on a customer s premises or at our offsite centers as compared to work performed at our offshore centers in India. Services performed at our onsite teams or at our offsite centers typically generate higher revenues per capita but at a lower gross margin than the same amount of services performed at our offshore centers in India.

Revenues based on geography

Our revenues based on five geographic theaters: North America, India, Japan, Europe and Rest of the World for fiscal 2003 and 2002 is summarized in the following table (in millions, except percentages):

	2003		2002	
	Amount	**%**	**Amount**	**%**
North America	$335.1	73.1%	$288.8	69.8%
Europe	53.3	11.6	39.2	9.5
Japan	10.5	2.3	9.2	2.2
India	27.9	6.1	42.4	10.2
Rest of the World	31.5	6.9	34.3	8.3
Total	**$458.3**	**100.0%**	**$413.9**	**100.0%**

For purposes of the remainder of the discussion of the results of operations for our business segments, except as specifically indicated, we have included all inter-segment data for all items under discussion. Please refer to the Results of Operations table above for an analysis of consolidation of the business segments.

Cost of revenues. Cost of revenues increased 14.6% to $275.2 million in fiscal 2003 from $240.1 million in fiscal 2002. Cost of revenues represented 60.0% of revenues in fiscal 2003 as compared to 58.0% in fiscal 2002. The increase in cost of revenues was attributable primarily to an increase in associate compensation and benefits and traveling expenses. Compensation and benefit expenses increased 29.3% to $187.9 million or 41.0% of revenues in fiscal 2003 from $145.4 million, or 35.1% of revenues, in fiscal 2002 respectively. Traveling expense increased 47.2% to $25.8 million, or 5.6% of revenues, in fiscal 2003 from $17.5 million, or 4.2% of revenues, in fiscal 2002. These increases were partly offset by decrease in deferred stock-based compensation expense, communication expense and other expenses. Deferred stock-based compensation expense decreased 78.0% to $1.6 million, or 0.3% of revenues, in fiscal 2003 from $7.2 million, or 1.7% of revenues. Communication expenses decreased 30.4% to $12.8 million, or 2.8% of revenues, in fiscal 2003 from $18.5 million, or 4.5% of revenues, in fiscal 2002. Other expenses primary comprised cost of direct supplies, rental expenses and professional charges. Other expenses decreased 16.5% to $25.0 million, or 5.4% of revenues, in fiscal 2003 from $29.9 million, or 7.2% of revenues, in fiscal 2002.

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Selling, general and administrative expenses. Selling, general and administrative expenses decreased 14.8% to $116.3 million in fiscal 2003 from $136.6 million in fiscal 2002. Selling, general and administrative expenses represented 25.4% of revenues in fiscal 2003 as compared to 33.0% in fiscal 2002. The decrease in selling, general and administrative expenses was attributable primarily to an decrease in compensation and benefit expenses, professional charges, deferred stock compensation expense and other expenses. Compensation and benefit expenses decreased 15.3% to $36.3 million, or 7.9% of revenues, in fiscal 2003 from $42.9 million, or 10.4% of revenues, in fiscal 2002. Professional charges decreased 31.0% to $8.0 million, or 1.7% of revenues, in fiscal 2003 from $11.5 million, or 2.8% of revenues, in fiscal 2002. Deferred stock-based compensation expenses decreased 18.2% to $2.9 million, or 0.6% of revenues, in fiscal 2003 from $3.6 million, or 0.9% of revenues, in fiscal 2002. Other expenses decreased 12.3% to $55.3 million, or 12.1% of revenues, in fiscal 2003 from $63.1 million, or 15.2% of revenues, in fiscal 2002.

Impairment of other non-marketable investments. During the year ended March 31, 2003 we recorded an impairment charge on other non-marketable investments amounting to $3.3 million based on our assessment of their carrying values. We assessed the carrying values of these investments by considering current factors including economic environment, market conditions and the operational performance and other specific factors relating to the business underlying these investments and concluded that there is an other than temporary decline in their carrying value.

Reversal of put option charge. In connection with our previous joint venture with TRW Inc., TRW had the option to require us to purchase its 24.0% interest in the joint venture. The buyout price of TRW s interest in the joint venture depended on the aggregate amount of revenue which TRW would provide to the joint venture from June 1, 2000 to December 31, 2005. We accounted for the put option at fair value at each balance sheet date, with the initial fair value of the put option included as part of the consideration for its 24% interest in the joint venture. The difference between the fair values of the put option at each valuation date was charged to selling, general and administration expenses in the statement of operations. Based on the terms of the agreement, the value of put option was $12.5 million as of March 31, 2002.

In October 2002, Northrop Grumman Corporation acquired TRW and subsequently TRW s name was changed to Northrop Grumman Space & Mission Systems Corporation (NGSM). Following the restructuring of TRW, we entered into a share purchase and joint venture termination agreement with NGSM and BDM International Inc. (or NGSM Parties) under which we purchased the 24% holding of NGSM Parties in the joint venture for $3.5 million and the prospects of future business opportunities with Northop, on March 28, 2003. The acquisition has been accounted using the purchase method and the allocation of the purchase price was almost entirely related to goodwill. We recognized goodwill of $3.4 million on this acquisition equal to the excess of the consideration paid of $3.5 million over the fair value of that portion of the net assets acquired as of March 28, 2003. In accordance with the provisions of SFAS 142, the goodwill has not been amortized post acquisition. As a result of our acquisition of this 24% interest in the joint venture, the value of the put option as of December 31, 2002 amounting to $19.8 million has been accounted for as operating income in the year ended March 31, 2003.

Goodwill. Effective April 1, 2002, we adopted Statement of Financial Accounting Standards No. 142 or SFAS 142, Goodwill and Other Intangible Assets. SFAS 142 requires, among other things, the discontinuance of amortization related to goodwill and indefinite lived intangible assets. These assets will then be subject to an impairment test at least annually. We are required to perform goodwill impairment tests on an annual basis and between annual tests in certain circumstances. We performed an initial impairment review of goodwill on the adoption of SFAS 142 and also carried out an annual impairment review in 2003. Based on these tests there was no impairment of goodwill during the year ended March 31, 2003. Further due to the adoption of SFAS 142, we ceased amortizing goodwill and as a result, amortization of goodwill expense was $nil in fiscal 2003 as compared to $4.3 million in fiscal 2002. This goodwill had arisen on acquisition of minority interest in SES in September 1999.

Operating income (loss). As a result of the foregoing, operating income was $83.4 million in fiscal 2003 as compared to an operating loss of $60.9 million in fiscal 2002. During fiscal 2002, operating expenses comprised of $98.1 million due to amortization and impairment of goodwill. Also, gross profit increased by $9.4 million from 173.8 million in fiscal 2003 to $183.2 million in fiscal 2004; selling, general and administration expenses decreased by $20.3 million from $136.6 million in fiscal 2003 to $116.3 million in fiscal 2004.

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Interest income. Interest income increased to $7.2 million in fiscal 2003 from $3.8 million in fiscal 2002. The increase in interest income was attributable primarily to interest earned on deposits kept out of proceeds from our ADS offering.

Interest expense. Interest expense decreased to $800 thousand in fiscal 2003 from $2.9 million in fiscal 2002 primarily due to the repayment of debts during the second and third quarter of fiscal 2002 by utilization of ADR proceeds.

Gain on sale of shares in Satyam GE. During the year ended March 31, 2003 we obtained the necessary approvals and transferred our 50% shareholding in Satyam GE to GE Pacific for approximately $4.0 million. We recorded a gain of $830 thousand for this sale, being the excess of sales consideration received over the carrying value.

Other income/(expense), net. Other expense increased to $1.7 million in fiscal 2003 as compared to other income of $1.3 million in fiscal 2002 which was primarily on account of foreign currency translation gains.

Income taxes. Income taxes were $9.8 million in fiscal 2003 and $769 thousand in fiscal 2002. This increase in income taxes was primarily due to increase in income taxable in United States.

Minority Interest. Minority interest in losses of subsidiaries decreased to $11.1 million in fiscal 2003 from $73.4 thousand in fiscal 2002. This decrease was primarily due to reduced holding in Sify from 52.51% as at March 31, 2002 to 37.15% as at March 31, 2003.

Equity earnings (losses) of associated companies. Equity losses of associated companies were $3.3 million in fiscal 2003 as compared to $25.4 million in fiscal 2002. This decrease in equity losses of associated companies was primarily due to decrease in our share of losses in Cricinfo, which was an associate company of Sify, from $26.0 million in fiscal 2002 to $2.0 million in fiscal 2003.

Net income (loss). As a result of the foregoing, net income was $82.1 million in fiscal 2003 as compared to net income of $45.0 million in fiscal 2002. This increase in net income was primarily due to increase in gross profit from $173.8 million in fiscal 2002 to $183.2 million in fiscal 2003, decrease in selling, general and administration expenses from $136.6 million in fiscal 2002 to $116.3 million in fiscal 2002, amortization and impairment of goodwill of $98.1 million in fiscal 2002, increase in interest income from $3.8 million in fiscal 2002 to $7.2 million in fiscal 2003 and decrease in our share of losses in associated companies from $25.4 million in fiscal 2002 to $3.3 million in fiscal 2002. This increases in net profit was partly offset by decrease in gain on sale of shares in associated companies from $45.6 million in fiscal 2002 to $830 thousand in fiscal 2003, loss on foreign exchange of $4.8 million in fiscal 2003 compared to a gain of $10.8 million in fiscal 2002, increase in income taxes from $769 thousand in fiscal 2002 to $9.8 million in fiscal 2003 and decrease in minority interest in losses of subsidiaries from $73.4 million in fiscal 2002 to $11.1 million in fiscal 2003.

Software products

In fiscal 2003, VCI has generated revenues of $1.1 million of which $0.3 million was from inter-segment revenues. VCI generated a net profit of $0.2 million in fiscal 2003 as compared to a net loss of $2.6 million in fiscal 2002.

The net profit of $0.2 million in fiscal 2003 as compared to a net loss of $2.6 million was primarily due to the decrease in selling and general administrative expenses to $0.84 million in fiscal 2003 as compared to $3.3 million in fiscal 2002. The net loss of $2.6 million in fiscal 2002 was attributable primarily to selling and general administrative expenses, research and development expenses which primarily comprised employee compensation and benefits of

$1.7 million and professional charges of $0.4 million.

Liquidity and Capital Resources

Net cash provided by (used in) operating activities. Net cash provided by operating activities was $89.2 million, $98.5 million and $116.4 million in fiscal 2004, 2003 and 2002, respectively.

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In fiscal 2002, non-cash adjustments to reconcile the $42.4 million net income to net cash provided by operating activities consisted primarily of deferred stock-based compensation expense of $10.8 million, depreciation expense of $37.5 million, amortization and impairment expenses of goodwill and license fees of $98.8 million and a decrease in minority interest of $73.4 million.

In fiscal 2003, non-cash adjustments to reconcile the $82.3 million net income to net cash provided by operating activities consisted primarily of depreciation and amortization of license fees expense of $37.2 million. Net accounts receivable and unbilled revenues increased by $15.4 million primarily as a result of an increase in our revenues and increase in the collection period. Increase in other working capital assets of $7.3 million was primarily on account of directors and officers liability insurance taken during the year and interest accrued on deposits placed with banks. Unearned and deferred revenues increased by $3.5 million because of advance billing on clients for services to be rendered in future.

In fiscal 2004, non-cash adjustments to reconcile the $111.9 million net income to net cash used in operating activities consisted primarily of depreciation expense of $24.4 million. Net accounts receivable and unbilled revenues increased by $22.5 million primarily as a result of an increase in our revenues. Increase in other working capital assets of $25.4 million was primarily on account of interest accrued on deposits placed with banks. Unearned and deferred revenues increased because of advance billing on clients for services to be rendered in future.

Net cash used in investing activities. Net cash used in investing activities was $60.2 million, $272.0 million and $40.4 million in fiscal 2004, 2003 and 2002, respectively. Net cash used in investing activities in fiscal 2004 decreased by $211.8 million to $60.2 million from $272.0 million in fiscal 2003. This decrease was primarily related to decrease in investments in bank deposits and acquisitions and investments in associate companies. Investments made in bank deposits in fiscal 2004 were $45.4 million as compared to $259.3 million in fiscal 2003. Net cash used for acquisitions and investment in associate companies decreased from $5.1 million in fiscal 2003 to $nil in fiscal 2004. These decreases were partially offset by increase in purchase of premises and equipment by $5.8 million in fiscal 2004 compared to fiscal 2003. Net cash used in investing activities in fiscal 2003 increased by 231.6 million to $272.0 million from $40.4 million in fiscal 2002. This increase was primarily related to investments in bank deposits of $259.3 million. This increase was partially offset by decrease in purchase of premises and equipment, acquisitions and investments in associated companies. Purchase of premises and equipment in fiscal 2002 consisted primarily of infrastructure, computers and other equipment associated with the expansion. Net cash used in investing activities in fiscal 2002 were primarily related to acquisitions and investments in associated Companies of $4.6 million; and purchases of premises and equipment of $34.2 million consisted primarily of infrastructure, computers and other equipment associated with the expansion.

Net cash provided by/(used in) financing activities. Net cash provided by/(used in) financing activities was $(11.5) million, $(12.1) million and $110.7 million in fiscal 2004, 2003 and 2002, respectively. During fiscal 2004, $20.5 million was raised from financing activities, primarily from issuance of preferred stock (net of issuance costs) of $9.4 million by our subsidiary and $9.3 million by associate stock options. We used cash in repayment of loan amounting to $2.5 million and payment of dividend amounting to $26.2 million in fiscal 2004. During fiscal 2003, $3.3 million was raised from financing activities, primarily from associate stock options of $1.9 million and long-term debts of $1.4 million. We used cash in repayment of debts amounting to $5.8 million and payment of dividend amounting to $9.7 million in fiscal 2003. During fiscal 2002, we raised $160.5 million from issuance of common stock, primarily from issue of American Depository Shares of $150.6 million and $9.9 million from associate stock options. We used cash in repayment of debts amounting to $43.3 million and payment of dividend amounting to $6.4 million.

As of March 31, 2004, we had $86.7 million in cash and cash equivalents, $2.4 million in secured rupee denominated loans from the Satyam Associate Trust and $1.8 million of other outstanding loans denominated in

rupee. As of March 31, 2004, we had an unused short term working capital line of credit of $8.1 million from a bank and unused non-funded lines of credit of $4.9 million.

The following table describes our outstanding credit facilities as at March 31, 2004.

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Loan Type	Lenders	Amount Outstanding	Interest (per annum)	Computation Method
		(in thousands)		
Rupee loan of Satyam Associates Trust	Cholamandalam	$ 2,428	10.75%	Fixed
Other loans	Various parties	1,754	3.0%-14.5%	Fixed
Total		**$ 4,182**		

We anticipate capital expenditures of approximately $35.0 million during fiscal 2005, principally to finance construction of new facilities in our offshore centres, expand facilities in offshore centers in India and establish offsite centers outside India. We believe that existing cash and cash equivalents and funds generated from operations will be sufficient to meet these requirements. However, we may significantly alter our proposed capital expenditures plans and accordingly, may require additional financing to meet our requirements. After fiscal 2005, we may require additional financing to fund our working capital and capital expenditure requirements. In either case, we cannot assure you that additional financing will be available at all or, if available, that such financing will be obtained on terms favorable to us or that any additional financing will not be dilutive to our shareholders.

The following table sets forth our contractual obligations and commitments to make future payments as of March 31, 2004. The following table excludes our accounts payable, accrued operating expenses and other current liabilities which are payable in normal course of operations.

	Payments Due as of March 31, 2004				
	Within 1 year	1-3 years	3-5 years	After 5 years	Total
			(in thousands)		
Long term debt	$ 2,356	$ 1,826			$ 4,182
Operating leases	1,877	3,554	1,557	867	7,855
Unconditional purchase obligations:					
Other commercial commitments	4,414				4,414
Bank guarantees	2,631	496	2,174	43	5,344
Letters of credit	6				6
Total contractual cash obligations	**$11,318**	**$ 5,877**	**$ 3,697**	**$ 911**	**$21,803**

Based on past performance and current expectations, we believe that our cash and cash equivalents, short-term investments, and cash generated from operations will satisfy our working capital needs, capital expenditures, investment requirements, stock repurchases, commitments, and other liquidity requirements associated with our

existing operations through at least the next 12 months. In addition, there are no transactions, arrangements, and other relationships with unconsolidated entities or other persons that are reasonably likely to materially affect liquidity or the availability of our requirements for capital resources.

Off-Balance Sheet Arrangements.

None.

Income Tax Matters

As of March 31, 2004, we had an operating loss carry forward of approximately $17.6 million for tax purposes including valuation allowance. Under Indian law, loss carry forwards from a particular year may be used to offset taxable income over the next eight years and the unabsorbed depreciation can be carried forward indefinitely.

The statutory corporate income tax rate in India is currently 35.0%. This tax rate is presently subject to a 2.5% surcharge resulting in an effective tax rate of 35.9%. The provision for foreign taxes is due to income taxes payable in overseas tax jurisdictions by its offsite and onsite centers, principally in the United States. We benefit from certain significant tax incentives provided to software entities under Indian tax laws. These incentives presently include: (i) a deduction from payment of Indian corporate taxes to the extent of 90% of the profits derived from export of software from software development facilities designated as Software

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Technology Parks , or STP units, up to 2010; and (ii) a tax deduction of 50% of profits from exporting computer software progressively reduced to nil by the year 2004-05. The benefits of these tax incentives have historically resulted in an effective tax rate for Satyam Computer Services well below statutory rates. The exemptions for our STP units expire starting from fiscal 2006 through fiscal 2010. However, Satyam Computer Services earns certain other income and domestic income, which are taxable irrespective of the tax holiday as stated above. Our subsidiaries are subject to income taxes of the countries in which they operate.

Effects of Inflation

India has experienced relatively high rates of inflation in the past however it has not had a significant effect on our results of operations and financial condition to date.

Exchange Rates

The following table sets forth, for each of the months indicated, information concerning the number of Indian rupees for which one U.S. dollar could be exchanged based on the average of the noon buying rate in the City of New York on the last day of each month during each of such months for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York:

Month	Month end	Average	High	Low
		(Rupees)		
April-03	47.37	47.39	47.46	47.34
May-03	47.07	47.11	47.35	46.85
June-03	46.40	46.70	47.15	46.40
July-03	46.15	46.22	46.49	46.06
August-03	45.88	45.96	46.18	45.80
September-03	45.78	45.85	46.00	45.72
October-03	45.33	45.40	45.70	45.29
November-03	45.82	45.55	45.95	45.30
December-03	45.55	45.57	45.77	45.50
January-04	45.32	45.46	45.68	45.29
February-04	45.32	45.27	45.32	45.22
March-04	43.40	44.97	45.32	43.40
April-04	44.52	43.89	44.52	43.40
May-04	45.42	45.18	45.57	44.55

Critical Accounting Policies

Financial Reporting Release No. 60, issued by the Securities and Exchange Commission, requires all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. The following is a brief discussion of the more significant accounting policies and methods used by us. In addition, Financial Reporting Release No. 61 issued by the SEC requires all companies to include a discussion to address, among other things, liquidity, off-balance sheet arrangements, contractual obligations and commercial commitments.

We have identified the policies below as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operations is discussed throughout this Item 5 Operating and Financial Review and Prospects where such policies affect our reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see Note 1 in the Notes to the Consolidated Financial Statements in Item 18 of this Annual Report on Form 20-F, beginning on

page F-10.

Note that our preparation of this Annual Report on Form 20-F requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. There can be no assurance that actual results will not differ from those estimates.

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Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Revenue recognition

Our revenue recognition policy is significant because our revenue is a key component of our results of operations. We follow very specific and detailed guidelines in measuring revenue; however, certain judgments affect the application of our revenue policy. Revenue results are difficult to predict, and any shortfall in revenue or delay in recognizing revenue could cause our operating results to vary significantly from quarter to quarter and could result in future operating losses.

We derive our revenue primarily from IT services, which includes software development, system maintenance, package software implementation, engineering design services and e-business.

Revenues earned from services performed on a time and material basis are recognized as the services are performed. IT services performed on time bound fixed-price engagements, require accurate estimation of the costs which include salaries and related expenses of technical associates, related communication expenses, travel costs, scope and duration of each engagement. Revenue and the related costs for these projects are recognized on percentage of completion, with revisions to estimates reflected in the period in which changes become known. Provisions for estimated losses on such engagements are made during the period in which a loss becomes probable and can be reasonably estimated. We recognize revenue based on the completed-contract method where the work to complete cannot be reasonably estimated.

We provide our clients with one to three months warranty as post-sale support for its fixed price engagements. Costs associated with such services are accrued at the time the related revenues are recorded. Historically, Satyam has not incurred any expenditure on account of warranties and since the customer is required to formally sign off on the work performed, any subsequent work is usually covered by an additional contract.

Impairment of Goodwill

We assess the impairment of identifiable intangibles, long-lived assets and related goodwill and enterprise level goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of our use of the acquired assets or the strategy for our overall business;
- significant negative industry or economic trends;
- significant decline in our stock price for a sustained period; and
- our market capitalization relative to net book value.

When we determine that the carrying value of intangibles, long-lived assets and related goodwill and enterprise level goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model.

Effective April 1, 2002, we adopted Statement of Financial Accounting Standards No. 142or SFAS 142, Goodwill and Other Intangible Assets. SFAS 142 requires, among other things, the discontinuance of amortization related to goodwill and indefinite lived intangible assets. These assets will then be subject to an impairment test at least annually. We are required to perform goodwill impairment tests on an annual basis and between annual tests in certain circumstances. We performed an initial impairment review of goodwill on the adoption of SFAS 142 and also carried out an annual impairment review in 2004. Based on these tests there is no impairment of goodwill during the year ended March 31, 2004.

Future events could cause us to conclude that impairment indicators exist and that goodwill associated with our acquired businesses is impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations.

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Accounts Receivable

We estimate the amount of uncollectible receivables each period and establish an allowance for uncollectible amounts. The amount of the allowance is based on the age of unpaid amounts, information about the creditworthiness of customers, and other relevant information. Estimates of uncollectible amounts are revised each period, and changes are recorded in the period they become known. A significant change in the level of uncollectible amounts would have a significant effect on our results of operations.

Accounting for income taxes

As part of the process of preparing our consolidated financial statements we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves us estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the statement of operations.

The provision for foreign taxes is due to income taxes payable in overseas tax jurisdictions by its offsite and onsite centers, principally in the United States. Satyam Computer Services benefits from certain significant tax incentives provided to software entities under Indian tax laws. These incentives presently include: (i) an exemption from payment of Indian corporate income taxes for a period of ten consecutive years of operations of software development facilities designated as Software Technology Parks ; and (ii) a tax deduction for profits from exporting computer software. The benefits of these tax incentives have historically resulted in an effective tax rate for Satyam Computer Services well below statutory rates. Further, most of our operations are from Software Technology Parks , or STP unit, which are entitled to a tax holiday of ten years from the date of commencement of operations. STP units registered after March 31, 2001 are not entitled to this exemption. Four our various registered STP units, these exemptions expire starting from fiscal 2006 through fiscal 2010. However, we also earn certain other income and domestic income, which are taxable irrespective of this tax holiday. Our subsidiaries are subject to income taxes of the countries in which they operate.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. The valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable. In the event that actual results differ from these estimates or we adjust these estimates in future periods we may need to establish an additional valuation allowance which could materially impact our financial position and results of operations.

Impact of Recently Issued Accounting Pronouncements

Derivative Instruments

Effective April 1, 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. This statement amends SFAS No. 133 for certain decisions made by the Board as part of the Derivatives Implementation Group (DIG) process and further clarifies the accounting and reporting standards for derivative instruments including derivatives embedded in other contracts and for hedging activities. The adoption of this statement does not have a material impact on Satyam s operating results or financial position.

Financial Instruments

Effective, May 1, 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of *both Liabilities and Equity.* This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS 150 is effective for financial instruments

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entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of this statement has not had a material impact on Satyam s operating results or financial position.

Guarantor s Accounting and Disclosure Requirements

In November 2002, the FASB issued Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees Including Indirect Guarantees of Indebtedness of Others. The adoption of the Interpretation did not have a material impact on Satyam s accounting or disclosure policies.

Variable Interest Entities

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities.* FIN 46 requires unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse the risk and rewards of ownership among their owners and other parties involved. The provisions of FIN 46 are effective immediately to all variable entities created after January 1, 2003, and variable interest entities in which an enterprise obtains an interest in after that date. For variable interest entities created before this date, the provisions are effective July 31, 2003. On October 8, 2003, the FASB issued FASB Staff Position No. 46-e, which allows public entities, who meet certain criteria, to defer the effective date for applying the provisions of FIN No. 46 to interests held by the public entity in certain variable interest entities or potential variable interest entities until the end of the first interim or annual period ending after December 15, 2003. On December 24, 2003, the FASB extended the effective date to periods ending after March 15, 2004. The adoption of this interpretation did not have a material impact on Satyam s operating results or financial position.

Revenue Arrangements

In January 2003, the EITF released Issue No. 00-21 (EITF 00-21), *Revenue Arrangements with Multiple Deliverables,* which addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. Specifically, EITF 00-21 addresses whether an arrangement contains more than one unit of accounting and the measurement and allocation to the separate units of accounting in the arrangement. EITF 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of the consensus does not have a material impact on Satyam s revenue recognition policies.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors and Officers

The following table sets forth the name, age, and position of each of our directors and key management personnel as of June 18, 2004:

Directors

Name	Age	Position Held
B. Ramalinga Raju	47	Chairman
B. Rama Raju	45	Managing Director and Chief Executive Officer(3)
V. P. Rama Rao	71	Director(1)(2)(3)
Dr. Mangalam Srinivasan	72	Director(1)(2)
Mr. Krishna G. Palepu	49	Director(1)
Mr. Vinod K Dham	53	Director(2)

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Key Management Personnel(4)

Name	Age	Position Held
Jayaraman G	48	Vice President (Corp. Affairs) & Company Secretary
Joseph Abraham	51	Director & Senior Vice President, Vertical Business Unit Retail
Kalyan Rao K	50	Tech Fellow
Mohan Eddy F. S	54	Director, Internal Information Systems and Platinum Processes Group
Murty A. S	45	Director & Senior Vice President, Global Human Resources
Prabhat G. B	38	Director, Horizontal Business Unit Enterprise Business Solution
Ram Mynampati	47	President, Commercial and Healthcare Businesses
Srinivas V	43	Director and Senior Vice President & Chief Financial Officer
Subramanian D	45	Director & Senior Vice President, Global Manufacturing, SAP, Oil and Gas & Energy and Utilities and Engineering Business Units

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Investors Grievance Committee
(4) Directors listed under key management personnel are directors of business/support units and not members of our board of directors.

B. Ramalinga Raju has been on our board of directors since our inception in 1987. He became Chairman of our board of directors in 1995. Before this, he was with the Satyam Corporate Group as Vice Chairman. Mr. Ramalinga Raju also sits on the board of directors of Nipuna Services Limited. Mr. Ramalinga Raju holds a Master of Business Administration degree from Ohio University and has attended the owner/president management course at Harvard Business School.

B. Rama Raju has been on our board of directors since our inception in 1987. He became the Managing Director and Chief Executive Officer of our company in 1991. Before this, he was with Maytas Infra Limited as one of its Directors. Mr. Rama Raju also sits on the board of directors of Nipuna Services Limited, Maytas Infra Limited and Satyam Venture Engineering Services Private Limited. Mr. Rama Raju holds a master of economics from Loyola College, Chennai and a Master of Business Administration from Loredo State University, Texas and has also attended the owner/president management course at Harvard Business School. Mr. Rama Raju is the younger brother of Mr. B. Ramalinga Raju, the Chairman of our company.

V. P. Rama Rao has been on our board of directors since July 1991. Before this, he was with the Indian Administrative Service and was the Chief Secretary to the government of Andhra Pradesh. He was closely involved with the industrial development of Andhra Pradesh for over two decades. He also worked as the Chief of Industrial Infrastructure Corporation. Mr. Rama Rao holds a post-graduate degree in arts, a bachelor degree in civil laws and a post-graduate diploma in technical science and industrial administration, from Manchester University, located in the United Kingdom. Mr. V.P. Rama Rao also sits on the board of directors of several companies in India.

Dr. Mangalam Srinivasan has been on our board of directors since July 1991. She is a management consultant and a visiting professor at several U.S. universities. Dr. Mangalam Srinivasan holds a Ph.D. in technology from George Washington University, a Master of Business Administration degree (international finance and organization) from the University of Hawaii, a Master of Arts Degree (English) from Presidency College, Madras University and was an Advanced Special Scholar (astronomy and physics) at the University of Maryland. Currently, Dr. Mangalam Srinivasan is an advisor to Center for Kennedy School of Government of Harvard University where she is a

distinguished fellow.

Mr. Krishna G. Palepu was appointed to our board of directors on January 23, 2003 as an additional director. Professor Palepu is the Ross Graham Walker Professor of Business Administration at the Harvard Business School, where he also holds the title of Senior Associate Dean, Director of Research. Professor Palepu joined the Harvard Business School faculty in 1983 after receiving a Masters degree in Physics from Andhra University, a MBA from the Indian Institute of Management, and a Ph.D. from the Massachusetts Institute of Technology. Professor Palepu serves as consultant to a wide variety of businesses, and is on the Boards of several companies including Dr. Reddy s Laboratories Limited, India, Enamics, Inc, U.S., and Harvard Business School Publishing Co., U.S.

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Vinod K. Dham was appointed to our board of directors on January 23, 2003 as an additional director. Mr. Vinod is Vice President and General Manager, Carrier Access Business Unit, of Broadcom Corporation. Mr. Vinod comes to Broadcom from its acquisition of Silicon Spice Inc., where he was Chairman, President and CEO. Recognized as the Father of the Pentium Processor, he held the positions of Vice President of Intel s Microprocessor Products Group and General Manager of the Pentium Processor Division. Mr. Vinod is also director on the Boards of NewPath Ventures Management Company LLC Hellosoft, Sasken Communication Technologies Limited, Nevis Networks, Telsima and Insillica. .

Jayaraman G. has been our Vice President (Corp. Affairs) & Company Secretary since October, 2000. From March 2000 to September, 2000 he was Asst. Vice President and Company Secretary. Before this, he was with Samrat Spinner Limited as Director (Finance) & Company Secretary. Mr. Jayaraman holds a Bachelor of Science degree and is a fellow member of the Institute of Chartered Accountants of India and the Institute of Cost and Works Accountants of India. He is also an associate member of Institute of Company Secretaries of India.

Joseph Abraham has been our Director and Senior Vice President, Vertical Business Unit Retail since November 2000. Prior to this, he was our Senior Vice President, Strategic Business Unit 7 from 1998. Before this, he was with Tata Consultancy Services as Executive Vice President, Human Resources. Mr. Abraham holds a Master of Personnel Management and Industrial Relations degree from Tata Institute of Social Services and a Differential Test Battery Certificate from Morrisby Institute, United Kingdom.

Kalyan Rao K. is our Tech Fellow. Prior to this he was our President Vertical Business Unit Telecom, Infrastructure, Media & Entertainment and Semiconductor and Horizontal Competency Unit Hi tech since October 2002. Before this, he served in various positions since joining our company in 1992. Mr. Kalyan Rao holds a master of engineering (ECE) degree from Indian Institute of Science, Bangalore.

Mohan Eddy F. S. has been our Director Internal Information Systems and Platinum Processes Group. Prior to this he was our Director Horizontal Business Unit Collaborative Enterprise Solutions since November 2000. Before this he was a Director, Strategic Business Unit Satyam Renaissance Consulting from 1995. He is also a director of Satyam Asia Pte Ltd. Mr. Mohan Eddy holds a Bachelor of Engineering degree and a post-graduate diploma in management from Indian Institute of Management, Calcutta.

Murty A. S. has been our Director & Senior Vice President Global Human Resources since November 2000. Prior to this, he was our Senior Vice President, Human Resources from 1999. Before this, he was our Senior Vice-President of Strategic Business Unit I since 1994. Before joining our company, Mr. Murty worked for Tata Consulting Services for over 12 years. Mr. Murty holds a master of Engineering degree from Indian Institute of Science, Bangalore.

Prabhat G. B. has been our Director Horizontal Business Unit Enterprise Business Solution since November 2000. Prior to this, he was a Director, Strategic Business Unit Satyam Renaissance Consulting from 1995. Mr. Prabhat holds a master of science (computer sciences) degree from Indian Institute of Technology, Chennai.

Ram Mynampati has been our President Commercial and Healthcare Businesses since October 2002. Prior to this he was our Executive Vice President & Chief Operating Officer Vertical Business Unit Insurance, Banking & Financial Services, Healthcare since November 2000. Before this, he was our Executive Vice President, Strategic Business Units 1, 2 & 4 from 1999. Mr. Mynampati holds a Master of Computer Science degree from California State University.

Srinivas V. has been our Director and Senior Vice President & Chief Financial Officer since October, 2002. Prior to this he was our Senior Vice President & Chief Financial Officer since November 2000. Before this, he was

our Vice President and Chief Financial Officer from 1998. Mr. Srinivas is a fellow member of the Institute of Chartered Accountants of India and the Institute of Company Secretaries of India. He is also an associate member of the Institute of Cost and Works Accountants of India. In addition, he holds a Bachelor of Law degree and a Master of Commerce degree from Osmania University. He is also a director of Nipuna Services Limited, Sify Limited and Satyam Asia Pte. Limited.

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Subramanian D. has been our Director and Senior Vice President Global Manufacturing, SAP, Oil and Gas & Energy and Utilities and Engineering Business Units since October, 2002. Prior to this he was Senior Vice President Global Manufacturing, SAP, Oil and Gas & Energy and Utilities and Engineering Business Units since November, 2000. Before this he was Vice President SAP since joining our company in 1999. Mr. Subramanian holds a masters in business administration (MBA) degree and he is also an Associate Member of Cost and Management Accountants of India.

Compensation

Executive Compensation

Under the Companies Act, our shareholders must approve the salary, bonus and benefits of all associate directors at an annual general meeting of shareholders. At our general meeting held in May 28, 1999, our shareholders approved the employment terms and conditions for each of our associate directors including the monthly salary, benefits, medical reimbursement and pension fund contributions. These terms are made for a five-year period. The employment terms of Mr. B. Ramalinga Raju, the chairman of our board of directors, and Mr. Rama Raju, our managing director and chief executive officer, were renewed for a period of five years with effect from April 1, 1999.

At our general meeting held on July 25, 2003, our shareholders approved the payment of remuneration to our non-executive directors by way of commission. There are no loans to, or guarantees in favor of, directors or key management personnel other than interest-bearing housing loans provided to certain key management personnel which have not been made, modified or renewed after July 30, 2002.

The following table sets forth all compensation awarded to, earned by or paid to Mr. B. Rama Raju, our managing director and chief executive officer, during fiscal 2004 for services rendered in all capacities to us. Mr. Raju was appointed as managing director and chief executive officer of our company in 1991. With the exception of four executive officers who are serving overseas, none of our other executive officers earned a combined salary and bonus in excess of $100,000 during any of the last three fiscal years. With respect to the four key managerial personnel, we have not provided individual compensation information because their compensation is attributed predominantly to their overseas assignments, and if they were based in India, their individual compensation would not exceed $100,000. The total remuneration received by our executive officers and directors for their services to us for the fiscal year ended March 31, 2004 was $ 1.54 million. The total remuneration and the amounts in the following table are in dollars based on the noon buying rate of Rs. 43.40 per dollar on March 31, 2004.

Annual Compensation

Name and Principal Position	Salary	Bonus	Others(1)
B. Rama Raju, Managing Director and Chief Executive Officer	$85,935		$ 12,865

(1) Includes membership fees and housing allowance.

Option Grants

During the fiscal year ended March 31, 2004, we granted options to our key managerial personnel to purchase 186,527 shares under our ASOP B plan and 30,100 ADSs under our ASOP ADS plan. The expiration dates for these options granted under ASOP B and ASOP ADS ranged from 01-Apr-2010 to 01-Apr-2013. The exercise prices for the options granted under ASOP B, was Rs.366.63 and the exercise price for the options granted under ASOP ADS ranged from $25.92 to $ 26.90.

Employee Benefit Plans

We have instituted an incentive plan to reward associates performance through cash payments and, since September 1999, stock options. Associate performance is measured by reference to the associate s contribution to (1) profits and his or her tenure of service, (2) organizational development and (3) customer satisfaction. An

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associate must score a minimum number of points in each performance criterion to be eligible for a reward. Since the introduction of stock options, cash bonuses have decreased.

Associate Stock Option Plan

The ASOP provides for the grant of warrants to eligible associates, entitling such associates to apply for and receive 10 equity shares of our company per warrant. All full-time associates of our company and our subsidiary companies are eligible associates.

Our ASOP was approved at the annual general meeting of shareholders in May 1998. Associates may exercise warrants issued under the ASOP at the times and upon the dates determined by a committee of our board of directors. The Trust acts as the operating agency for administering the ASOP. In accordance with the resolutions passed at our annual general meeting, we allotted to the Trust warrants for equity shares in an amount not to exceed 13,000,000 shares. The Trust holds these warrants on behalf of our associates and those of our subsidiaries. A committee of directors constituted and authorized by our board of directors, or advisory board, is in charge of studying and assessing eligible associates. The advisory board identifies and recommends associates to the Trust according to guidelines framed and approved by the board of directors. Factors considered for the assessment of associates are performance, organizational development and customer satisfaction. The advisory board can also recommend awards as incentives to new associates joining us, and to associates who have shown exceptional performance. On the recommendations of the advisory board, the Trust advises us of offer of warrants to identified associates.

An associate must pay consideration of one rupee per warrant to the Trust before the warrant can be transferred to the associate. These warrants are non-transferable by the associate. However, if the associate ceases to be an associate of our company by reason of resignation, dismissal or severance, the warrants will be transferred back to the Trust for the same consideration paid by the associate. If the associate ceases to be an employee by retirement or death, the rights and obligations under the warrants accrue to the associate or his or her legal heirs. The conversion date of warrants is determined by the advisory board. The conversion price to be paid by the associate upon conversion has been determined by the board of directors under the SEBI guidelines to be Rs.450, or approximately $10.37 per share (translated at the noon buying rate of Rs.43.40 per $1.00 on March 31, 2004). The SEBI guidelines apply to the pricing of shares issued under employee stock option plans. Under the then existing guidelines, the minimum exercise price to acquire shares under our ASOP is the higher of the following:

(i) the average of the weekly high and low of the closing prices of the underlying shares quoted on the relevant Indian stock exchange during the six months period before the date which is 30 days before the date of our shareholders meeting at which the plan was approved (or April 24, 1998 in the case of our ASOP); and

(ii) the average of the weekly high and low of the closing prices of the underlying shares quoted on the relevant Indian stock exchange during the two weeks period before the date which is 30 days before the date of our shareholders meeting at which the plan was approved (or April 24, 1998 in the case of our ASOP).

However, for the purpose of US GAAP, we have accounted for deferred stock-based compensation cost on the basis of closing price of the shares on the date of grant.

Shares transferred to the associate after conversion from warrants become the absolute property of the associate.

Associates Stock Option Plan B

In May 1999, the shareholders at our annual general meeting approved the ASOP B. ASOP B provides for the grant of options to eligible associates, which entitles these associates to apply for and receive five equity shares of our company per option. All full-time associates of our company and our subsidiary companies are eligible associates. Options granted to eligible associates under the ASOP B become vested and exercisable within time periods decided by a committee of our board of directors.

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Under our ASOP B, 41,727,140 equity shares were set aside for associate stock options. Stock options carry a minimum vesting period decided by the committee of our board of directors.

The ASOP B is administered by a committee of the board. The committee has the power to determine the terms of the options granted, including the exercise price, the number of equity shares subject to each option, the exercisability thereof and the form of consideration payable upon such exercise (which may be less than the fair market value of our equity shares on the date of grant) in accordance with the SEBI guidelines described above. In addition, the committee has the authority to amend, suspend or terminate our ASOP B.

ASOP ADS

Our ASOP ADS provides for the grant of incentive stock options (within the meaning of Section 422 of the Internal Revenue Code) and non-statutory options to acquire ADSs of Satyam Computer Services to our associates, officers and directors as well as to employees, officers and directors of our parent or subsidiary entities. The establishment of our ASOP ADS was approved at our annual general meeting of shareholders in May 1999, subject to a $25.0 million limit on the aggregate market value of the equity shares initially reserved pursuant to the ASOP ADS. Accordingly, the total equity shares reserved for issuance may be reduced by the board of directors from time to time to comply with the $25.0 million limit. All options under our ASOP ADS will be exercisable for ADSs represented by ADSs.

Our ASOP ADS may be administered by the board of directors or a committee of the board. The committee has the power to determine the terms of the options granted, including the exercise price, the number of ADSs subject to each option, the exercisability thereof and the form of consideration payable upon such exercise. In addition, the committee has the authority to amend, suspend or terminate our ASOP ADS, provided that no such action may affect any ADS previously issued and sold or any option previously granted under our ASOP ADS.

Options granted under our ASOP ADS are not generally transferable by the optionee, and each option is exercisable during the lifetime of the optionee only by such optionee. Options granted under our ASOP ADS must generally be exercised within three months of the end of the optionee s status as an associate of our company, but in no event later than the expiration of the option s term. In the event of an optionee s termination as a result of death or disability, the vesting and exercisability of the optionee s option will accelerate in full and the option must be exercised within 12 months after such termination, but in no event later than the expiration of the option s term. The exercise price of incentive stock options granted under our ASOP ADS must be at least equal to the fair market value of our ADSs on the date of grant. The exercise price of non-statutory stock options granted under our ASOP ADS must be at least equal to 90.0% of the fair market value of our ADSs on the date of grant. With respect to any participant owning stock possessing more than 10.0% of the voting power of all classes of our outstanding capital stock, the exercise price of any incentive stock option granted must equal at least 110.0% of the fair market value on the grant date and the term of such incentive stock option must not exceed five years. The term of all other options granted under our ASOP ADS may not exceed 10 years.

Our ASOP ADS provides that in the event of a merger of our company with or into another corporation, a sale of substantially all of our assets or a like transaction involving our company, each option shall be assumed or an equivalent option substituted by the successor corporation. If the outstanding options are not assumed or substituted as described in the preceding sentence, the vesting and exercisability of each option will accelerate in full.

The SEBI guidelines, effective June 1999, has removed the limits on the amount of stock options or warrants a company can grant to its employees and the amount of discount to market price at which a company can grant such options. The guideline requires companies to account for the difference between the market price of its shares and the exercise price of its employee stock options as personnel expenses in its profit and loss accounts.

Board Practices

Board Composition

Our Articles of Association set the minimum number of directors at three and the maximum number of directors at 12. We currently have six directors. The Companies Act and our Articles of Association require the following:

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at least two-thirds of our directors shall be subject to retirement; and

in any given year, at least one-third of these directors who are subject to retirement shall retire and be eligible for re-election at the annual meeting of our shareholders.

B. Ramalinga Raju and B. Rama Raju are permanent directors and are not subject to retirement by rotation. Dr. Managalam Srinivasan, Krishna G. Palepu, Vinod K. Dham and V.P. Rama Rao are the directors who are scheduled to retire by rotation. C. Satyanarayana, one of our previous directors, expired on June 17, 2003.

Board Committees

The audit committee of board of directors reviews, acts on and reports to the board of directors with respect to various auditing and accounting matters, including the recommendation of our independent auditors, the scope of the annual audits, fees to be paid to the independent auditors, the adequacy and effectiveness of the accounting and financial controls of our company and our accounting practices. The members of the audit committee are V.P. Rama Rao, Dr. Mangalam Srinivasan and Prof. Krishna G Palepu, each of whom is an independent director.

The compensation committee of the board of directors determines the salaries and benefits for our executive directors and the stock options for all associates. The members of the compensation committee are V.P. Rama Rao, Dr. Mangalam Srinivasan, and Vinod K Dham, each of whom is an independent director.

The investors grievance committee of the board of directors formed in January 2001 focuses on strengthening investor relations and addressing investors concerns. The members of the committee are V.P. Rama Rao, who is an independent director, and B. Rama Raju, Managing Director and CEO.

Director Compensation

Our Articles of Association provides that each of our directors shall receive a sitting fee not exceeding the maximum amount allowed under the Companies Act. Currently, our directors receive Rs.10,000 for every board or committee meeting. In addition, Independent directors receive compensation by way of commission for their service on our board of directors. Directors are reimbursed for travel and out-of-pocket expenses in connection with their attendance at board and committee meetings.

Employment, Severance and Other Agreements

Our Articles of Association provides that directors are appointed by the shareholders by resolutions passed at general meetings; however, the board of directors has the power to appoint additional directors for a period up to the date of the next annual general meeting. Key managerial personnel are appointed by the management. There are no severance agreements with our key managerial personnel.

Employees

Our success depends in large part on our ability to attract, develop, motivate and retain highly skilled technical associates. We offer competitive salaries, incentive pay, including, since May 1998, stock options, extensive training, an entrepreneurial work environment and opportunities to work overseas. As of March 31, 2004, we had 14,456 employees whom we refer to as associates, including 13,450 technical associates. We had 9,838 and 9,532 associates as of March 31, 2003 and 2002, respectively. As of date, none of our associates is represented by an union. We believe that our relationship with our associates is good.

Recruiting. We recruit top graduates from the engineering departments of India s universities and engineering and technical colleges. India has over 1,500 such schools and, with the rapid growth of the IT services industry in India, the number of students pursuing education in software engineering has increased in recent years. This has allowed us to recruit from a large pool of qualified applicants who undergo our demanding selection process involving a series of tests and interviews. In fiscal 2002, we received approximately 90,543 job applications, from both recent

graduates and those with previous experience, tested and/or interviewed approximately 4,722, extended job offers to 1,259 and 1,287 joined our company. In fiscal 2003, we received approximately 40,200 job applications, from both recent graduates and those with previous

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experience, tested and/or interviewed approximately 13,400, extended job offers to 3,350 and 2,561 joined our company. In fiscal 2004, we received approximately 1,45,000 job applications, from both recent graduates and those with previous experience, tested and/or interviewed approximately 22,307, extended job offers to 9,653 and 6,700 joined our company.

Training of associates. We devote significant resources to training our associates. We established the Satyam Learning Center, which is responsible for conducting training programs. To assist our technical associates to better understand and implement new technologies, each new technical associate must participate in a three to six-month software engineering training program and all technical associates are expected to undertake between 40 and 80 hours per year of development training. Through such ongoing training, we build the competencies in emerging disciplines necessary to meet customers project needs. At the Satyam Learning Center, our technical associates are trained on skill sets and encompassing Microsoft, Sun, IBM, Linux and other platforms. Training is done keeping in view project requirements and proactive competency development based on forecasted market needs. This expertise allows us the flexibility to ramp up to meet the demands of particular projects and to redeploy our personnel among projects. We also recruit managers in non-software engineering fields for positions as project leaders and project managers and provide them with extensive training, usually over a six-month period, in software engineering and project management skills. To focus our associates on selecting the best technologies to match customer requirements, all of our associates are also required to undergo a customer orientation program.

Retention. To attract, retain and motivate our associates, we seek to provide an environment that rewards entrepreneurial initiative and performance. We also provide competitive salaries and benefits as well as incentives in the form of cash bonuses and stock options. In fiscal 2004, fiscal 2003 and fiscal 2002, we experienced associate attrition at a rate of 17.5%, 15.6% and 13.2% respectively. As the pool of software engineers in India becomes larger and as we increase the opportunities for our associates to work overseas, either for onsite work at the customers premises or in the offsite centers which we are establishing as one of our strategic priorities, we believe our current rates of turnover will continue.

At any given time, our technical associates are working overseas, either onsite at customer premises or at our offsite centers, while the balance are working in the offshore centers in India. On average, approximately 25.8%, 26.4% and 20.0% of our technical associates worked overseas, primarily in the United States, in fiscal 2004, fiscal 2003 and fiscal 2002, respectively. As at March 31, 2004, we employed 3,456 technical staff and 55 support in our onsite and offsite centers. We have staffed the offsite centers mainly through local hiring, supplemented by associates from India. Our professionals who work onsite at customers premises in the United States on temporary and extended assignments are typically required to obtain visas. H-1B visas are generally used for sending personnel to the United States for onsite work, and L-1 visas are typically used only for inter-company transfers of high level managers. Although there is no limit to new L-1 petitions, there is a limit to the number of new H-1B petitions that the United States Immigration and Naturalization Service may approve in any government fiscal year. We are generally able to obtain H-1B and L-1 visas within two to four months of applying for such visas, which remain valid for three years and can be extended for a further three years. We plan for our visa requirements by forecasting our annual needs for such visas in advance and applying for such visas as soon as practicable. We do not anticipate any problems obtaining enough visas for our needs in the current U.S. government fiscal year. In addition, we utilize L-1 visas whenever available and redeploy existing H-1B visa holders to minimize the number of new H-1B visas we need.

Share Ownership

The following table sets forth information with respect to the beneficial ownership of our equity shares as of June 18, 2004 by each of our directors and our chief executive officer and all of our directors and executive officers as a group. The table gives effect to equity shares issuable within 60 days of June 18, 2004 upon the exercise of all options and other rights beneficially owned by the indicated shareholders on that date. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting and

investment power with respect to equity shares. Unless otherwise indicated, the persons named in the table have sole voting and sole investment control with respect to all equity shares beneficially owned.

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Beneficial Owner	Equity Shares Beneficially Owned	
	Number	Percent
B. Rama Raju	15,193,000(1)	4.82
B. Ramalinga Raju	13,872,000(2)	4.40
V.P. Rama Rao		
Dr. Mangalam Srinivasan		
Krishna G. Palepu		
Vinod K Dham		
All directors and executive officers as a group (15 persons)	29,065,000	9.22

(1) Includes 3,874,000 equity shares held by B. Rama Raju s wife, B. Radha Raju. B. Rama Raju disclaims beneficial ownership of any equity shares held by B. Radha Raju.

(2) Includes 4,047,000 equity shares held by B. Ramalinga Raju s wife, B. Nandini Raju. B. Ramalinga Raju disclaims beneficial ownership of any equity shares held by B. Nandini Raju.

Other than B. Rama Raju and B Ramalinga Raju, none of our directors or executive officers beneficially owned more than 1% of our equity shares as of June 18, 2004.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Share Ownership

The only person or group of affiliated persons who is known to us to beneficially own 5% or more of our equity shares as of May 31, 2004, is Templeton Global Advisors Limited A/c Templeton Funds, Inc. (Templeton Foreign Fund), which holds 18,631,754 equity shares representing 5.88% of our equity shares. Templeton has the same voting rights as our other shareholders.

As of May 31, 2004, 124,100 of our equity shares, representing 0.04% of our outstanding shares, were held by a total of 96 holders of record with addresses in the United States. As of May 31, 2004, we have issued 16,826,940 ADSs (representing 33,653,880 equity shares) and which represent 10.69% of our outstanding equity shares and which are held by 16,177 beneficial holders and 10 registered holders.

Related Party Transactions

In October, 1999, we entered into a joint venture with Venture Global Engineering LLC, USA. The joint venture company, called Satyam Venture Engineering Services Private Limited or Satyam Venture, formed in January 2000, provides engineering services and computer services to the automotive industry. We hold a 50% stake in the joint venture company. For fiscal 2004 and fiscal 2003, we provided infrastructure and other services to Satyam Venture, which amounted to $ 1.2 million and $875 thousand respectively. As of March 31, 2004, we owe $1.3 million to Satyam Venture.

During the fiscal 2004, Sify rendered services to us aggregating to $ 1.44 million, on terms which were no less favorable to us than could have been obtained from independent third parties.

ITEM 8. FINANCIAL INFORMATION

Financial Statements

We have elected to provide financial statements pursuant to Item 18 of Form 20 F. No significant change has occurred since the date of our annual financial statements for fiscal 2004.

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Legal Proceedings

As of the date of this document, we are not a party to any legal proceedings that could reasonably be expected to seriously harm our company.

Dividends

Although the amount varies, it is customary for public companies in India to pay cash dividends. Under Indian law, a corporation pays dividends upon a recommendation by the board of directors and approval by a majority of the shareholders, who have the right to decrease but not increase the amount of the dividend recommended, by the board of directors. However, approval of shareholders is not required for distribution of Interim dividend. Under the Companies Act, dividends may be paid out of profits of a company in the year in which the dividend is declared or out of the undistributed profits of previous fiscal years. We paid out dividends of Rs.1207.0 million ($ 26.2 million), Rs. 469.0 million ($9.7 million) and Rs. 279.0 million ($6.4 million.)in fiscal 2004, fiscal 2003 and fiscal 2002 respectively. These dividends include interim dividends for the current fiscal year and dividends paid with respect to previous fiscal year. Under Indian law, dividends are declared with respect to the shares outstanding during the prior fiscal year and are paid in the subsequent fiscal year after approval by shareholders in the Annual General Meeting. The dividend is paid on the outstanding shares as at the end of fiscal year and is prorated for shares issued during the fiscal year to take into account the amount of time such shares have been issued. Although, we have no current intention to discontinue dividend payments, we cannot assure you that any future dividends will be declared or paid or that the amount thereof will not be decreased.

Owners of ADSs will be entitled to receive dividends payable in respect of the equity shares represented by such ADSs. Cash dividends in respect of the equity shares represented by the ADSs will be paid to the depositary in rupees and, will generally be converted by the depositary into U.S. dollars and distributed, net of depositary fees and expenses, to the holders of such ADSs.

ITEM 9. THE OFFER AND LISTING

Trading Markets

Our equity shares are traded in India on the Stock Exchange, Mumbai, the National Stock Exchange and the Hyderabad Stock Exchange. Our ADSs evidenced by American Depositary Receipts, or ADRs, are traded in the United States on the New York Stock Exchange. Each ADS represents two equity shares. The ADRs evidencing ADSs were issued by our depositary, Citibank, N.A., pursuant to a Deposit Agreement.

The number of our outstanding equity shares (including the underlying shares for ADSs) as of May, 31, 2004 was 314,958,768. As of May, 31, 2004, there were 16,826,940 ADSs outstanding (representing 33,653,880 equity shares).

Price History

The information presented in the table below represents, for the periods indicated: (1) the reported high and low sales prices quoted in Indian rupees for the equity shares on the BSE; and (2) the imputed high and low sales prices for the equity shares based on such high and low sales prices, translated into U.S. dollars based on the noon buying rate on the last date of each period presented.

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Annual high and low market prices

Fiscal Year Ended March 31,(2)	Rupee Price per Equity Share(1)		U.S. Dollar Price per Equity Share	
	High	Low	High	Low
2000	1445.99	99.20	33.13	2.27
2001	901.98	179.00	19.25	3.82
2002	331.15	111.00	6.78	2.27
2003	291.85	175.10	6.14	3.68
2004	391.00	127.30	9.01	2.93
Fiscal year 2003				
First Quarter	280.15	208.10	5.73	4.25
Second Quarter	258.85	189.75	5.35	3.92
Third Quarter	291.85	193.35	6.08	4.03
Fourth Quarter	282.85	175.10	5.95	3.68
Fiscal year 2004				
First Quarter	196.45	127.30	4.23	2.74
Second Quarter	265.00	161.00	5.79	3.52
Third Quarter	381.00	250.20	8.36	5.49
Fourth Quarter	391.00	281.00	9.01	6.47

Month high and low market prices	Price Range	
	High	Low
	Rs.	Rs.
November, 2003	347.75	305.35
December, 2003	381.00	319.75
January, 2004	391.00	307.00
February, 2004	346.90	287.00
March, 2004	325.00	281.00

Month high and low market prices	Price Range	
	High	Low
	Rs.	Rs.
April, 2004	338.00	294.00
May, 2004	332.40	250.00

(1) Data derived from the BSE website. The prices and volumes quoted on the National Stock Exchange and the Hyderabad Stock Exchange may be different.

(2) For comparative purposes, the price per equity share data above is adjusted for the September 1, 1999

two-for-one stock split which took effect on the BSE on August 16, 1999 and the August 25, 2000 five-for-one stock split which took effect on the BSE on August 7, 2000.

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Our ADSs commenced trading on the New York Stock Exchange on May 15, 2001, at an initial offering price of $9.71 per ADS. The tables below set forth, for the periods indicated, high and low trading prices for our ADS.

	Price Range	
	High	**Low**
Fiscal Year ended March 31, 2003		
Quarterly High and low market prices of ADSs First Quarter	$12.56	$ 9.46
Second Quarter	11.75	7.93
Third Quarter	13.5	8.4
Fourth Quarter	13.06	8.24
Fiscal Year ended March 31, 2004		
Quarterly High and low market prices of ADSs First Quarter	$10.10	$ 7.25
Second Quarter	13.86	8.5
Third Quarter	30.25	12.45
Fourth Quarter	35.35	18.1

	Price Range	
Monthly High and low market prices of ADSs	**High**	**Low**
November, 2003	$22.40	$18.80
December, 2003	30.25	20.76
January, 2004	35.35	21.60
February, 2004	25.10	19.76
March, 2004	21.90	18.10
April, 2004	23.96	19.32
May, 2004	21.50	16.00

ITEM 10. ADDITIONAL INFORMATION

Memorandum and Articles of Association

The following are summaries of our Articles of Association and Memorandum of Association and the Companies Act which govern our affairs. Our Articles of Association provides that the regulations contained in Table A of the Companies Act apply to our company, so long as the regulations do not conflict with the provisions of our Articles of Association. We have filed complete copies of our Memorandum of Association and Articles of Association, as well as Table A of the Companies Act, as exhibits to our registration statement on Form F-1 filed with the Securities and Exchange Commission on May 7, 2001 (Registration No. 333-13464).

Objects and Purposes

Under our Memorandum of Association, the main objectives of our company include, but are not limited to:

manufacturing and selling computer systems, peripherals, accessories, consumables and other computer products;

designing and developing computer systems and applications software for our own use and for sale and designing and developing systems and applications software for or on behalf of manufacturers, owners and

users of computer systems and digital or electronic equipment; and

providing electronic data processing centers, word processing, software consultancy, system studies, management consultancy, feasibility studies and computer training.

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Board of Directors

At each annual general meeting at least, one-third of our directors must retire from office by rotation. A retiring director is eligible for re-election and the directors to retire every year are those who have been longest in office since their last re-election or appointment. No shares are required to be held by a director for qualification as a director. In addition, save in respect of the following managerial personnel, there are no age-limit requirements for serving on our board of directors. Under the Companies Act, no person under the age of 25 or over the age of 70 is eligible for appointment as a managing director or a whole-time director or a manager of our Company, provided that persons under the age of 25 or over age 70 may be appointed with either the approval of our shareholders by a special resolution or with the approval of the Central Government. Under the Companies Act, our directors must refrain from participating in discussions and voting on any matters in which they are interested party. In addition, directors are also required to disclose such interests, if any, at meetings of the board of directors.

Managerial Remuneration

Under the Companies Act, the remuneration payable to our directors is to be determined either by the articles of the company or by an ordinary resolution passed by the company in the general meeting, unless the articles require a special resolution for the same.

As a public company, the total managerial remuneration in any year cannot exceed 11 per cent of our profits in that year. In addition, the remuneration payable to a managing or any whole-time director in any year cannot exceed 5 per cent of our net profits in that year. If there is more than one managing or whole-time director, then the aggregate remuneration to all of them cannot exceed 10 per cent of our net profits.

In addition, where a company has made no or inadequate profits, there are additional limits on the maximum remuneration payable to the directors. Approval of the Central Government would be required for payment of remuneration in excess of the limits prescribed.

Under our Articles of Association, our board of directors may, at its discretion and by means of a resolution, borrow funds on behalf of the company, create mortgages or liens on the company s property or uncalled capital and issue debentures. However, the Companies Act imposes some restrictions on the powers of the board to act without the consent of the shareholders including, for example, the ability to borrow money beyond the aggregate of our paid up capital and free reserves.

Equity Shares

Our authorized share capital is 375,000,000 equity shares, par value Rs.2 per share. The equity shares are our only class of share capital. However, our Articles of Association and the Companies Act permit us to issue preference shares in addition to the equity shares. The rights attached to a class of shares may, subject to the provisions of the Companies Act, be varied only with either the written consent of the holders of 75% of the issued shares of that class or by special resolution passed at a separate meeting of the holders of that class.

Our equity shares are under the control of our board of directors, who may, with prior approval from the shareholders at a general meeting, allot or otherwise dispose of new equity shares in its discretion, including allotments of shares at a premium or discount in accordance with the provisions of the Companies Act. Our Articles of Association permit our board of directors to make calls on our equity shares, but only in respect of unpaid amounts on equity shares which are not fully paid-up. All of our issued and outstanding equity shares are fully paid-up.

Dividends

We paid out dividends of Rs.1207.0 million ($ 26.2 million), Rs. 469.0 million ($9.7 million) and Rs. 279.0 million ($6.4 million.)in fiscal 2004, fiscal 2003 and fiscal 2002 respectively.

Under the Indian Companies Act, unless our board of directors recommends the payment of a dividend, we may not declare a dividend. Similarly, under our Articles of Association, although the shareholders may, at the

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annual general meeting, approve a dividend in an amount less than that recommended by the board, they cannot increase the amount of the dividend. In India, dividends generally are declared as a percentage of the par value of a company s equity shares. The dividend recommended by the board, if any, and subject to the limitations described above, is distributed and paid to shareholders in proportion to the paid up value of their shares within 30 days of the approval by the shareholders at the annual general meeting. Pursuant to our Articles of Association and the Companies Act, our board has discretion to declare and pay interim dividends without shareholder approval. With respect to equity shares issued during a particular fiscal year (including any equity shares underlying ADSs issued to the depositary), cash dividends declared and paid for such fiscal year generally will be prorated from the date of issuance to the end of such fiscal year. Under the Companies Act, dividends can only be paid in cash to the registered shareholder at a record date fixed during or before the annual general meeting or to his order or his banker s order.

Under the Indian Companies Act, dividends and interim dividends may be paid out of profits of a company in the year in which the dividend and/or interim dividend is declared or out of the undistributed profits of previous fiscal years. Before declaring a dividend and/or interim dividend greater than 10.0% of the par value of its equity shares, a company is required under the Companies Act to transfer to its reserves a minimum percentage of its profits for that year, ranging from 2.5% to 10.0% depending upon the dividend percentage to be declared in such year. The Companies Act further provides that, in the event of an inadequacy or absence of profits in any year, a dividend and/or interim dividend may be declared for such year out of the accumulated profits, subject to the following conditions:

- the rate of dividend to be declared may not exceed 10.0% of its paid up capital or the average of the rate at which dividends were declared by the company in the prior five years, whichever is less;
- the total amount to be drawn from the accumulated profits earned in the previous years and transferred to the reserves may not exceed an amount equivalent to 10.0% of its paid up capital and free reserves, and the amount so drawn is to be used first to set off the losses incurred in the fiscal year before any dividends in respect of preference or equity shares are declared; and
- the balance of reserves after withdrawals shall not fall below 5.0% of its paid up capital.

For additional information regarding dividends, please see Item 8. Financial Information .

Bonus Shares

In addition to permitting dividends to be paid out of current or retained earnings as described above, the Companies Act permits us to distribute an amount transferred from the general reserve or surplus in our profit and loss account to our shareholders in the form of bonus shares, which are similar to a stock dividend. The Companies Act also permits the issuance of bonus shares from a share premium account. Bonus shares are distributed to shareholders in the proportion recommended by the board. Shareholders of record on a fixed record date are entitled to receive such bonus shares. The last bonus shares issued by us was in September 1999.

Preemptive Rights and Issue of Additional Shares

The Companies Act gives shareholders the right to subscribe for new shares in proportion to their respective existing shareholding unless otherwise determined by a special resolution passed by a general meeting of the shareholders. For approval, a special resolution must be approved by a number of votes which is not less than three times the number of votes against the special resolution. If we issue equity shares and a special resolution is not approved by our shareholders, the new shares must first be offered to the existing shareholders as of a fixed record date. The offer must include: (1) the right, exercisable by the shareholders of record, to renounce the shares offered in favor of any other person; and (2) the number of shares offered and the period of the offer, which may not be less than 15 days from the date of offer. If the offer is not accepted it is deemed to have been declined. Our board is authorized under the Companies Act to distribute any new shares not purchased by the preemptive rights holders in the manner that it deems most beneficial to our company.

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Annual General Meetings of Shareholders

We must convene an annual general meeting of shareholders within six months after the end of each fiscal year to adopt the accounts for such fiscal year and to transact other businesses and may convene an extraordinary general meeting of shareholders when necessary or at the request of a shareholder or shareholders holding at least 10.0% of our paid up capital carrying voting rights. The annual general meeting of the shareholders is generally convened by our Company Secretary pursuant to a resolution of the board. Written notice setting out the agenda of the meeting must be given at least 21 days (excluding the day of mailing) before the date of the general meeting to the shareholders on record. Shareholders who are registered as shareholders on the date of the general meeting are entitled to attend or vote at such meeting. Our Articles of Association provides that a quorum for a general meeting is the presence of at least five shareholders in person.

The annual general meeting of shareholders must be held at our registered office or at such other place within the city in which the registered office is located; meetings other than the annual general meeting may be held at any other place if so determined by the board. Our registered office is located at Mayfair Centre, S P Road, Secunderabad 500 003, Andhra Pradesh, India.

Voting Rights

At any general meeting, voting is by show of hands unless a poll is demanded by a shareholder or shareholders present in person or by proxy holding at least 10.0% of the total shares entitled to vote on the resolution or by those holding shares with an aggregate paid up value of at least Rs.50,000. Upon a show of hands, every shareholder entitled to vote and present in person has one vote and, on a poll, every shareholder entitled to vote and present in person or by proxy has voting rights in proportion to the paid up capital held by such shareholder. The chairman of our board has a deciding vote in the case of any tie.

Any shareholder may appoint a proxy. The instrument appointing a proxy must be delivered to us at least 48 hours before the meeting. A proxy may not vote except on a poll. A corporate shareholder may appoint an authorized representative who can vote on behalf of the shareholder, both upon a show of hands and upon a poll.

Ordinary resolutions may be passed by simple majority of those present and voting at any general meeting for which the required period of notice has been given. However, special resolutions such as amendments to our Articles of Association and the object clause of the Memorandum of Association, commencement of a new line of business, the waiver of preemptive rights for the issuance of any new shares and a reduction of share capital, require that votes cast in favor of the resolution (whether by show of hands or poll) are not less than three times the number of votes, if any, cast against the resolution. Under a recent amendment to the Indian Companies Act, certain resolutions may and certain resolutions must be passed by means of a postal ballot instead of a vote at a meeting of shareholders.

Audit and Annual Report

At least 21 days before the date of the annual general meeting of shareholders (excluding the day of mailing), we must distribute to our shareholders a detailed version of our audited balance sheet and profit and loss account and the related reports of the board and the auditors, together with a notice convening the annual general meeting. Under the Companies Act, we must file the balance sheet and annual profit and loss account presented to the shareholders within 30 days of the conclusion of the annual general meeting with the Registrar of Companies in Andhra Pradesh, India, which is the state in which our registered office is located. We must also file an annual return containing a list of our shareholders and other information, within 60 days of the conclusion of the meeting.

Register of Shareholders; Record Dates; Transfer of Shares

We maintain a register of shareholders. For the purpose of determining the shares entitled to annual dividends, the register is closed for a specified period before the annual general meeting. The date on which this period begins is the record date.

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To determine which shareholders are entitled to specified shareholder rights, we may close the register of shareholders. The Companies Act and our listing agreements with the Indian stock exchanges require us to give at least seven days and thirty days prior notice respectively to the public before such closure. We may not close the register of shareholders for more than 30 consecutive days, and in no event for more than 45 days in a year.

Following the introduction of the Depositories Act, 1996, and the repeal of Section 22A of the Securities Contracts (Regulation) Act, 1956, which enabled companies to refuse to register transfers of shares in some circumstances, the equity shares of a public company are freely transferable, subject only to the provisions of Section 111A of the Companies Act. Because we are a public company, the provisions of Section 111A apply to us. Our Articles currently contain provisions which give our directors discretion to refuse to register a transfer of shares in some circumstances. According to our Articles, our directors are required to exercise this right in the best interests of our company. While our directors are not required to provide a reason for any such refusal in writing, they must give notice of the refusal to the transferee within one month after receipt of the application for registration of transfer by our company. In accordance with the provisions of Section 111A(2) of the Companies Act, our directors may exercise this discretion if they have sufficient cause to do so. If our directors refuse to register a transfer of shares, the shareholder wishing to transfer his, her or its shares may file a civil suit or an appeal with the Company Law Board, or CLB. Pursuant to Section 111A(3), if a transfer of shares contravenes any of the provisions of the Securities and Exchange Board of India Act, 1992 or the regulations issued thereunder or the Sick Industrial Companies (Special Provisions) Act, 1985 or any other Indian laws, the CLB may, on application made by the company, a depositary incorporated in India, an investor, the Securities and Exchange Board of India or other parties, direct the rectification of the register of records. The CLB may, in its discretion, issue an interim order suspending the voting rights attached to the relevant shares before making or completing its investigation into the alleged contravention. Notwithstanding such investigation, the rights of a shareholder to transfer the shares will not be restricted.

There are no maximum limits on foreign direct equity participation in the business in which our Company is engaged. With regard to share transfers, if a person resident outside India were to sell its shares to a person resident in India, approval of the RBI would be required unless the sale is made on a stock exchange or in connection with an offer made under the regulations regarding takeovers. For additional information regarding ownership restrictions, please see Investment by Foreign Institutional Investors below.

Under the Companies Act, unless the shares of a company are held in a dematerialized form, a transfer of shares is effected by a duly stamped instrument of transfer in the form prescribed by the Companies Act and the rules there under together with delivery of the share certificates.

We have entered into listing agreements with three of the Indian stock exchanges: the Stock Exchange, Mumbai, the National Stock Exchange and the Hyderabad Stock Exchange. Clause 40A of each of the listing agreements provides that if an acquisition of a listed company s shares results in the acquirer and its associates holding 5.0% or more of the company s outstanding equity shares or voting rights, the acquirer must report its holding to the company and the relevant stock exchanges. If an acquisition results in the acquirer and its associates holding equity shares that have 15.0% or more of the voting rights, then the acquirer must, before acquiring such equity shares, make an offer, in accordance with clause 40B of the listing agreements, on a uniform basis to all remaining shareholders of the company to acquire equity shares that have at least an additional 20.0% of the voting rights of the total equity shares of the company at a prescribed price. The acquisition of shares of a company listed on an Indian stock exchange may be subject to regulations governing takeovers of Indian companies. Although clauses 40A and 40B and such regulations will not apply to the equity shares so long as they are represented by ADSs, holders of ADSs may be required to comply with such notification and disclosure obligations pursuant to the provisions of the deposit agreements.

Disclosure of Ownership Interest

Section 187C of the Companies Act requires beneficial owners of shares of Indian companies who are not holders of record to declare to us details of the holder of record and the nature and details of the beneficial owner s interest in the shares. Any person who fails to make the required declaration within 30 days may be liable for a fine of up to Rs.1,000 for each day the declaration is not made. Any lien, promissory note or other collateral agreement created, executed or entered into with respect to any equity share by its registered owner, or any hypothecation by the registered owner of any equity share, shall not be enforceable by the beneficial

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owner or any person claiming through the beneficial owner if such declaration is not made. Failure to comply with Section 187C will not affect our obligation to register a transfer of shares or to pay any dividends to the registered holder of any shares pursuant to which the declaration has not been made. While it is unclear under Indian law whether Section 187C applies to holders of ADSs, investors who exchange ADSs for the underlying equity shares will be subject to the restrictions of Section 187C. Additionally, holders of ADSs may be required to comply with the notification and disclosure obligations pursuant to the provisions of the deposit agreement covering the ADSs.

Company Acquisition of Equity Shares

Under the Companies Act, approval of at least 75.0% of our shareholders voting on the matter and approval of the High Court of Andhra Pradesh is required to reduce our share capital. We may, under some circumstances, acquire our own equity shares without seeking the approval of the High Court. However, we would have to extinguish any shares we have so acquired within the prescribed time period. Generally, a company is not permitted to acquire its own shares for treasury operations. An acquisition of our own shares (without having to obtain the approval of the High Court) must comply with prescribed rules, regulations and conditions as laid down in the Companies Act and the Securities and Exchange Board of India (Buy-back of Securities) Regulations, 1998, or Buy-back Regulations.

Liquidation Rights

Subject to the rights of creditors, employees and the holders of any shares entitled by their terms to preferential repayment over the equity shares, if any, in the event of our winding-up the holders of the equity shares are entitled to be repaid the amounts of paid up capital or credited as paid up on those equity shares. All surplus assets after payments due to the holders of any preference shares at the commencement of the winding-up shall be paid to holders of equity shares in proportion to their shareholding.

Takeover Code

Under the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, or Takeover Code, upon the acquisition of more than 5% or 10% or 14% of the outstanding shares or voting rights of a publicly-listed Indian company, a purchaser is required to notify the company, and the company and the purchaser are required to notify all the stock exchanges on which the shares of such company are listed. Further, the Takeover Code requires that any person holding more than 15% and less than 75% of the shares or voting rights in a company, upon the sale or purchase of 2% or more of the shares or voting rights of the company, is required to notify the company and all the stock exchanges where the shares are listed. A holder of ADSs would be subject to these notification requirements.

Upon the acquisition of 15% or more of such shares or voting rights, or a change in control of the company, the purchaser is required to make an open offer to the other shareholders, offering to purchase at least 20% of all the outstanding shares of the company at a minimum offer price determined pursuant to the Takeover Code. Since we are a listed company in India, the provisions of the Takeover Code will apply to us and to any person acquiring our equity shares or voting rights in our company. However, the Takeover Code provides for a specific exemption from this provision to a holder of ADSs and states that this provision will apply to a holder of ADSs only once he or she converts the ADSs into the underlying equity shares.

Material Contracts

Except as described herein, we have not entered into any material contracts in the two years preceding the date of this Annual Report, other than contracts entered into in the ordinary course of business.

Exchange Controls

General

Prior to June 1, 2000, investment in Indian securities was regulated by the Indian Foreign Exchange Regulation Act, 1973. Under Section 29(1)(b) of the Indian Foreign Exchange Regulation Act, 1973, no person

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or company resident outside India that is not incorporated in India (other than a banking company) could purchase the shares of any company carrying on any trading, commercial or industrial activity in India without the permission of the Reserve Bank of India. Also, under Section 19(1)(d) of the Indian Foreign Exchange Regulation Act, 1973, the transfer and issuance of any security of any Indian company to a person resident outside India required the permission of the Reserve Bank of India. Under Section 19(5) of the Indian Foreign Exchange Regulation Act, 1973, no transfer of shares in a company registered in India by a non-resident to a resident of India was valid unless the transfer was confirmed by the Reserve Bank of India upon application filed by the transferor or the transferee. Furthermore, the issuance of rights and other distributions of securities to a non-resident also requires the prior consent of the Reserve Bank of India. However, the Reserve Bank of India has issued notifications over the past few years relaxing the restrictions on foreign investment in Indian companies.

As of June 1, 2000, the Indian Foreign Exchange Regulation Act, 1973 was replaced by the Indian Foreign Exchange Management Act, 1999. The Indian Foreign Exchange Management Act, 1999 contains provisions regarding current account convertibility and amendments to the definition of a resident of India. However, some of the preexisting controls and restrictions on capital account transactions remain in force. While many of the restrictions imposed by the Indian Foreign Exchange Regulation Act, 1973 have been relaxed under this new legislation, the Notifications and Guidelines issued by the Reserve Bank of India which are not inconsistent with the Indian Foreign Exchange Management Act, 1999 continue to be in force. The purchase and the transfer of shares of Indian companies continues to be regulated by the RBI. Therefore, transaction involving foreign investment in Indian securities is regulated by the provisions of the Indian Foreign Exchange Management Act, 1999 and continues to be regulated by the Reserve Bank of India.

ADR Guidelines

Shares of Indian companies represented by ADSs are no longer required to be approved for issuance to foreign investors by the either Ministry of Finance or the Reserve Bank of India under the Issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depositary Receipt Mechanism) Scheme, 1993, as modified from time to time, notified by the Government of India. This change was effected through the guidelines for ADR and GDR issues by Indian companies issued by the Ministry of Finance on January 19, 2000 and a notification issued by the Reserve Bank of India. Hence we do not require the approval of the Ministry of Finance and the Reserve Bank of India under the Issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depositary Receipt Mechanism) Scheme, 1993. However, we will be required to furnish full particulars of the issue, including the underlying equity shares representing the ADRs, to the Ministry of Finance and the Reserve Bank of India within 30 days of the completion of an offering.

The Issue of Foreign Currency Convertible Bonds and Ordinary Shares Scheme is distinct from other policies or facilities, as described below, relating to investments in Indian companies by foreign investors. The issuance of ADSs pursuant to the Issue of Foreign Currency Convertible Bonds and Ordinary Shares Scheme also affords to owners of ADSs the benefits of Section 115AC of the Indian Income-tax Act, 1961 for purposes of the application of Indian tax law. The Government of India does not restrict the payment of dividends to the holders of our ADSs or equity shares, whether or not such holders reside in India. For additional information, please see Taxation Indian Taxation.

Foreign Direct Investment

Currently, due to recent changes in Indian policy, subject to certain exceptions, foreign direct investment and investment by individuals of Indian nationality or origin residing outside India, or non-resident Indians, and overseas corporate bodies at least 60% owned by such persons, or overseas corporate bodies, in Indian companies do not require the approval of the Foreign Investment Promotion Board, or FIPB, a body formed by the Government of India to negotiate with large foreign companies interested in making long-term investments in India. Furthermore, henceforth no prior approval of the Reserve Bank of India is required although a post-investment declaration in giving

details of the foreign investment in the company pursuant to the ADR issue must be filed with the Reserve Bank of India within thirty days of an ADR offering.

In cases where FIPB approval is obtained, no prior approval of the Reserve Bank of India is required, although a declaration in the prescribed form as mentioned above must be filed with the Reserve Bank of India

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once the foreign investment is made in the Indian company. In cases where no prior approval of the FIPB is required, prior approval of the Reserve Bank of India would also not be required. However, a declaration in the prescribed form giving details of the foreign investment must be filed with the Reserve Bank of India once the foreign investment is made in the Indian company.

In May 1994, the Government of India announced that purchases by foreign investors of ADSs and foreign currency convertible bonds of Indian companies will be treated as foreign direct investment in the equity issued by Indian companies for such offerings.

In November 1998, the Reserve Bank of India issued a notification to the effect that foreign investment in preferred shares will be considered as part of the share capital of a company and the provisions relating to foreign direct investment in the equity shares of a company discussed above would apply. Investments in preferred shares are included as foreign direct investment for the purposes of sectoral caps on foreign equity, if such preferred shares carry a conversion option. If the preferred shares are structured without a conversion option, they would fall outside the foreign direct investment limit.

The discussion on the foreign direct investment regime in India set forth above applies only to a new issuance of shares made by Indian companies, not to a transfer of shares.

Investment by Non-Resident Indians and Overseas Corporate Bodies

A variety of special facilities for making investments in India in shares of Indian companies is available to individuals of Indian nationality or origin residing outside India, or non-resident Indians, and to overseas corporate bodies, at least 60% owned by such persons. These facilities permit non-resident Indians and overseas corporate bodies to make portfolio investments in shares and other securities of Indian companies on a basis not generally available to other foreign investors. These facilities are different and distinct from investments by foreign direct investors described above.

Apart from portfolio investments in Indian companies, non-resident Indians and overseas corporate bodies may also invest in Indian companies through foreign direct investments. For additional information, please see " Foreign Direct Investment. . Under the foreign direct investment rules, non-resident Indians and overseas corporate bodies may invest up to 100% in high-priority industries in which other foreign investors are permitted to invest only up to 50%, 51%, 74% or 100%, depending on the industry category.

Investment by Foreign Institutional Investors

In September 1992, the Government of India issued guidelines which enable Foreign Institutional Investors, or FIIs, including institutions such as pension funds, investment trusts, asset management companies, nominee companies and incorporated/institutional portfolio managers, to invest in all the securities traded on the primary and secondary markets in India. Under the guidelines, FIIs are required to obtain an initial registration from the Securities and Exchange Board of India, or SEBI, and a general permission from the Reserve Bank of India to engage in transactions regulated under the Foreign Exchange Management Act. FIIs must also comply with the provisions of the SEBI Foreign Institutional Investors Regulations, 1995. When it receives the initial registration, the FII also obtains general permission from the Reserve Bank of India to engage in transactions regulated under the Foreign Exchange Management Act. Together, the initial registration and the Reserve Bank of India s general permission enable the registered FII to: (i) buy (subject to the ownership restrictions discussed below) and sell unrestricted securities issued by Indian companies; (ii) realize capital gains on investments made through the initial amount invested in India; (iii) participate in rights offerings for shares; (iv) appoint a domestic custodian for custody of investments held; and (v) repatriate the capital, capital gains, dividends, interest income and any other compensation received pursuant to

rights offerings of shares. The current policy with respect to purchase/sale of securities of an Indian company by an FII is enshrined in Schedule 2 and Regulation 5(2) of the Foreign Exchange Management (Transfer or Issue of Securities by a Person Resident Outside India) Regulations, 2000.

Apart from making portfolio investments in Indian Companies as described above, foreign institutional investors may direct foreign investments in Indian Companies. For additional information, please see Foreign Director Investment .

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Ownership Restrictions

The Securities and Exchange Board of India and Reserve Bank of India regulations, restrict investments in Indian companies by FIIs, NRIs and OCBs or collectively, Foreign Direct Investors. Under the current SEBI regulations applicable to us, subject to the requisite approvals of the shareholders in a general meeting, Foreign Direct Investors in aggregate may hold no more than 49% of a company s equity shares, excluding the equity shares underlying the ADSs. Pursuant to Notification No. FEMA.45/2001-RB dated September 20, 2001 under Foreign Exchange Management (Transfer or Issue of Securities by a Person Resident Outside India) (Amendment) Regulations, 2001, upon obtaining the approval of the shareholders by a special resolution, the limit of FII investment in a company may be increased to 100% for companies in the IT industry. Furthermore, SEBI regulations provide that no single FII may hold more than 10% of a company s total equity shares.

There is uncertainty under Indian law about the tax regime applicable to foreign institutional investors that hold and trade ADSs. Foreign institutional investors are urged to consult with their Indian legal and tax advisers about the relationship between the foreign institutional investor regulations and the ADSs and any equity shares withdrawn upon surrender of ADSs.

Detailed provisions relating to FII investment have been introduced by the SEBI with the introduction of the SEBI Foreign Institutional Investors Regulations, 1995. These provisions relate to the registration of FIIs, their general obligations and responsibilities, and certain investment conditions and restrictions. One such restriction is that the total investment in equity and equity-related instruments should not be less than 70% of the aggregate of all investments of an FII in India. The SEBI has also permitted private placements of shares by listed companies with FIIs, subject to the prior approval of the Reserve Bank of India under the Foreign Exchange Management Act. Such private placements must be made at the average of the weekly highs and lows of the closing price over the preceding six months or the preceding two weeks, whichever is higher.

Under the Takeover Code, which replaced the 1994 Takeover Code (as defined herein), upon the acquisition of more than 5% or 10% or 14% of the outstanding shares of a public Indian company, a purchaser is required to notify the company and the company and the purchasers are required to notify to all the stock exchanges on which the shares of the company are listed. Upon the acquisition of 15% or more of such shares or a change in control of the company, the purchaser is required to make an open offer to the other shareholders offering to purchase at least 20% of all the outstanding shares of the company at a minimum offer price as determined pursuant to the rules of the Takeover Code. Upon conversion of ADSs into equity shares, a holder of ADSs will be subject to the Takeover Code.

Open market purchases of securities of Indian companies in India by Foreign Direct Investors above the ownership levels set forth above require Government of India approval on a case-by-case basis.

Voting Rights of Deposited Equity Shares Represented by ADSs

Holders of ADSs generally have the right under the deposit agreement to instruct the depositary bank to exercise the voting rights for the equity shares represented by the related ADSs.

At our request, the depositary bank will mail to the holders of ADSs any notice of stockholders meeting received from us together with information explaining how to instruct the depositary bank to exercise the voting rights of the securities represented by ADSs.

If the depositary bank timely receives voting instructions from a holder of ADSs, it will endeavor to vote the securities represented by the holder s ADSs in accordance with such voting instructions. In the event that voting takes place by a show of hands, the depositary bank will cause the custodian to vote all deposited securities in accordance

with the instructions received by holders of a majority of the ADSs for which the depositary bank receives voting instructions.

Please note that the ability of the depositary bank to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities on deposit. We cannot assure you that ADS holders

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will receive voting materials in time to enable them to return voting instructions to the depositary bank in a timely manner. Securities for which no voting instructions have been received will not be voted.

Taxation

Indian Taxation

General. The following relates to the principal Indian tax consequences for holders of ADSs and equity shares received upon withdrawal of such equity shares who are not resident in India, whether of Indian origin or not. We refer to these persons as non-resident holders. The following is based on the provisions of the Income-tax Act, 1961, including the special tax regime contained in Section 115AC and the Issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depository Receipt Mechanism) Scheme, 1993. The Income-tax Act is amended every year by the Finance Act of the relevant year. Some or all of the tax consequences of the Section 115AC may be amended or changed by future amendments of the Income-tax Act.

This section is not intended to constitute a complete analysis of the individual tax consequences to non-resident holders under Indian law for the acquisition, ownership and sale of ADSs and equity shares. Personal tax consequences of an investment may vary for non-resident holders in various circumstances, and potential investors should therefore consult their own tax advisers on the tax consequences of such acquisition, ownership and sale, including specifically the tax consequences under the law of the jurisdiction of their residence and any tax treaty between India and their country of residence.

Residence. For purposes of the Income-tax Act, an individual is considered to be a resident of India during any fiscal year if he or she is in India in that year for:

a period or periods amounting to 182 days or more; or

60 days or more and, in case of a citizen of India or a person of Indian origin, who, being outside India, comes on a visit to India, is in India for 182 days or more effective April 1, 1995 and in each case within the four preceding years has been in India for a period or periods amounting to 365 days or more.

A company is a resident of India if it is registered in India or the control and the management of its affairs is situated wholly in India. A firm or other association of persons is resident in India except where the control and management of its affairs is situated wholly outside India. Individuals, companies, firms and other associations of persons that are not residents of India would be treated as non-residents for purposes of the Income-tax Act.

Taxation of Distributions. There is no withholding tax on dividends paid to stockholders. However, the company paying the dividend is subject to a dividend distribution tax of 12.5%, and surcharge of 2.5%, on the total amount it distributes, declares or pays as a dividend. This dividend distribution tax is in addition to the normal corporate tax of 35%, and surcharge of 2.5%.

Any distributions of additional ADSs, equity shares or rights to subscribe for equity shares made to non-resident holders with respect to ADSs or equity shares will not be subject to Indian tax. Similarly, the acquisition by a non-resident holder of equity shares upon redemption of ADSs will not constitute a taxable event for Indian income tax purposes. Such acquisition will, however, give rise to a stamp duty as described below under Stamp Duty and Transfer Tax.

Taxation of Capital Gains. Any gain realized on the sale of ADSs or equity shares by a non-resident holder to any non-resident outside India is not subject to Indian capital gains tax.

Since our ADS offerings were approved by the Government of India under the Issue of Foreign Currency Convertible Bonds and Ordinary Shares Scheme, non-resident holders of the ADSs have the benefit of tax concessions available under Section 115AC. As a result, gains realized on the sale of ADSs will not be subject to Indian taxation. The effect of the Scheme in the context of Section 115AC is unclear as to whether such tax treatment is available to a non-resident who acquires equity shares outside India from a non-resident holder of equity shares after receipt of the equity shares upon surrender of the ADSs. If concessional tax treatment is not

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available, gains realized on the sale of such equity shares will be subject to customary Indian taxation on capital gains as discussed below. The Issue of Foreign Currency Convertible Bonds and Ordinary Shares Scheme provides that if the equity shares are sold on a recognized stock exchange in India against payment in Indian rupees, they will no longer be eligible for such concessional tax treatment.

Subject to any relief provided pursuant to an applicable tax treaty, any gain realized on the sale of equity shares to an Indian resident or inside India generally will be subject to Indian capital gains tax which is to be withheld at the source by the buyer. However, the acquisition by non-resident holders of equity shares in exchange for ADSs will not be subject to Indian capital gains tax. Under the Issue of Foreign Currency Convertible Bonds and Ordinary Shares Scheme, the cost of acquisition of equity shares received in exchange for ADSs will be the cost of the underlying shares on the date that the depositary gives notice to the custodian of the delivery of the equity shares in exchange for the corresponding ADSs. In the case of companies listed in India, the cost of acquisition of the equity shares would be the price of the equity shares prevailing on the Stock Exchange, Mumbai or the National Stock Exchange on the date the depositary gives notice to the custodian of the delivery of the equity shares in exchange for the corresponding ADSs. However, the Issue of Foreign Currency Convertible Bonds and Ordinary Shares Scheme and Section 115AC do not provide for determination of the cost of acquisition for the purposes of computing capital gains tax where the shares of the Indian company are not listed on the Stock Exchange, Mumbai or the National Stock Exchange in India. Therefore, in the case of our company, which is not listed on either the Stock Exchange, Mumbai or the National Stock Exchange, the mode of determination of the cost of acquisition of equity shares is unclear. Therefore, the original cost of acquisition of the ADSs may be treated as the cost of acquisition for the purposes of determining the capital gains tax. According to the Issue of Foreign Currency Convertible Bonds and Ordinary Shares Scheme, a non-resident holder s holding period for purposes of determining the applicable Indian capital gains tax rate in respect of equity shares received in exchange for ADSs commences on the date of the notice of the redemption by the depositary to the custodian. The India-U.S. Treaty does not provide an exemption from the imposition of Indian capital gains tax.

The Finance Act, 2003 exempts long-term capital gains from tax when they are derived from the transfer of equity shares in a company listed on a recognized stock exchange in India and is a constituent of BSE 500 indices and purchased on or after March 1, 2003, but before March 1, 2004 and purchase and sale are entered into on a recognized stock exchange in India. Taxable gain realized in respect of equity shares held for 12 months or less, or short-term gain, is subject to tax at variable rates with a maximum rate of 48%. The actual rate of tax on short-term gain depends on a number of factors, including the residential status of the non-resident holder and the type of income chargeable in India.

Buy-back of Securities. Currently, Indian companies are not subject to any tax in respect of the buy-back of their shares. However, the stockholders will be taxed on any gain at the long-term or short-term, as applicable, capital gains rates. For additional information, please see " Taxation of Capital Gains.

Stamp Duty and Transfer Tax. Upon issuance of the equity shares underlying our ADSs, we are required to pay a stamp duty of Rs 0.30 per share certificate. A transfer of ADSs is not subject to Indian stamp duty. However, upon the acquisition of equity shares in physical form from the depositary in exchange for ADSs, the non-resident holder will be liable for Indian stamp duty at the rate of 0. 25% of the market value of the equity shares on the redemption date. Similarly upon a sale of shares in physical form, stamp duty at the rate of 0.25% of the market value of the equity shares on the trade date is payable, although customarily such duty is borne by the purchaser. Blocks of 500 or less of our equity shares may be issued and traded in physical form, and are thus subject to Indian stamp duty. Blocks of more than 500 of our equity shares must be issued and traded in dematerialized form and are not subject to Indian stamp duty.

Wealth Tax. The holding of the ADSs in the hands of non-resident holders and the holding of the underlying equity shares by the depositary as a fiduciary will be exempt from Indian wealth tax. Non-resident holders are advised to consult their own tax advisers in this context.

Gift Tax and Estate Duty. Indian gift tax was abolished in October 1998. In India, there is no estate duty law. As a result, no estate duty would be applicable to non-resident holders. Non-resident holders are advised to consult their own tax advisors in this context.

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Service Tax. Brokerage or commissions paid to stockbrokers in connection with the sale or purchase of shares is subject to a service tax of 8%. The stockbroker is responsible for collecting the service tax and paying it to the relevant authority.

United States Federal Taxation

The following is a summary of the material U.S. federal income and estate tax consequences that may be relevant with respect to the acquisition, ownership and disposition of equity shares or ADSs. This summary addresses the U.S. federal income and estate tax considerations of holders that are U.S. persons, i.e., citizens or residents of the United States, partnerships or corporations created in or under the laws of the United States or any political subdivision thereof or therein, estates, the income of which is subject to U.S. federal income taxation regardless of its source and trusts for which a U.S. court exercises primary supervision and a U.S. person has the authority to control all substantial decisions and that will hold equity shares or ADSs as capital assets. We refer to these persons as U.S. holders. This summary does not address tax considerations applicable to holders that may be subject to special tax rules, such as banks, insurance companies, dealers in securities or currencies, tax-exempt entities, persons that hold equity shares or ADSs as a position in a straddle or as part of a hedging or conversion transaction for tax purposes, persons that have a functional currency other than the U.S. dollar or holders of 10% or more, by voting power or value, of the stock of our company. This summary is based on the tax laws of the United States as in effect on the date of this Annual Report and on United States Treasury Regulations in effect or, in some cases, proposed, as of the date of this Annual Report, as well as judicial and administrative interpretations thereof available on or before such date and is based in part on representations of the depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms. All of the foregoing are subject to change, which change could apply retroactively and could affect the tax consequences described below.

Each prospective investor should consult his, her or its own tax advisor with respect to the U.S. Federal, state, local and foreign tax consequences of acquiring, owning or disposing of equity shares or ADSs.

Ownership of ADSs. For U.S. federal income tax purposes, holders of ADSs should be treated as the owners of equity shares represented by such ADSs. However, the United States Treasury had expressed concerns that parties to whom ADSs are pre-released may be taking actions inconsistent with the claiming of the reduced rate of tax applicable to dividends received by certain non-corporate holders, as described below. Accordingly, the availability of the lower rate of tax applicable to dividends could be affected by actions that may be taken by the United States Treasury.

Dividends. Subject to special rules discussed below governing passive foreign investment companies, distributions of cash or property (other than equity shares, if any, that are distributed pro rata to all stockholders of our company, including holders of ADSs and also meet certain conditions) with respect to equity shares will be includible in income by a U.S. holder as foreign source dividend income at the time of receipt, which in the case of a U.S. holder of ADSs generally will be the date of receipt by the depositary, to the extent such distributions are made from the current or accumulated earnings and profits of our company as determined under U.S. federal income tax principles. Such dividends will not be eligible for the dividends received deduction generally allowed to corporate U.S. holders. To the extent, if any, that the amount of any distribution by our company exceeds our company s current and accumulated earnings and profits, it will be treated first as a tax-free return of the U.S. holder s tax basis in the equity shares or ADSs and thereafter as capital gain. With respect to noncorporate taxpayers for taxable years beginning before January 1, 2009, dividends may be taxed at the lower applicable capital gains rate provided that (1) ADSs or equity shares are readily tradable on an established securities market in the United States, (2) we are not a passive foreign investment company (as discussed below) for either our taxable year in which the dividend is paid or the preceding taxable year, and (3) certain holding period requirements are met.

It is not clear if any Indian tax imposed upon distributions paid to a U.S. holder with respect to ADSs or equity shares would be eligible for credit against the U.S. holder s federal income tax liability (or alternatively, a deduction in computing taxable income). Dividends paid by our company generally will constitute passive income for purposes of the foreign tax credit (or, in the case of certain holders, financial services income).

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If dividends are paid in Indian rupees, the amount of the dividend distribution includible in the income of a U.S. holder will be in the U.S. dollar value of the payments made in Indian rupees, determined at a spot exchange rate between Indian rupees and U.S. dollars applicable to the date of distribution, regardless of whether the payment is in fact converted into U.S. dollars. Generally, gain or loss, if any, resulting from currency exchange fluctuations during the period from the date the dividend is paid to the date such payment is converted into U.S. dollars will be treated as ordinary income or loss.

Sale or Exchange of equity shares or ADSs. A U.S. holder generally will recognize gain or loss on the sale or exchange of equity shares or ADSs equal to the difference between the amount realized on such sale or exchange and the U.S. holder s tax basis in the equity shares or ADSs. Subject to special rules described below governing passive foreign investment companies, such gain or loss will be capital gain or loss, and will be long-term capital gain or loss if the equity shares or ADSs were held for more than one year. Gain or loss, if any, recognized by a U.S. holder generally will be treated as U.S. source gain or loss for U.S. foreign tax credit purposes. The deductibility of capital losses may be subject to limitation.

Estate Taxes. An individual stockholder who is a citizen or resident of the United States for U.S. federal estate tax purposes will have the value of the equity shares or ADSs owned by such holder included in his or her gross estate for U.S. federal estate tax purposes.

Passive Foreign Investment Company. A non-U.S. corporation will be classified as a passive foreign investment company for U.S. Federal income tax purposes if either:

75% or more of its gross income for the taxable year is passive income; or

on a quarterly average for the taxable year by value (or, if it is not a publicly traded corporation and so elects, by adjusted basis) 50% or more of its assets produce or are held for the production of passive income.

We do not believe that we satisfy either of the tests for passive foreign investment company status. If we were to be a passive foreign investment company for any taxable year, U.S. holders would be required to either:

pay an interest charge together with tax calculated at maximum ordinary income rates on excess distributions, which is defined to include gain on a sale or other disposition of equity shares;

if a qualified electing fund election is made, to include in their taxable income their pro rata share of undistributed amounts of our income; or

if the equity shares are marketable and a mark-to-market election is made, to mark-to-market the equity shares each taxable year and recognize ordinary gain and, to the extent of prior ordinary gain, ordinary loss for the increase or decrease in market value for such taxable year.

Backup Withholding Tax and Information Reporting Requirements. Dividends paid on equity shares to a holder who is not an exempt recipient, if any, may be subject to information reporting and, unless a holder either furnishes its taxpayer identification number or otherwise establishes an exemption, may also be subject to U.S. backup withholding tax. In addition, information reporting will apply to payments of proceeds from the sale or redemption of equity shares or ADSs by a paying agent, including a broker, within the United States to a U.S. holder, other than an exempt recipient. An exempt recipient includes a corporation. In addition, a paying agent within the United States will be required to withhold 31% of any payments of the proceeds from the sale or redemption of equity shares or ADSs within the United States to a holder, other than an exempt recipient, if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with such backup withholding requirements.

The above summary is not intended to constitute a complete analysis of all tax consequences relating to ownership of equity shares or ADSs. You should consult your own tax advisor concerning the tax consequences of your particular situation.

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Documents On Display

Publicly filed documents concerning our company which are referred to in this document may be inspected and copied at the public reference facilities maintained by the SEC at:

Judiciary Plaza
450 Fifth Street, N.W.
Room 1024
Washington, D.C. 20549

Copies of these materials can also be obtained from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Washington D.C. 20549, at prescribed rates.

The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements and other information regarding registrants that make electronic filings with the SEC using its EDGAR system.

Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our currency, maturity and interest rate information relative to our short-term and long-term debt are disclosed in Note Borrowings to our consolidated financial statements.

The table below provides information about our financial instruments that are sensitive to changes in interest rates and foreign currencies as of the dates shown. Weighted average variable rates were based on average interest rates applicable to the loans. The information is presented in U.S. dollar equivalents, which is our reporting currency, based on the applicable exchange rates as of the relevant period end. Actual cash flows are denominated in various currencies, including U.S. dollars and Indian rupees.

	As of March 31, 2004 Total recorded		As of March 31, 2003 Total recorded	
	Amount	Fair Value	Amount	Fair Value
	($ equivalent in thousands)			
Debt:				
Variable rate short-term debt	$	$	$	$
Average interest rate				
Fixed rate long-term debt	$4,182	$ 4,189	$4,074	$ 4,081
Average interest rate	10.93%		11.88%	

Limitations. Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could

significantly affect the estimates.

We also face market risk relating to foreign exchange rate fluctuations, principally relating to the fluctuation of U.S. dollar to Indian rupee exchange rate. Our foreign exchange risk principally arises from accounts payable to overseas vendors. This risk is partially mitigated as we have receipts in foreign currency from overseas customers and hold balances in foreign currency with overseas banks.

During fiscal 2004 and fiscal 2003, 97.1% and 93.9%, respectively, of our revenues were generated outside of India. Using sensitivity analysis, a hypothetical 10% increase in the value of the Indian rupee against all other currencies would decrease revenue by 1.6% or $8.8 million in the fiscal 2004 and 1.9%, or $8.6 million in fiscal 2003, while a hypothetical 10% decrease in the value of the Indian rupee against all other currency would increase revenue by 1.6%, or $8.8 million, in the fiscal 2004 and 1.9%, or $8.6 million, in fiscal 2003. In the opinion of management, a substantial portion of this fluctuation would be offset by expenses incurred in local

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currencies. As a result, a hypothetical 10% movement of the value of the Indian rupee against all other currencies in either direction would have impacted our earnings before interest and taxes by $8.8 million in the fiscal 2004 and $8.6 million in fiscal 2003. This amount would be offset, in part, from the impacts of local income taxes and local currency interest expense. As at March 31, 2004, we had approximately $76.3 million of non-Indian rupee denominated cash and cash equivalents.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

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PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

In May 2001, we completed an offering of 16,675,000 ADSs (representing 33,350,000 equity shares) at a price of $9.71 per ADS. We received approximately $150.6 million in cash, net of underwriting discounts, commissions and other offering costs. Our Securities Act registration statement on Form F-1 with respect to the offering was declared effective by the Securities and Exchange Commission on May 14, 2001 (Registration No. 333-13464). As of May 31, 2004, approximately $73.8 million of these proceeds has been used for prepayment of loans ($26.9 million); strategic investments in our subsidiaries ($14.1 million); development of facilities and infrastructure ($7.2 million) and working capital and general corporate purposes ($25.6 million). We intend to use the balance of the net proceeds to fund expansion of our existing facilities and communication network in different locations in India and outside India; to develop new facilities within and outside India; to invest in joint ventures and other strategic investments; and for working capital and general corporate purposes. None of the net proceeds from our ADS offering were paid, directly or indirectly, to any of our directors, officers or general partners or any of their associates, or to any persons owning ten percent or more of any class of our equity securities, or any affiliates.

ITEM 15. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to our management, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and, in reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Also, we have investments in certain unconsolidated entities. As we do not control or manage these entities, our disclosure controls and procedures with respect to such entities are necessarily substantially more limited than those we maintain with respect to our consolidated subsidiaries.

We have carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer, Chief Financial Officer and other management, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2004.

There have been no significant changes in our internal controls or in other factors that could significantly affect the internal controls subsequent to the date we completed our evaluation.

Nevertheless, during fiscal 2004 we identified a one time error in our consolidated financial statements that required us to restate the results of prior years under U.S. GAAP. In particular, we identified and restated beginning

shareholder s equity as of March 31, 2001 and shareholder s equity and net income as of and for the years ended March 31, 2003 and 2002, to reflect the impact on deferred tax liabilities and income taxes of Satyam s equity in the losses of Sify. Such impact was not previously recognized. In order to prevent errors in complex areas of US GAAP from occurring in the future, we will dedicate additional resources with expertise in complex US GAAP accounting areas, such as deferred tax accounting, to assist with our US GAAP financial reporting.

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ITEM 16.

A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Audit Committee members (as of May 31, 2004) are V.P. Rama Rao, Mangalam Srinivasan and Krishna G. Palepu, each of whom is an independent director who does not meet all of the criteria required to be named as Financial Expert, as defined in the applicable rules of the Securities Exchange Commission. The Board has determined that the financial expertise possessed by the current members of the Audit Committee is satisfactory, particularly the financial expertise of Krishna G Palepu, a member of the Audit Committee who is a Professor at Harvard Business School where he is a recognized expert in the analysis of financial statements and accounting matters. Please see Item 6. Directors, Senior Management and Employees for the experience and qualifications of the members of the Audit Committee.

ITEM 16.

B. CODE OF ETHICS

We have adopted a written Code of Ethics that is applicable to all of our directors, senior management and employees. We will make available a copy of the Code of Ethics to any person, without charge, if a written request is made to our Company Secretary at Mayfair Center, SP Road, Secunderabad 500 003, Andhra Pradesh, India.

ITEM 16.

C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the remuneration that we paid to our Independent Auditors and its associated entities in each of our previous two fiscal years:

	(Amounts in $)			
Fiscal Year Ended March 31,	**Audit Fees**	**Audit Related Fees**	**Tax Fees**	**Others**
2003	$191,659	$ 78,068	$33,388	$234,625
2004	$161,530	$ 68,295	$76,935	$143,265

Audit fees

Audit Fees represent fees for professional services rendered for the audit of the standalone financial statements, consolidated financial statements of the Company and its subsidiaries prepared in accordance with Indian GAAP, US GAAP and other local GAAPs of the subsidiaries.

Audit related fees

Audit related fees represent fees for advisory services and professional services rendered in connection with Securities and Exchange Board of India requirements and requirements related to Stock Exchanges.

Tax fees

Services provided primarily consist of routine corporate tax advisory services, tax audit and compilation of corporate tax returns.

Others

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Others represent consultation on matters related to professional fees in respect of obtaining work permits/visas for employees deputed abroad and other matters.

During fiscal 2004, the Audit Committee pre-approved a list of services that could be rendered by the principal accountant in fiscal 2004 pursuant to pre-approval policies and procedures established by the Audit Committee. For services other than those specified, approval would need to be obtained from the Audit Committee prior to the performance of such services. Services provided by the principal accountant in fiscal 2004 were allowable services that were approved by the Audit Committee.

ITEM 16.

D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

None.

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PART III

ITEM 17. FINANCIAL STATEMENTS

See Item 18 for a list of financial statements filed under Item 17.

ITEM 18. FINANCIAL STATEMENTS

Financial Statement

The following financial statements are filed as part of this document, together with the report of the independent auditors:

Report of Price Waterhouse, Independent Auditors

Consolidated Balance Sheets as of March 31, 2003 and 2004

Consolidated Statements of Operations for the years ended March 31, 2002, 2003 and 2004

Consolidated Statements of Shareholders Equity and Comprehensive Income for the years ended March 31, 2002, 2003 and 2004

Consolidated Statements of Cash Flows for the years ended March 31, 2002, 2003 and 2004

Notes to the Consolidated Financial Statements

Financial Statement Schedule Valuation and qualifying accounts

Financial Statement Schedule II

(Schedule II of Reg. §210.5-04(c) of Regulation S-X-17 of the Securities Act of 1933 and Securities Exchange Act of 1934)

Valuation and qualifying accounts

Change in valuation allowance on deferred tax assets:

	($ in thousands)				
As of March 31,	**Opening Balance**	**Change during the period**	**Change due to forex Fluctuation**	**Other Adjustments***	**Closing Balance**
2002	24,756	23,775	984		49,515
2003	49,515	11,578	546	(46,374)	15,265
2004	15,265	824	1,493		17,582

Allowance for doubtful accounts on trade accounts receivable

	($ in thousands)				
As of March 31,	**Opening Balance**	**Change during the period**	**Change due to forex Fluctuation**	**Other Adjustments***	**Closing Balance**
2002	2,748	7,018	(271)		9,495
2003	9,495	2,773	248	(3,336)	9,180
2004	9,180	3,644	1,106		13,930

* other adjustments represents the changes due to change in ownership interest in Sify. (Refer Item 3 Selected Financial Data)

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ITEM 19. EXHIBITS

Number	Description
1.1	Memorandum and Articles of Association of Satyam Computer Services.(1)
1.2	Schedule 1 Table A: Regulations for Management of a Company Limited by Shares.(1)
2.1	Specimens of Share Certificates.(1)
2.2	Deposit Agreement dated May 14, 2001, by and among Satyam Computer Services, Citibank, N.A. and the holders from time to time of American Depositary Receipts issued thereunder (including as an exhibit, the form of American Depositary Receipt).(2)
4.1	Associate Stock Option Plan (including Deed of Trust).(1)
4.2	Associate Stock Option Plan B.(1)
4.3	Associate Stock Option Plan ADR.(1)
4.4	Investor Rights Agreement, dated October 7, 2002, by and among Sify Limited (formerly Satyam Infoway Limited), Satyam Computer Services Limited, SAIF Investment Company Limited and Venture Tech Solutions Pvt. Ltd.(3)
8.1	List of Subsidiaries.(4)
10.1	Consent of Price Waterhouse, Independent Auditors.(4)
99.1	Certification of Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act.(4)
99.2	Certification of Financial Officer under Section 906 of the Sarbanes-Oxley Act. (4)

(1) Previously filed as an exhibit to our Registration Statement on Form F-1 (File No. 333-13464) filed on May 7, 2001 and incorporated herein by reference.

(2) Previously filed as an exhibit to our Form 20 F (File No. 001 15190) filed on August 13, 2001 and incorporated herein by reference.

(3) Previously furnished by Sify Limited to the Commission as an exhibit to Form 6-K (file No. 00027-663) on October 10, 2002 and incorporated herein by reference.

(4) Filed herewith.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and authorized the undersigned to sign this annual report on its behalf.

SATYAM COMPUTER SERVICES LIMITED

By: /s/ B. Rama Raju
Name: B. Rama Raju
Title: Managing Director and Chief Executive Officer

By: /s/ Srinivas V
Name: Srinivas V
Title: Director and Senior Vice President & Chief Financial Officer

Date: June 29, 2004

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CHIEF EXECUTIVE OFFICER CERTIFICATION

I, B. Rama Raju, certify that:

1. I have reviewed this annual report on Form 20-F of Satyam Computer Services Limited;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the company s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the company s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company s internal control over financial reporting; and

5. The company s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company s auditors and the audit committee of the company s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company s internal control over financial reporting.

Dated this June 29, 2004.

By: /s/ B. Rama Raju
Managing Director and
Chief Executive Officer

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CHIEF FINANCIAL OFFICER CERTIFICATION

I, Srinivas V., certify that:

1. I have reviewed this annual report on Form 20-F of Satyam Computer Services Limited;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the company s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the company s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company s internal control over financial reporting; and

5. The company s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company s auditors and the audit committee of the company s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company s internal control over financial reporting.

Dated this June 29, 2004.

By: /s/ Srinivas V.
Director and Senior Vice President &
Chief Financial Officer

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SATYAM COMPUTER SERVICES LIMITED

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Report of Independent Auditors

To the Board of Directors of:
Satyam Computer Services Limited

In our opinion, based upon our audits and the report of other independent auditors , the accompanying consolidated balance sheets, the related consolidated statements of operations, of cash flows and of shareholders equity and comprehensive income after the restatement as discussed in Note 22, present fairly, in all material respects, the financial position of Satyam Computer Services Limited and its subsidiaries as at March 31, 2004, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2004, in conformity with accounting principles generally accepted in the United States of America. In connection with our audits of the consolidated financial statements, we also have audited the Financial Statement Schedule. These financial statements are the responsibility of the Company s management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Sify Limited, a 52.51% owned subsidiary, as at March 31, 2002 and for the year then ended, which statements reflect total assets of US$84,953 thousands as at March 31, 2002 and total revenues of US$33,050 thousands for the year then ended. Those statements were audited by other independent auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Sify Limited as at March 31, 2002 and for the year then ended, is based solely on the report of the other independent auditors. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Price Waterhouse

Secunderabad, India

April 22, 2004

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Satyam Computer Services Limited
Consolidated Balance Sheets
(Thousands of US Dollars except per share data and as stated otherwise)

	As of March 31	
	2004	**2003**
Assets		
Current assets		
Cash and cash equivalents	$ 86,730	$ 62,202
Investments in bank deposits	332,133	
Accounts receivable, net of allowance for doubtful debts	133,827	96,764
Unbilled revenue on contracts	2,749	5,542
Deferred income taxes	6,081	4,488
Prepaid expenses and other receivables	32,905	9,041
Total current assets	**594,425**	**178,037**
Investments	2,793	210
Investments in bank deposits		259,359
Investments in associated companies	24,274	29,578
Premises and equipment, net	68,466	69,158
Goodwill, net	15,536	14,186
Other assets	8,274	11,166
Total assets	**713,768**	**561,694**
Liabilities and shareholders equity		
Current liabilities		
Short-term and current portion of long-term debts	2,356	4,836
Accounts payable	8,383	10,946
Accrued expenses and other current liabilities	46,674	44,044
Unearned and deferred revenue	1,883	1,726
Total current liabilities	**59,296**	**61,552**
Long-term debts, excluding current portion	1,826	1,738
Deferred income taxes	8,757	10,688
Total liabilities	**69,879**	**73,978**

Contingencies and Commitments (*Note No. 18*)
Preferred Stock of Subsidiary

0.05% Cumulative convertible redeemable preference shares, par value Rs.10 (US$0.23*) per equity share, *(100 million preference shares authorized, 45,669,999 and Nil preference shares issued as of March 31, 2004 and 2003 respectively)*	10,000	
Shareholders equity		
Common stock par value Rs.2 (US$0.046*) per equity share (*375 million equity shares authorized, 316,251,710 and 314,542,800 issued as of March 31, 2004 and 2003 respectively*)	17,222	17,146
Additional paid-in capital	416,176	406,704
Shares subscribed but unissued	43	
Deferred stock-based compensation	(13)	(876)
Retained earnings	172,825	87,138
Accumulated other comprehensive income/(loss)	29,380	(20,113)
	635,633	**489,999**
Shares held by the SC-Trust under associate stock option plan *(1,687,680 and 2,210,820 equity shares as of March 31, 2004 and 2003 respectively)*	(1,744)	(2,283)
Total shareholders equity	**633,889**	**487,716**
Total liabilities and shareholders equity	**$713,768**	**$561,694**

** The par value in US$ has been converted at the closing rate as of March 31, 2004, 1US$ = Rs43.40*

The accompanying notes are an integral part of these consolidated financial statements.

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Satyam Computer Services Limited
Consolidated Statements of Operations
(Thousands of US Dollars except per share data and as stated otherwise)

	Year ended March 31		
	2004	**2003**	**2002**
Revenues	$ 566,372	$ 459,207	$ 414,491
Cost of revenues (*Includes deferred stock-based compensation of US$853, US$1,591, US$7,212 for the years ended March 31, 2004, 2003 and 2002 respectively)*	(343,596)	(275,219)	(240,304)
Gross profit	**222,776**	**183,988**	**174,187**
Selling, general and administrative expenses (*Includes deferred stock-based compensation of US$772, US$2,930 and US$3,582 for the years ended March 31, 2004, 2003 and 2002 respectively)*	(101,627)	(116,893)	(139,588)
Amortization of goodwill			(16,997)
Impairment of goodwill			(81,115)
Impairment of other non marketable investments		(3,299)	
Reversal of put option charge		19,843	
Total operating expenses	**(101,627)**	**(100,349)**	**(237,700)**
Operating income/(loss)	**121,149**	**83,639**	**(63,513)**
Interest income	20,309	7,158	3,806
Interest expense	(471)	(800)	(2,856)
Gain on sale of shares in associated companies/others	2,652	830	45,594
Gain/(loss) on foreign exchange transactions	(8,874)	(4,757)	10,813
Other income/(expense), net	2,270	(1,746)	1,277
Income/(loss) before income taxes, minority interest and equity in earnings/(losses) of associated companies	**137,035**	**84,324**	**(4,879)**
Income taxes	(22,544)	(9,769)	(769)
Minority Interest		11,082	73,406
Income before equity in earnings/(losses) of associated companies	**114,491**	**85,637**	**67,758**
Equity in earnings/(losses) of associated companies, net of taxes	(2,631)	(3,339)	(25,401)
Net income	**$ 111,860**	**$ 82,298**	**$ 42,357**

Earnings per share:			
Basic	$ 0.36	$ 0.26	$ 0.14
Diluted	0.35	0.26	0.14
Weighted average number of shares used in computing earnings per share (in thousands)			
Basic	313,155	311,797	305,751
Diluted	317,057	318,658	307,113

The accompanying notes form an integral part of these consolidated financial statements.

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Satyam Computer Services Limited
Consolidated Statements of Shareholders Equity and Comprehensive Income
(Thousands of US Dollars except per share data and as stated otherwise)

	Common Stock		Additional paid-in	Deferred stock-based	Retained earnings	Accumulated other comprehensive	Shares held by	Total Shareholders
	Shares	Par Value	capital	compensation	(deficit)	loss	SC-Trust	Equity
Balance as of March 31, 2001	**281,190,000**	**$15,726**	**$253,409**	**$(11,787)**	**$(21,399)**	**$(21,659)**	**$(11,538)**	**$202,752**
Net income					42,357			42,357
Other comprehensive loss								
Loss on foreign currency translation						(15,063)		(15,063)
Unrealized losses on securities, net of taxes						(5)		(5)
Total Comprehensive income								**27,289**
Gain on dilution of interest in Sify on its issuance of new shares, net of taxes			375					375
Loss on sale of Sify s shares held by CricInfo			(645)					(645)
Issuance of common stock, net of issuance cost	33,350,000	1,418	149,196					150,614
Deferred stock-based compensation			1,203	(1,203)				
Amortization of deferred stock-based compensation				10,479				10,479
Shares transferred by SC-Trust to			1,992				7,940	9,932

employees								
Cash dividend paid at the rate of US$0.01 per share					(6,432)			(6,432)
Balance as of March 31, 2002	**314,540,000**	**$ 17,144**	**$ 405,530**	**$ (2,511)**	**$ 14,526**	**$ (36,727)**	**$ (3,598)**	**$ 394,364**

The accompanying notes are an integral part of these consolidated financial statements.

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Satyam Computer Services Limited
Consolidated Statements of Shareholders Equity and Comprehensive Income
(Thousands of US Dollars except per share data and as stated otherwise)

	Common Stock		Additional paid-in capital	Deferred stock-based compensation	Retained earnings / (deficit)	Accumulated other comprehensive loss	Shares held by SC-Trust	Total Shareholders' Equity
	Shares	Par Value						
Balance as of March 31, 2002	**314,540,000**	**$17,144**	**$405,530**	**$ (2,511)**	**$14,526**	**$ (36,727)**	**$ (3,598)**	**$ 394,364**
Net income					82,298			82,298
Other comprehensive income								
Gain on foreign currency translation						16,612		16,612
Unrealized gains on securities, net of taxes						2		2
Total Comprehensive income								**98,912**
Issuance of common stock, net of issuance cost	2,800	2	10					12
Loss on dilution of interest in Sify on it s issuance of new shares, net of taxes			(1,181)					(1,181)
Deferred stock-based compensation			1,745	(1,745)				
Amortization of deferred stock-based compensation				3,380				3,380
Shares transferred by SC-Trust to employees			600				1,315	1,915

Cash dividend paid at the rate of US$0.03 per share					(9,686)			(9,686)
Balance as of March 31, 2003	**314,542,800**	**$17,146**	**$406,704**	**$ (876)**	**$87,138**	**$ (20,113)**	**$ (2,283)**	**$ 487,716**

The accompanying notes are an integral part of these consolidated financial statements.

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Satyam Computer Services Limited
Consolidated Statements of Shareholders Equity and Comprehensive Income
(Thousands of US Dollars except per share data and as stated otherwise)

	Common Stock		Additional paid-in capital	Shares subscribed but unissued	Deferred stock-based compensation	Retained earnings / (deficit)	Accumulated other comprehensive loss	Shares held by SC-Trust	Total Shareholders Equity
	Shares	Par Value							
Balance as of March 31, 2003	**314,542,800**	**$17,146**	**$406,704**		**$ (876)**	**$ 87,138**	**$ (20,113)**	**$(2,283)**	**$487,716**
Net income						111,860			111,860
Other comprehensive income									
Gain on foreign currency translation							49,493		49,493
Total Comprehensive income									161,353
Issuance of common stock, net of issuance cost	1,708,910	76	8,309						8,385
Shares subscribed but unissued				43					43
Gain on dilution of interest in associate company on its issuance of new shares, net of taxes			15						15
Deferred stock-based compensation			762		(762)				
Amortization of deferred stock-based compensation					1,625				1,625
			386					539	925

Shares transferred by SC-Trust to employees									
Cash dividend paid at the rate of US $0.08 per share						(26,173)			(26,173)
Balance as of March 31, 2004	**316,251,710**	**$17,222**	**$416,176**	**$ 43**	**$ (13)**	**$172,825**	**$ 29,380**	**$(1,744)**	**$633,889**

The accompanying notes are an integral part of these consolidated financial statements.

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Satyam Computer Services Limited
Consolidated Statements of Cash Flows
(Thousands of US Dollars except per share data and as stated otherwise)

	Year ended March 31		
	2004	**2003**	**2002**
Cash Flows From Operating Activities			
Net income	$111,860	$ 82,298	$ 42,357
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and impairment of premises and equipment	24,397	35,982	37,486
Impairment of other non marketable investments		3,299	
Amortization and impairment of goodwill			98,112
Amortization of license fees		1,195	720
Deferred stock-based compensation	1,625	4,521	10,794
Deferred income taxes	(1,016)	(3,768)	(16,892)
Gain on sales of shares in associated companies/investments	(2,652)	(830)	2
Gain/(loss) on sale of premises and equipment	265	67	(59)
Foreign currency translation on excess of amount received on sale of shares of Sify over its carrying value			928
Excess of cash received over carrying value of investment in Sify, net of taxes			(35,156)
Amortization of discount on share warrants issued to TRW and change in fair value of put option		(11,898)	10,144
Minority Interest		(11,082)	(73,406)
Equity in share of earnings/(losses) of associated companies, net of taxes	2,631	3,339	25,401
Changes in assets and liabilities:			
Accounts receivable, net and unbilled revenue on contracts	(22,510)	(15,367)	1,262
Prepaid expenses, other receivables and inventory, net	(24,710)	(505)	9,478
Other assets, net	4,974	(2,673)	1,718
Accounts payable	(4,151)	(435)	(4,363)
Accrued expenses and other current liabilities	(1,500)	12,520	8,342
Unearned and deferred revenue	(2)	3,510	(904)
Other liabilities		(1,633)	407
Net cash provided by operating activities	**89,211**	**98,540**	**116,371**
Cash Flows From Investing Activities			
Investments in bank deposits	(45,406)	(259,321)	
Purchase of premises and equipment	(16,745)	(10,989)	(34,157)
Proceeds from sale of premises and equipment	156	148	503
Expenditure on license fees		(623)	(1,238)
Acquisitions and investments in associated companies		(5,121)	(4,608)
Purchase of investments	(4,181)	(2,228)	(3,131)
Proceeds from sale of shares in associated companies/investments	6,024	6,175	2,271

Net cash used in investing activities	**(60,152)**	**(271,959)**	**(40,360)**

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Satyam Computer Services Limited
Consolidated Statements of Cash Flows
(Thousands of US Dollars except per share data and as stated otherwise)

Cash Flows From Financing Activities			
Repayments of short-term debts	(2,500)	(2,439)	(35,725)
Proceeds from long-term debts	1,768	1,410	
Repayment of long-term debts	(3,350)	(3,356)	(7,642)
Issuance of common stock, net of issuance cost	9,310	1,926	160,546
Shares subscribed but unissued	43		
Issuance of Preferred stock by subsidiary, net of issuance cost	9,441		
Cash dividends paid	(26,173)	(9,686)	(6,432)
Net cash provided by/(used in) financing activities	**(11,461)**	**(12,145)**	**110,747**
Effect of exchange rate changes on cash and cash equivalents	6,930	4,312	(9,372)
Net change in cash and cash equivalents	**24,528**	**(181,252)**	**177,386**
Cash and cash equivalents at beginning of the year	62,202	243,454	66,068
Cash and cash equivalents at end of the year	**$ 86,730**	**$ 62,202**	**$243,454**
Supplementary information:			
Cash paid during the year for:			
Income taxes	$ 31,877	$ 4,486	$ 7,744
Interest	471	553	2,859
Non-cash items:			
Capital leases and hire purchase	$ 1,318	$ 1,100	$ 1,300

The accompanying notes are an integral part of these consolidated financial statements.

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Satyam Computer Services Limited
Notes to the Consolidated Financial Statements

1. Description of Business

Satyam Computer Services Limited, its consolidated subsidiaries and associated companies (hereinafter referred to as *Satyam*) are engaged in providing Information Technology (IT) services, Internet services, Business Process Outsourcing (BPO) services and developing software products. Satyam Computer Services Limited (hereinafter referred to as *Satyam Computer Services*) is an IT services provider that uses global infrastructure to deliver value-added services to its customers, to address IT needs in specific industries and to facilitate electronic business, or eBusiness, initiatives. Satyam Computer Services was incorporated on June 24, 1987 in Hyderabad, Andhra Pradesh, India. Satyam Computer Services has offshore development centers located throughout India that enable it to provide high quality and cost-effective solutions to clients. It also has offsite centers located in the United States, United Kingdom, Japan, Australia, Singapore, Malaysia, Dubai and Germany. Satyam offers a comprehensive range of IT services, including software development, packaged software integration, system maintenance and engineering design services. Satyam Computer Services has established a diversified base of corporate customers in a wide range of industries including insurance, banking and financial services, manufacturing, telecommunications, transportation and engineering services.

Sify Limited (formerly Satyam Infoway Limited hereinafter referred to as *Sify*) a former subsidiary of Satyam Computer Services is engaged in providing various services such as corporate network and technology services, internet access services, online portal and content offerings.

Nipuna Services Limited (Nipuna) a wholly owned subsidiary of Satyam Computer Services is engaged in providing BPO services covering HR, Finance & Accounting, Customer Contact (Voice, Mail and Chat), and Transaction Processing (industry-specific offerings).

2. Summary of Significant Accounting Policies

a) Principles of Consolidation and Basis of Presentation

The consolidated financial statements of Satyam Computer Services and its majority owned domestic and foreign subsidiaries are prepared in accordance with generally accepted accounting principles applicable in the United States (U.S. GAAP). All significant inter-company balances and transactions are eliminated.

The consolidated financial statements of Satyam include the financial statements of Sify up to December 9, 2002. Subsequently, Satyam Computer Services has accounted for its investment in Sify using the equity method. The consolidated financial statements for the years ended March 31, 2004, 2003 and 2002 respectively are not comparable due to the above.

Minority interest in subsidiaries represents the minority shareholders proportionate share of the net assets and the results of operations of Satyam s majority owned subsidiaries.

Satyam s investments in business entities in which it does not have control, but have the ability to exercise significant influence over operating and financial policies (generally 20-50 percent ownership), are referred to as associated companies and are accounted for by the equity method.

On occasion, a subsidiary or associated company accounted for by the equity method (offering company) may issue its shares to third parties as either a public offering or private placement at per share amounts in excess of or less than

Satyam s average per share carrying value. With respect to such transactions, the resulting gains or losses arising from the change in interest are recorded in additional paid-in capital. Gains or losses arising on the direct sales by Satyam of its investment in its subsidiaries or associated companies to third parties are recognized as income/(loss) in the statement of operations. Such gains or losses are the difference between the sale proceeds and net carrying value of investments.

The excess of the cost over the underlying net equity of investments in subsidiaries and associated companies accounted for on an equity basis is allocated to identifiable assets based on fair values at the date of acquisition. The unassigned residual value of the excess of the cost over the underlying net equity is recognized as goodwill.

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Satyam Computer Services Limited
Notes to the Consolidated Financial Statements

b) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as of the date of the financial statements and the reported amount of revenues and expenses during the reported period. Examples of such estimates include: estimates of expected contract costs to be incurred to complete software development, allowance for doubtful debts, future obligations under employee benefit plans, valuation allowances for deferred taxes, impairment of goodwill and useful lives of premises and equipment (fixed assets). Actual results could differ materially from those estimates.

c) Foreign Currency Translation

The accompanying consolidated financial statements are reported in U.S. dollars. The Indian rupee is the functional currency for Satyam Computer Services, its domestic subsidiaries and associated companies. However, the U.S. Dollar, Pound Sterling, Singapore Dollar and Yuan are the functional currencies for its foreign subsidiaries located in U.S., UK, Singapore and China respectively. The translation of the functional currencies into U.S. dollars is performed for assets and liabilities using the current exchange rates in effect at the balance sheet date and for revenues, costs and expenses using average exchange rates prevailing during the reporting periods. Adjustments resulting from the translation of functional currency financial statements to reporting currency are accumulated and reported as other comprehensive income/(loss), a separate component of shareholders equity.

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are expressed in the functional currency at the exchange rates in effect at the balance sheet date. Revenues, costs and expenses are recorded using average exchange rates prevailing during the reporting periods. Gains or losses resulting from foreign currency transactions are included in the statement of operations.

d) Revenue Recognition

Revenues from IT services, which includes software development, system maintenance, package software implementation, engineering design services and e-Business consist of revenues earned from services performed either on a time-and-material basis or time bound fixed price engagements.

Revenues earned from services performed on a time-and-material basis are recognized as the services are performed. IT services performed on time bound fixed-price engagements, require accurate estimation of the costs which include salaries and related expenses of technical associates, related communication expenses, travel costs, scope and duration of each engagement. Revenue and the related costs for these projects are recognized on percentage of completion basis, with revisions to estimates reflected in the period in which changes become known. Provisions for estimated losses on such engagements are made during the period in which a loss becomes probable and can be reasonably estimated.

Amounts included in the financial statements, which relate to recoverable costs and accrued profits not yet billed on contracts, are classified in current assets as Unbilled revenue on contracts . Billings on uncompleted contracts in excess of accrued cost and accrued profit are classified in current liabilities under the heading Unearned and deferred revenue . Satyam provides its clients with one to three months warranty as post-sale support for its fixed price engagements. Costs associated with such services are accrued at the time the related revenues are recorded. Satyam

has not provided for any warranty costs for the years ended March 31, 2004 and March 31, 2003 as historically Satyam has not incurred any expenditure on account of warranties and since the customer is required to formally sign off on the work performed, any subsequent work is usually covered by an additional contract.

In accordance with EITF Topic D 103, Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred , Satyam has accounted for reimbursements received for out-of-pocket expenses incurred as revenues in the statement of operations.

e) Cash and Cash Equivalents

Satyam considers all highly liquid investments with an original maturity or remaining maturity of three months or less at the date of purchase to be cash equivalents. Cash equivalents are stated at cost, which approximates their fair value due to the short maturity of the investments. Cash and claims to cash that are restricted as to withdrawal or use in the ordinary course of business are classified as other receivables under current assets, unless they are to be utilized for other than current operations in which case they are classified as other assets, non-current.

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Satyam Computer Services Limited
Notes to the Consolidated Financial Statements

f) Premises, Equipment and Depreciation

Premises and equipment are stated at actual cost less accumulated depreciation. Assets under capital leases are stated at the present value of minimum lease payments. Depreciation is computed using the straight-line method over the estimated useful lives. Assets under capital leases and leasehold improvements are amortized straight-line over their estimated useful life or the lease term, as appropriate. Costs of application software for internal use are generally charged to income as incurred due to its estimated useful lives being relatively short, usually less than one year.

The cost and the accumulated depreciation for premises and equipment sold, retired or otherwise disposed off are removed from the stated values and the resulting gains and losses are included in the statement of operations. Interest related to the construction of qualifying assets is capitalized. Advances paid towards the acquisition of premises and equipment outstanding at each balance sheet date and the cost of premises and equipment not put to use before such date are disclosed as Assets under Construction.

g) Software Development Costs

Satyam capitalizes internally generated software development costs under the provisions of Statement of Financial Accounting (SFAS) 86, *Accounting for Costs of Computer Software to be Sold, Leased or Otherwise Marketed.* Capitalization of computer software development cost begins upon the establishment of technological feasibility, which Satyam has defined as the completion of a prototype. Costs incurred prior to establishment of technological feasibility and other research and development expenses are charged to income as incurred. Costs incurred by Satyam between completion of the prototype and the point at which the product is ready for general release have been insignificant.

Research and development expenses charged to income amounted to US$633 thousand, US$1,365 thousand and US$2,156 thousand for the years ended March 31, 2004, 2003 and 2002 respectively.

h) Goodwill and Other Intangible Assets

Goodwill represents the difference between either a) the purchase price and the fair value of assets and liabilities acquired and/or b) the purchase price and additional interest in subsidiaries acquired from minority shareholders. Up to March 31, 2002, goodwill and other intangible assets including license fees were amortized over the useful lives principally over a period of 5 years based on management s estimate. Satyam has adopted SFAS 142 *Goodwill and Other Intangible Assets* on April 1, 2002 and accordingly goodwill is tested for impairment under certain circumstances, and written down when impaired, rather than being amortized as required by previous standards. Further in accordance with SFAS 142 purchased intangible assets other than goodwill are amortized over their useful lives unless these lives are determined to be indefinite.

i) Impairment of Long-lived Assets

Satyam has adopted the provisions of SFAS 144 Accounting for the Impairment or Disposal of Long-Lived Assets on April 1, 2002. Satyam reviews long-lived assets, for impairment whenever events or changes in business circumstances indicate the carrying amount of assets may not be fully recoverable. Each impairment test is based on a comparison of the undiscounted cash flows expected to be generated from the use of the asset to its recorded value. If impairment is indicated, the asset is written down to its fair value. Assets to be disposed are reported at the lower of the carrying value or the fair value less cost to sell.

j) Investments

Satyam has evaluated its investment policies consistent with the provisions of SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, and determined that all of its marketable investment securities are to be classified as available-for-sale. Accordingly, such securities are carried at fair value with unrealized gains and losses, net of taxes, reported as a separate component of other comprehensive income/(loss) until realized. Realized gains and losses and decline in value judged to be other-than-temporary are included in other income. The cost of securities sold is based on the first-in-first-out (FIFO) method. Interest and dividends on securities classified as available-for-sale are recognized when earned and included in other income. Other investments that are not marketable are carried at cost, subject to tests of other than temporary impairment.

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Satyam Computer Services Limited
Notes to the Consolidated Financial Statements

k) Cost of Revenues and Selling, General and Administrative Expenses

Cost of revenues primarily include the compensation cost of technical staff, depreciation on dedicated assets and system software, travel costs, data communication expenses and other expenses incurred that are related to the generation of revenue.

Selling, general and administrative expenses generally include the compensation costs of sales, management and administrative personnel, travel costs, research and development costs, advertising, business promotion, depreciation on assets, application software costs, rent, repairs, electricity and other general expenses not attributable to cost of revenues.

l) Advertising Costs

Satyam expenses all advertising costs as incurred. Advertising costs charged to income amounted to US$957 thousand, US$1,914 thousand and US$1,008 thousand for the years ended March 31, 2004, 2003 and 2002 respectively.

m) Employee Benefits

i) Provident Fund

In accordance with Indian law, all employees in India are entitled to receive benefits under the Provident Fund, which is a defined contribution plan. Both the employee and the employer make monthly contributions to the plan at a predetermined rate (presently 12.0%) of the employees basic salary. Satyam has no further obligations under the plan beyond its monthly contributions. These contributions are made to the fund administered and managed by the Government of India. Satyam s monthly contributions are charged to income in the period they are incurred.

ii) Gratuity Plan

Satyam has a defined benefit retirement plan (the Gratuity Plan) covering all its employees in India. The Gratuity Plan provides a lump sum payment to vested employees at retirement or termination of employment based on the respective employee s salary and years of employment with Satyam.

Satyam provides for the Gratuity Plan on the basis of actuarial valuations. The entire Gratuity Plan of Satyam Computer Services is unfunded.

iii) Superannuation Plan

In addition to the above benefits, the senior employees of Satyam Computer Services in India are entitled to receive benefits under the Superannuation Plan, a defined contribution plan. Satyam Computer Services makes yearly contributions under the Superannuation plan administered and managed by LIC, based on a specified percentage (presently 10.0%) of each covered employee s basic salary. Satyam Computer Services has no further obligations under the plan beyond its contributions.

iv) Other Benefit Plans

Satyam maintains a 401(k) retirement plan (the 401(k) Plan) covering all its employees in the United States. Each participant in the 401(k) Plan may elect to contribute up to 15.0% of his or her annual compensation to the 401(k) Plan. Satyam matches 50.0% of employee contributions, subject to a maximum of 3.0% of gross salary for all employees participating in the 401(k) plan. Effective October 1, 2003, Satyam Computer Services has discontinued its matching contribution under this plan.

n) Income Taxes

In accordance with the provisions of SFAS 109, *Accounting for Income Taxes* , income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statement of operations in the period of change. Based on management s judgment, the measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits for which it is more likely than not that some portion or all of such benefits will not be realized.

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o) Earnings Per Share

In accordance with the provisions of SFAS 128, *Earnings Per Share*, basic earnings per share is computed on the basis of the weighted average number of shares outstanding during the period. Diluted earnings per share is computed on the basis of the weighted average number of common and dilutive common equivalent shares outstanding during the period, using the treasury stock method for options and warrants, except where the results will be anti-dilutive.

p) Stock-Based Compensation

Satyam uses the intrinsic value-based method of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations including FASB Interpretation No. 44, *Accounting for Certain Transactions involving Stock Compensation an interpretation of APB Opinion No. 25,* issued in March 2000 to account for its employee stock-based compensation plan. Satyam has therefore adopted the pro-forma disclosure requirements of SFAS No. 123, *Accounting for Stock-Based Compensation* and SFAS 148, *Accounting for Stock-Based Compensation Transition and Disclosure, an amendment of FASB Statement No. 123*. Pursuant to SFAS No. 123, all equity instruments issued to non-employees are accounted for based on the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable.

q) Derivative financial instruments

Satyam has adopted the provisions of SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* as amended. Satyam enters into forward foreign exchange contracts where the counter party is generally a bank. Satyam purchases forward foreign exchange contracts to mitigate the risk of changes in foreign exchange rates on cash flows denominated in certain foreign currencies. These contracts do not qualify for hedge accounting under SFAS 133, as amended. Any derivative that is either not a designated hedge, or is so designated but is ineffective per SFAS 133, as amended is marked to market and recognized in earnings immediately.

r) Recently Issued Accounting Pronouncements

Derivative Instruments

Effective April 1, 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. This statement amends SFAS No. 133 for certain decisions made by the Board as part of the Derivatives Implementation Group (DIG) process and further clarifies the accounting and reporting standards for derivative instruments including derivatives embedded in other contracts and for hedging activities. The adoption of this statement does not have a material impact on Satyam s operating results or financial position.

Financial Instruments

Effective, May 1, 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.* This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of this statement has not had a material impact on Satyam's operating results or financial

position.

Guarantor s Accounting and Disclosure Requirements

In November 2002, the FASB issued Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees Including Indirect Guarantees of Indebtedness of Others. The adoption of the Interpretation did not have a material impact on Satyam s accounting or disclosure policies.

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Variable Interest Entities

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities.* FIN 46 requires unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse the risk and rewards of ownership among their owners and other parties involved. The provisions of FIN 46 are effective immediately to all variable entities created after January 1, 2003, and variable interest entities in which an enterprise obtains an interest in after that date. For variable interest entities created before this date, the provisions are effective July 31, 2003. On October 8, 2003, the FASB issued FASB Staff Position No. 46-e, which allows public entities, who meet certain criteria, to defer the effective date for applying the provisions of FIN No. 46 to interests held by the public entity in certain variable interest entities or potential variable interest entities until the end of the first interim or annual period ending after December 15, 2003. On December 24, 2003, the FASB extended the effective date to periods ending after March 15, 2004. The adoption of this interpretation did not have a material impact on Satyam s operating results or financial position.

Revenue Arrangements

In January 2003, the EITF released Issue No. 00-21 (EITF 00-21), *Revenue Arrangements with Multiple Deliverables,* which addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. Specifically, EITF 00-21 addresses whether an arrangement contains more than one unit of accounting and the measurement and allocation to the separate units of accounting in the arrangement. EITF 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of the consensus does not have a material impact on Satyam s revenue recognition policies.

s) Reclassifications

Certain items previously reported in specific financial statement captions have been reclassified to conform to the current period s presentation.

3. Share capital of Nipuna

In October 2003 Nipuna issued 45,669,999 0.05% convertible redeemable cumulative preference shares of par value Rs 10 ($0.22) per share to the investors at an issue price of $0.22 (equivalent to Rs.10) per share to both the Investors, in exchange for an aggregate consideration of $10 million. A similar amount will be invested in the second phase, which is expected to close by April 2004, making a total investment of US$20 Million. These Preference shares are to be mandatorily converted / redeemed into such number of equity shares latest by June 2007 based on certain provisions in the agreement relating to revenues and profits earned up to March 31, 2006. If not converted or early convert at the option of the investors based on certain triggering events, these convertible preference shares are redeemable on maturity in June 2007 at a redemption premium, which could range in between 7.5% to 13.5%p.a.

The Investors are entitled to receive dividends at the rate of 0.05% per cent per annum, on the face value of Rs. 10 from the date of issuance of such Preference Shares. The dividends shall be fully cumulative, accumulate and payable in cash at the rate indicated above, whether or not they have been declared and whether or not there are profits, surplus or other funds of Nipuna legally available for the payment of dividends. These preference shares rank senior to all classes of Nipuna s currently existing capital stock or established hereafter with respect to dividend distributions and repayment of capital and premium upon a Bankruptcy Event or Change in Control with respect to Nipuna, unless the terms and conditions of such class expressly provide that such class will rank senior to or on parity with the

convertible redeemable cumulative preference shares. The dividend on the preference shares for the period ended March 31, 2004 is payable.

4. Acquisition of Minority Interest

On March 28, 2003, in accordance with the share purchase and joint venture termination agreement, Satyam Computer Services acquired the remaining 24% equity shares of Satyam Manufacturing Technologies Inc.(SMTI) for a consideration of US$3,500 thousand. The acquisition has been accounted using the purchase method and the allocation of the purchase price was almost entirely related to goodwill. Satyam Computer Services recognized goodwill of US$3,365 thousand on this acquisition equal to the excess of the consideration paid of US$3,500 thousand over the fair value of that portion of the net assets acquired as of March 28, 2003. In accordance with the provisions of SFAS 142, the goodwill has not been amortized post acquisition.

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Joint Venture and warrant agreement

In June 2000, Satyam Computer Services signed a non-binding framework agreement to form a non-exclusive joint venture with TRW Inc. (TRW) to be managed by Satyam Computer Services and issued warrants for a consideration of US$5 million to TRW that were convertible into equity shares of Satyam Computer Services in eighteenth month after issuance. These warrants were non-forfeitable as of the date of grant.

On August 22, 2000, Satyam Computer Services issued 63,896 warrants (each warrant exercisable to purchase five equity shares) to ESL Inc., an affiliate of TRW in exchange of Rs.71.6 (US$1.6) per share totaling to US$500 thousand in cash representing 10.0% of the total consideration to acquire the underlying equity shares in accordance with applicable Indian regulations. These warrants were convertible into 319,480 equity shares of Satyam Computer Services for Rs.644.4 (US$14.1) per share totaling US$4.5 million during the period from January 22, 2002 to February 21, 2002. The excess of the fair value of the warrants, as determined at the date of grant, over the consideration of warrants paid by ESL Inc., amounted to US$1,157 thousand. It was amortized ratably over five years and three months i.e starting from the date of signing of the joint venture agreement (September 26, 2000) to December 31, 2005. The amortization is classified as a reduction of the revenues recognized under the agreements. However, if the amortization exceeds the amount of revenue recognized in any period, the excess amortization is recorded as an expense. The fair value of the warrants had been determined on the grant date by reference to the prevailing market price of Satyam Computer Services equity shares on the Indian exchanges using the Black Scholes model and the following assumptions: volatility of 90.0% and a risk free interest rate of 10.672%. The amortization classified as a deduction of the revenues amounted to US$113 thousand and US$221 thousand for the years ended March 31, 2001 and 2002 respectively.

On September 26, 2000, the joint venture agreement was signed with equity participation in the ratio of 76:24 between Satyam Computer Services and TRW, respectively. After December 31, 2003, TRW had the option, on meeting certain specified minimum levels of revenues, to require Satyam Computer Services to purchase its 24.0% interest (put option). The buyout price of TRW s interest in the joint venture depended on the aggregate amount of revenue, which TRW would provide to the joint venture from June 1, 2000 to December 31, 2005.

Satyam Computer Services recorded the put option at fair value at each balance sheet date, with the initial fair value of the put option included as part of the consideration for its 76.0% interest in the joint venture. The difference between the fair values of the put option at each valuation date was charged to selling, general and administration expenses in the statement of operations. Based on the terms of the agreement the value of put option was US$12,495 thousand as of March 31, 2002.

Share Purchase and Joint Venture Termination agreement

Northrop Grumman Corporation acquired TRW in October 2002 and subsequently TRW Inc. name was changed to the Northrop Grumman Space & Mission Systems Corporation (NGSM). Pursuant to the restructuring in TRW, Satyam Computer Services entered into a share purchase and joint venture termination agreement with NGSM and BDM International Inc. (hereinafter referred to as NGSM Parties) on February 28, 2003 whereby it agreed to purchase the 24% holding of NGSM Parties in the joint venture on the closing date for a mutually agreed consideration of US$3,500 thousand based on business prospects and synergies on account of the acquisition to Satyam. Upon completion of the agreement all the existing agreements between Satyam Computer Services and NGSM Parties have been terminated and have no further effect. The transaction was subsequently effected on March 28, 2003 with the transfer of shares and purchase consideration.

Satyam Computer Services has issued a non interest bearing unsecured promissory note of US$3,500 thousand for the share purchase to BDMI which is payable in four installments at quarterly rests from April 1, 2003 to January 1, 2004 as per the agreement.

Due to the share purchase and joint venture termination agreement the unamortized cost on warrants as at December 31, 2002 amounting to US$ 657 thousand has been fully amortized in the year ended March 31, 2003 as a reduction of the revenues and the value of put option as of December 31, 2002 amounting to US$19,843 thousand has been accounted for as operating income in the year ended March 31, 2003.

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5. Premises, Equipment and Depreciation

Premises and equipment at cost less accumulated depreciation consist of:

	As of March 31	
	2004	**2003**
	(US$ in thousands)	
Freehold land	$ 4,179	$ 3,816
Leasehold land	1,874	1,711
Premises	12,680	9,196
Computers including servers	82,279	69,417
System software	13,594	10,988
Office equipment	47,254	39,975
Furniture and fixtures	29,830	25,888
Vehicles	4,501	3,618
Assets under construction	7,393	6,233
Total	**203,584**	**170,842**
Less: Accumulated depreciation	(135,118)	(101,684)
Premises and equipment, net	**$ 68,466**	**$ 69,158**

Satyam has established the estimated useful lives of assets for depreciation purposes as follows:

Premises	28 years
Computers including servers	2-5 years
System Software	3 years
Office equipment	5 years
Furniture and fixtures	5 years
Vehicles	5 years

Depreciation expense amounted to US$24,397 thousand, US$33,576 thousand and US$37,486 thousand for the years ended March 31, 2004, 2003 and 2002 respectively.

6. Investments

Investments of Satyam consist of available-for-sale securities (AFS) and other non-marketable securities.

	As of March 31	
	2004	**2003**
	(US$ in thousands)	
Available-for-sale securities		
Cost	$ 2,793	$ 208
Gross unrealized holding gains		2
Gross unrealized holding losses		
AFS Fair Value	**$ 2,793**	$ 210
Other investments, at cost	**$ 3,633**	$ 3,317
Less: Provision for impairment	(3,633)	(3,317)
Investments Non current	**$ 2,793**	$ 210

Aggregate proceeds from the sale of available-for-sale securities amounted to US$1,772 thousand (purchased and sold during the year ended March 31, 2004 for US$1,554 thousand and US$1,535 thousand respectively), US$2,175 thousand (purchased during the year ended March 31, 2003 for US$2,175 thousand) and US$2,263 thousand (purchased during the year ended March 31, 2002 for US$2,263 thousand) for the years ended March 31, 2004, 2003 and 2002 respectively.

Satyam records an investment impairment charge on other non-marketable investments, which are carried at cost, when management believes an investment has experienced a decline in value that is judged to be other than temporary. Satyam monitors its investments for impairment by considering current factors including economic environment, market conditions and the operational performance and other specific factors relating to the business underlying the investment. Based on its assessment of its carrying values of investments, Satyam impaired the entire carrying value of other non-marketable investments as at March 31, 2003 due to adverse changes in the above factors.

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7. Sale of shares by Sify

Satyam Computer Services ownership reduced from 52.51% as of March 31, 2002 to 37.15% as of March 31, 2003 and to 32.04% as of March 31, 2004 due to issue of new shares by Sify to third parties and sale of 1 million Indian equity shares by Satyam Computer Services as per the sponsored ADS program of Sify.

Sify s shareholders approved the issue of shares to an affiliate of Softbank Asia Infrastructure Fund (SAIF) and VentureTech Solutions Private Ltd. (VentureTech) in a pending financing transaction at the Extraordinary General Meeting held on December 9, 2002. On December 16, 2002, SAIF and VentureTech invested US$13,000 thousand and US$3,500 thousand respectively into Sify. Sify issued 7,558,140 shares to shareholders of SAIF and 2,034,884 shares to shareholders of VentureTech at amounts per share less than Satyam s average per share carrying value. With respect to this transaction, the resulting loss of US$1,181 thousand, net of taxes, during the year ended March 31, 2003 arising from the change in interest has been recorded as a reduction in additional paid-in capital.

In accordance with the shareholders agreement, VentureTech invested additional US$1,750 thousand and US$1,750 thousand in Sify on April 30, 2003 and July 4, 2003, respectively. Sify issued 1,017,442 shares and 1,017,441 shares on April 30, 2003 and July 4, 2003 to shareholders of VentureTech. Subsequent to these transactions, Satyam Computer Services ownership interest in Sify was reduced from 37.15% to 34.95%. With respect to this transaction, the resulting gain of US$15 thousand, net of taxes, during the year ended March 31, 2004 arising from the change in interest has been recorded as an increase in additional paid in capital.

On June 23, 2003 Sify s shareholders approved sponsoring the sale of its 4,600,200 unlisted Indian equity shares through a secondary issue of American Depository Shares (ADS). On September 1, 2003 an invitation to offer was made by Sify to the existing holders of Indian equity shares to participate in its sponsored ADS program. On September 17, 2003, Satyam Computer Services offered to sell its 1 million Indian equity shares out of its total holding of 12,182,600 Indian equity shares in Sify. In September 2003, the sale transaction was privately negotiated and closed at a sale price of US$4.35 (Rs.198.90) per share as determined by Sify based on the recommendation of the lead manager to the sponsored ADS program.

The difference between the carrying value of the investment in Sify as of September 30, 2003 and the sales proceeds amounting to US$2,606 thousand has been accounted for as a gain during the year ended March 31, 2004 in the statement of operations. Subsequent to this transaction, Satyam Computer Services ownership interest in Sify was reduced from 34.95% to 32.08%.

8. Investments in associated companies

The carrying values of investments in various associated companies of Satyam are as follows:

	As of March 31,	
	2004	**2003**
	(US$ in thousands)	
Sify	$22,258	$27,058
Satyam Venture	1,182	1,185

CA Satyam	834	1,335
Total	**$24,274**	**$29,578**

Sify

During the year ended March 31, 2003, due to the sale of new shares by Sify to SAIF and VentureTech, Satyam Computer Services ownership interest in Sify reduced from 52.51% to 37.15%. Subsequent to December 9, 2002, Satyam Computer Services has accounted for its interest in Sify under the equity method of accounting, primarily due to lack of controlling interest in Sify. In addition, Satyam Computer Services will have no future obligation to fund additional operating or financing requirements of Sify. Further, during the year ended March 31, 2004, due to the sale of new shares by Sify to VentureTech and sale of one million Indian equity shares by Satyam Computer Services as per the sponsored ADS program of Sify, Satyam Computer Services ownership interest in Sify reduced from 37.15% to 32.04%.

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The summarized financial information as to assets, liabilities and results of operations of Sify is presented below:

	As of March 31,	
	2004	**2003**
	(US$ in thousands)	
Balance sheet		
Current assets	$49,304	$36,451
Non-current assets	38,232	41,351
Current liabilities	23,630	15,219
Net current asset	25,675	21,232
Shareholders equity	62,573	60,776

	Year ended March 31, 2004	For the period December 10, 2002 to March 31, 2003
	(US$ in thousands)	
Statement of operations		
Revenues	$61,067	$15,286
Gross profit	28,873	7,178
Operating loss	12,903	5,116
Net loss	7,984	4,452

Satyam Computer Services equity in the loss of Sify, net of taxes amounted to US$2,230 thousand for the year ended March 31, 2004 and US$1,307 for period from December 10, 2002 to March 31, 2003 respectively.

Satyam Venture

On October 28, 2000, Satyam Computer Services entered into an agreement with Venture Industries, USA (Venture) to form an equally held joint venture company Satyam Venture Engineering Services Private Limited. (Satyam Venture). Satyam Computer Services holds 50% in Satyam Venture. The joint venture was formed on January 3, 2000 at Hyderabad, India. Satyam Venture is engaged in providing engineering solutions, software development and customization services specifically for the automotive industries worldwide. Satyam Computer Services equity in the profit / (loss) of Satyam Venture, net of taxes amounted to US$(3) thousand, US$179 thousand and US$323 for the years ended March 31, 2004, 2003 and 2002 respectively .

CA Satyam

On December 29, 2000, Satyam Computer Services entered into an agreement with Computer Associates International, Inc. (CA) to form an equally held joint venture company CA Satyam ASP Private Limited (CA Satyam). Satyam Computer Services holds 50% in CA Satyam. The joint venture was formed in January 2001, at Mumbai, India. As per the agreement, both Satyam Computer Services and CA have invested US$1,500 thousand

each in the joint venture. Satyam Computer Services equity in the loss of CA Satyam, net of taxes amounted to US$398 thousand, US$ 126 thousand and US$4 thousand for the years ended March 31, 2004, 2003 and 2002 respectively .

Satyam GE

In January 2002, Satyam Computer Services initiated the process of transfer of its 50% shareholding in Satyam GE Software Services Private Limited (Satyam GE) to GE Pacific (Mauritius) Limited, Mauritius (GEPL) in accordance with the shareholders agreement for a consideration of approximately US$4,000 thousand. The transfer was subject to fulfillment of terms and conditions specified in the agreement and obtaining necessary approvals from appropriate authorities. Satyam Computer Services continued to have the ability to exercise significant influence over the operating and financial policies of Satyam GE and hence accounted for its 50% interest in Satyam GE using the equity method up to June 30, 2002. During the year ended March 31, 2003 the necessary approvals were received and Satyam recorded a gain of US$830 thousand in the statement of operations, the excess of sales consideration received over the carrying value as of June 30, 2002.

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9. Income Taxes

The provision for income taxes consists of:

	Year ended March 31		
	2004	**2003**	**2002**
	(US$ in thousands)		
Foreign taxes			
Current	$20,205	$10,491	$ 4,596
Deferred	279	433	(3,709)
Domestic taxes			
Current	3,355	3,046	2,627
Deferred	(1,295)	(4,201)	(2,745)
Aggregate taxes	**$22,544**	**$ 9,769**	**$ 769**

A reconciliation between the provision for income taxes to the amount computed by applying the statutory income tax rate to income before provision for income taxes is summarized below:

	Year ended March 31		
	2004	**2003**	**2002**
	(US$ in thousands)		
Net income/(losses) before taxes	**$137,035**	**$ 84,324**	**$ (4,879)**
Enacted tax rates in India	35.88%	36.75%	35.70%
Computed tax expense	**$ 49,162**	**$ 30,989**	**$ (1,742)**
Tax effect due to non-taxable export income	(38,218)	(31,089)	(37,688)
Difference arising from different tax rates in other tax jurisdictions	6,985	3,363	1,119
Difference arising from different tax rates on gain on sale of investments	(562)	(2,478)	(22,304)
Deferred stock based compensation (non-deductible)	583	1,662	3,854
Goodwill (non-deductible)			35,026
Changes in valuation allowance, including losses of subsidiaries	824	11,578	23,775
Effect of tax rate change	22	(9)	(246)
Others	3,748	(4,259)	(1,971)

Income taxes	**22,544**	**9,757**	**(177)**
Tax for earlier years		12	946
Income taxes recognized in the statement of operations	**$ 22,544**	**$ 9,769**	**$ 769**

The current provisions for income taxes, net of payments, were US$8,630 thousand and US$16,086 thousand as of March 31, 2004 and 2003 respectively. The provision for foreign taxes is due to income taxes payable in overseas tax jurisdictions by its offsite and onsite centers, principally in the United States. Satyam Computer Services benefits from certain significant tax incentives provided to software entities under Indian tax laws. These incentives presently include: (i) an exemption from payment of Indian corporate income taxes for a period of ten consecutive years of operations of software development facilities designated as Software Technology Parks (STP units); and (ii) a tax deduction of 50% of profits from exporting computer software progressively reduced to Nil by the year 2004-05. The benefits of these tax incentives have historically resulted in an effective tax rate for Satyam Computer Services well below statutory rates. In case of Satyam Computer Services for various registered STP units these exemptions expire starting from fiscal 2006 through fiscal 2010. However, Satyam Computer Services earns certain other income and domestic income, which are taxable irrespective of the tax holiday as stated above. Satyam Computer Services subsidiaries are subject to income taxes of the countries in which they operate.

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Significant components of activities that gave rise to deferred tax assets and liabilities included in the financial statements are as follows:

	As of March 31	
	2004	**2003**
	(US$ in thousands)	
Deferred tax assets:		
Operating loss carry forwards	$ 17,582	$ 15,265
Provision for accounts receivable, advances and investments	4,016	3,354
Premises and equipment	443	698
Others	2,065	3,132
Gross deferred tax assets	**24,106**	**22,449**
Less: Valuation allowance	(17,582)	(15,265)
Total deferred tax assets	**6,524**	**7,184**
Deferred tax liabilities:		
Premises and equipment	(3,023)	(2,581)
Provision for accounts receivable and advances	(1,975)	(1,686)
Investments in associated companies and gain on dilution of interest in a subsidiary	(5,734)	(8,107)
Total deferred tax liabilities	**(10,732)**	**(12,374)**
Net deferred tax liabilities	**$ (4,208)**	**$ (5,190)**

Satyam has not provided for any deferred income taxes on undistributed earnings of foreign subsidiaries due to the losses incurred by them since their inception. These losses aggregated to approximately US$37,173 thousand and US$36,782 thousand as of March 31, 2004 and 2003 respectively.

Satyam has not recognized deferred income taxes arising on income of Satyam Computer Services due to the tax benefit available to it in the form of a deduction from taxable income, except to the extent of timing differences which reverse after the tax holiday period or unless they reverse under foreign taxes.

Operating loss carry forwards for tax purposes of Satyam Computer Services and its consolidated subsidiaries amount to approximately US$17,582 thousand and US$15,265 thousand as of March 31, 2004 and 2003 respectively and are

available as an offset against future taxable income of such entities. These carry forwards expire at various dates primarily over 8 to 20 years. Realization is dependent on such subsidiaries generating sufficient taxable income prior to expiration of the loss carry forwards. A valuation allowance is established attributable to deferred tax assets and loss carry forwards in subsidiaries where, based on available evidence, it is more likely than not that they will not be realized.

Net deferred tax liabilities included in the consolidated balance sheets are as follows:

	As of March 31	
	2004	**2003**
	(US$ in thousands)	
Current assets deferred income taxes	$ 6,081	$ 4,488
Non-current assets other assets*	443	2,696
Current liabilities accrued expenses and other liabilities*	(1,975)	(1,686)
Long-term liabilities Deferred income taxes	(8,757)	(10,688)
Net deferred tax liabilities	**$(4,208)**	**$ (5,190)**

* *Included in other assets and accrued expenses and other liabilities respectively.*

10. Borrowings

Short-term debts

Short-term debts amounted to US$Nil and US$2,500 thousand as of March 31, 2004 and 2003 respectively. Short-term debt as of March 31, 2003 is represented by a non-interest bearing unsecured promissory note issued by Satyam Computer Services for acquisition of minority interest in SMTI amounting to US$3,500 thousand. The promissory note was payable in four installments at quarterly rests, from April 1, 2003 to January 1, 2004. Satyam Computer Services has repaid the full amount in four installments amounting to US$1,000 thousand each in March 2003, June 2003 and September 2003 and US$500 thousand in December 2003.

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Long-term debts

Long-term debts outstanding comprise of:

	As of March 31	
	2004	**2003**
	(US$ in thousands)	
Secured debts, representing obligation principally to banks and financial institutions		
10.75% Rupee loans of SC-Trust, maturing serially through fiscal 2006	$ 2,428	$ 2,675
Hire Purchase Loans	1,754	1,399
Total Debt	**4,182**	**4,074**
Less: Current portion of long-term debts	(2,356)	(2,336)
Long-term debts, net of current portion	**$ 1,826**	**$ 1,738**

Rupee loans are secured by equity shares of Satyam Computer Services held by the SC-Trust. In May 2003, SC-Trust has repaid its rupee loans maturing in January 2004, amounting to US$1,239 thousand with a interest rate of 13%p.a. and has substituted the same with a new loan of US$1,239 thousand with a fixed interest rate of 10.75%p.a. maturing in July 2005. In March 2003, SC-Trust has repaid one of its rupee loans maturing in March 2004 amounting to US$1,410 thousand with a interest rate of 13%p.a. and has substituted the same with a new loan of US$1,410 thousand with a fixed interest rate of 10.75%p.a. maturing in July 2005. There were no prepayment costs associated with these extinguishments.

Aggregate maturities of long-term debts subsequent to March 31, 2004, are US$2,356 thousand in fiscal 2005, US$1,631 thousand in fiscal 2006, US$195 thousand in fiscal 2007.

Unused lines of credit

Unused lines of credit comprise of:

	As of March 31	
	2004	**2003**
	(US$ in thousands)	

Cash credit and short term debts	$ 8,065	$ 7,364
Non-fund facilities	4,877	8,005
Total Unused lines of credits	**$12,942**	**$15,369**

11. Employee Benefits

The Gratuity Plan

The following table sets forth the funded status of the Gratuity Plan of Satyam, and the amounts recognized in Satyam s consolidated balance sheets and statements of operations.

	Year ended March 31		
	2004	**2003**	**2002***
	(US$ in thousands)		
Accumulated benefit obligation	$ 1,948	$ 1,257	$ 652
Change in projected benefit obligation			
Projected benefit obligation at beginning of the period	2,481	1,536	1,179
Service cost	889	623	609
Interest cost	203	156	124
Actuarial loss (gain)	300	144	(41)
Benefits paid	(155)	(25)	(12)
Effect of exchange rate changes	307	47	(63)
Projected benefit obligation at end of the period	**4,025**	**2,481**	**1,796**
Change in plan assets			
Fair value of plan assets at beginning of the period			**39**
Actual return on plan assets			6
Employer contribution	162	24	46
Benefits paid from plan assets	(162)	(24)	(19)
Fair value of plan assets at end of the period			**72**

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	Year ended March 31		
	2004	**2003**	**2002***
	(US$ in thousands)		
Funded status of the plans	(4,025)	(2,481)	(1,724)
Unrecognized transition obligation	3	11	22
Unrecognized net actuarial loss (gain)	1,221	339	211
Amount recognized during the period	(4)	(3)	(11)
Accrued benefit cost	$(2,805)	$(2,134)	$(1,502)

* The financial information above includes Sify for fiscal 2002 only.

The components of net gratuity costs are reflected below:

Service cost	889	$ 623	$ 609
Interest cost	203	156	124
Expected returns on plan assets			5
Amortization	12	11	11
Amount recognized during the period	8	3	11
Net gratuity costs	**$1,112**	**$ 793**	**$ 760**

Weighted-average assumptions used to determine benefit obligations:

	As of March 31,		
	2004	**2003**	**2002**
Discount rate	7.0%	8.0%	10.0%
Long-term rate of compensation increase	7.0%	7.0%	9.0%

Weighted-average assumptions used to determine net periodic benefit cost:

	For the year ended March 31,		
	2004	**2003**	**2002**

Discount rate	7.0%	8.0%	10.0%
Long-term rate of compensation increase	7.0%	7.0%	9.0%
Long-term rate of return on plan assets	0%	0%	0%

Cash Flows

Satyam expects to contribute US$186 thousand to its Gratuity plan during the year ending March 31, 2005. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Expected contribution
	(US$ in thousands)
For the financial year ended March 31,	
2006	320
2007	425
2008	569
2009	836
2010 - 2014	5,753

Provident Fund

Satyam s contribution towards the Provident Fund amounted to US$3,360 thousand, US$ 2,633 thousand and US$2,201 thousand for the years ended March 31, 2004, 2003 and 2002 respectively.

Superannuation Plan

Satyam Computer Services contribution towards the Superannuation Plan maintained by LIC amounted to US$421 thousand, US$26 thousand and US$35 thousand for the years ended March 31, 2004, 2003 and 2002 respectively.

401(k) Plan

Satyam s matching contribution under 401(k) Plan amounted to US$403 thousand, US$569 thousand and US$345 for the years ended March 31, 2004, 2003 and 2002 respectively. Effective October 1, 2003, Satyam Computer Services has discontinued its matching contribution under this plan.

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12. Earnings Per Share

Basic earning per share is computed on the basis of the weighted average number of shares outstanding (weighted average number of shares issued less unallocated, unvested and unexercised shares held by the SC Trust). Allocated but unvested or unexercised shares not included in the calculation of weighted-average shares outstanding for basic earnings per share were 58,200 and 1,167,380 as of March 31, 2004 and 2003. Diluted earnings per share is computed on the basis of the weighted average number of shares outstanding plus the effect of outstanding stock options using the treasury stock method.

In addition to the above, the unallocated shares held by SC Trust, which are by definition unvested, have been excluded from all earnings per share calculations. Such shares amounted to 1,629,480 and 1,043,440 as of March 31, 2004 and 2003 respectively.

The components of basic and diluted earnings per share were as follows:

	Year ended March 31		
	2004	**2003**	**2002**
	(US$ in thousands except share data)		
Net income	**$111,860**	**$ 82,298**	**$ 42,357**
Equity Shares:			
Average outstanding shares (in thousands)	313,155	311,797	305,751
Dilutive effect of: Associate Stock Options (in thousands)	3,902	6,861	1,362
Share and share equivalents (in thousands)	**317,057**	**318,658**	**307,113**
Earnings per share			
Basic	$ 0.36	$ 0.26	$ 0.14
Diluted	$ 0.35	$ 0.26	$ 0.14

13. Stock-based Compensation Plans

ASOP plan

In May 1998, Satyam Computer Services established its Associate Stock Option Plan (the ASOP plan). Satyam Computer Services subsequently established a controlled associate welfare trust called the Satyam Associate Trust (the SC-Trust), to administer the ASOP and issued warrants to purchase 13,000,000 shares of Satyam Computer Services. In turn, the SC-Trust periodically grants warrants to eligible associates to purchase equity shares held by or reserved for the issuance to the SC-Trust. The warrants may vest immediately or may vest over a period ranging from two to three years, depending on the associate s length of service and performance. Upon vesting, associates have

30 days in which to exercise these warrants. In order to ensure all its associates received the benefits of the Satyam Computer Services stock split in December 1999, the SC-Trust exercised all its warrants to purchase Satyam Computer Services shares prior to the split using the proceeds obtained from bank loans amounting to US$13,226 thousand. Prior to August 31, 1999, the exercise price of the remaining SC-Trust warrants was Rupees (Rs.) 450 per warrant. Subsequent to August 31, 1999, each warrant entitles the holder to purchase ten shares (adjusted for stock splits) of Satyam Computer Services at a price of Rs.450 per warrant plus an interest component, associated with the loan which the SC-Trust assumed, for conversion of the warrants it held. The interest component is computed based on fixed vesting period and a fixed interest rate. This stock bonus had been treated as an equity restructuring and correspondingly no additional compensation cost had been recognized as a result of the conversion of warrants held by the SC-Trust.

ASOP B plan

In April 2000, Satyam Computer Services established its Associate Stock Option Plan B (the ASOP B) and reserved warrants for 41,727,140 equity shares to be issued to eligible associates with the intention to issue the warrants at the market price of the underlying equity shares on the date of the grant. These warrants vest over a period ranging from two to four years, starting with 20% in second year, 30% in the third year and 50% in the fourth year. Upon vesting, associates have 5 years to exercise these warrants. No equity shares have been issued by Satyam Computer Services to the SC-Trust under the ASOP B.

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ASOP ADS plan

In May 2000, Satyam Computer Services established its Associate Stock Option Plan (ADS) (the ASOP (ADS)) to be administered by the Administrator of the ASOP (ADS) which is a committee appointed by the Board of Directors of Satyam Computer Services and reserved 2,574,665 ADSs (5,149,330 shares) to be issued to eligible associates with the intention to issue the warrants at a price per option which is not less than 90% of the value of one ADS as reported on NYSE (fair market value) on the date of grant converted into Indian Rupees at the rate of exchange prevalent on the day of grant as decided by the Administrator of the ASOP(ADS) . These warrants vest over a period of 1-10 years from the date of the grant. The time available to exercise the warrants upon vesting is as decided by the Administrator of the ASOP (ADS). No equity shares underlying the ADS (options) have been issued by Satyam Computer Services to the SC-Trust.

Warrant grants

During the year ended March 31, 2004, the SC-Trust issued immediately vesting warrants for 92,500 and warrants for 89,500 (net of 11,700 shares forfeited) shares with longer vesting periods to the associates under the ASOP plan. Further, during the same period, under the ASOP B plan, Satyam Computer Services issued warrants for 44,65,271 (net of 645,528 shares forfeited) shares to the associates. During the same period, under the ASOP (ADS), Satyam Computer Services issued warrants for 63,143 ADS representing 126,286 (net of 128,400 shares cancelled) shares to associates under the ASOP (ADS) plan.

During the year ended March 31, 2003, the SC-Trust issued immediately vesting warrants for 526,900 shares and warrants for 128,750 (net of 38,750 shares forfeited) shares with longer vesting periods to the associates under the ASOP plan. Further, during the same period, under the ASOP B plan, Satyam Computer Services issued warrants for 4,269,621 (net of 1,133,723 shares forfeited) shares to the associates. During the same period warrants for 93,850 ADS representing 187,700 (net of 232,300 shares forfeited) shares to associates under the ASOP (ADS) plan.

During the year ended March 31, 2002, the SC-Trust issued immediately vesting warrants for 702,010 (net of 60,000 forfeited) shares and warrants for 80,050 (net of 49,620 forfeited) shares with longer vesting periods to the associates under the ASOP plan. Further, during the same period, under the ASOP B plan, Satyam Computer Services issued warrants for 4,438,118 (net of 598,563 forfeited) shares to the associates and warrants for 1,169,425 ADS representing 2,338,850 equity shares to associates under the ASOP(ADS) plan.

Changes in number of shares representing stock options outstanding for each of the plans were as follows:

	Year ended March 31					
	2004		2003		2002	
ASOP Plan	Number of shares	Weighted Average Exercise Price	Number of shares	Weighted Average Exercise Price	Number of shares	Weighted Average Exercise Price
	1,167,380	$ 1.31	1,924,890	$ 1.28	9,454,140	$ 1.24

Balance at the beginning of the period						
Granted	193,700	$ 1.68	694,400	$ 1.52	891,680	$ 1.29
Exercised	(523,140)	$ 1.81	(1,273,000)	$ 1.42	(7,686,250)	$ 1.17
Cancelled	(11,700)	$ 1.90	(38,750)	$ 1.72	(109,620)	$ 1.40
Lapsed	(768,040)	$ 1.18	(140,160)	$ 1.28	(625,060)	$ 1.28
Balance at the end of the period	**58,200**	**$ 1.99**	**1,167,380**	**$ 1.31**	**1,924,890**	**$ 1.28**

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	Year ended March 31					
	2004		2003		2002	
ASOP B	**Number of shares**	**Weighted Average Exercise Price**	**Number of shares**	**Weighted Average Exercise Price**	**Number of shares**	**Weighted Average Exercise Price**
Balance at the beginning of the period	**14,464,148**	**$ 5.33**	**10,197,327**	**$ 5.60**	**5,759,209**	**$ 7.17**
Granted	5,110,799	$ 6.33	5,403,344	$ 4.78	5,036,681	$ 4.41
Exercised	(1,418,938)	$ 5.09	(2,800)	$ 3.75		
Cancelled	(645,528)	$ 5.53	(1,133,723)	$ 6.50	(598,563)	$ 7.87
Lapsed						
Balance at the end of the period	**17,510,481**	**$ 6.05**	**14,464,148**	**$ 5.33**	**10,197,327**	**$ 5.60**

	Year ended March 31					
	2004		2003		2002	
ASOP (ADS)	**Number of shares**	**Weighted Average Exercise Price**	**Number of shares**	**Weighted Average Exercise Price**	**Number of shares**	**Weighted Average Exercise Price**
Balance at the beginning of the period	**2,526,550**	**$ 5.08**	**2,338,850**	**$ 4.97**		
Granted	254,686	$ 8.65	420,000	$ 5.23	2,338,850	$ 4.97
Exercised	(289,972)	$ 5.42				
Cancelled	(128,400)	$ 5.41	(232,300)	$ 5.01		
Lapsed						
Balance at the end of the period	**2,362,864**	**$ 5.92**	**2,526,550**	**$ 5.08**	**2,338,850**	**$ 4.97**

Information about number of shares representing stock options outstanding:

			Outstanding			Exercisable	
Period	Range of Exercise Price (per share)		Weighted Average Exercise Price (per share)	Weighted Average remaining contractual Life	Number of shares arising out of options	Weighted Average Exercise Price (per share)	Number of shares arising out of options
Fiscal 2004	Rs.84.78	US$1.95	Rs.261.51	1.35 years	19,931,545	Rs.79.28	92,500
	Rs.655.61	US$15.11	US $6.03			US$1.83	
Fiscal 2003	Rs.73.80	US$1.70	Rs.239.36	1.28 years	18,158,078	Rs.71.19	526,900
	Rs.665.61	US$15.34	US$5.52			US$1.64	

The US$ numbers in the above tables have been translated using the closing exchange rate as of March 31, 2004 1US$= Rs.43.40

Deferred stock-based compensation

Satyam Computer Services recognized deferred stock-based compensation of US$762 thousand, US$1,745 thousand and US$1,203 thousand for the years ended March 31, 2004, 2003 and 2002 respectively. Satyam Computer Services amortized and charged to income US$1,625 thousand, US$3,380 thousand and US$10,479 thousand for the years ended March 31, 2004, 2003 and 2002 respectively.

Pursuant to APB 25, deferred-stock compensation has been computed as of grant date based on the difference between the exercise price of the warrants and the fair value of underlying shares of Satyam Computer Services. Deferred stock compensation is amortized on a straight-line basis over the vesting period of the related warrants.

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The weighted-average grant-date fair value of options granted was US$6.03, US$5.04 and US$4.21 for the years ended March 31, 2004, 2003 and 2002 respectively.

Additional Disclosure

Had compensation cost been recognized based on the fair value at the date of grant in accordance with SFAS 123, the pro-forma amounts of Satyam s net income and earnings per share would have been as follows for the years ended March 31, 2004, 2003 and 2002 respectively.

	Year ended March 31		
	2004	**2003**	**2002**
	(US$ in thousands except per share data)		
Net Income			
- As reported	**$ 111,860**	**$ 82,298**	**$ 42,357**
Add: Charge under APB 25	1,625	3,380	10,794
Less: Charge under FAS 123	(25,231)	(23,249)	(36,410)
- Pro forma	**$ 88,254**	**$ 62,429**	**$ 16,741**
Earnings Per Share:			
Basic			
- As reported	$ 0.36	$ 0.26	$ 0.14
- Pro forma	0.28	$ 0.20	$ 0.05
Diluted			
- As reported	$ 0.35	$ 0.26	$ 0.14
- Pro forma	0.28	$ 0.20	$ 0.05

Note: The pro forma disclosures shown above are not representative of the effects on net income and earnings per share in future years.

The fair value of Satyam Computer Services stock options used to compute pro forma net income and earnings per share disclosures is the estimated present value at grant date using the Black-Scholes option-pricing model.

The following assumptions were used:

Year ended March 31

	2004	2003	2002
Dividend yield	0.61%	0.86%	0.52%
Expected volatility	69.00%	69.00%	75.00%
Risk-free interest rate	7.00%	9.00%	10.32%
Expected term (in years)	2.69	2.77	3.47

14. Segmental Reporting

Satyam has adopted SFAS 131; *Disclosures about Segments of an Enterprise and Related Information* which requires disclosure of financial and descriptive information about Satyam s reportable operating segments. The operating segments reported below are the segments of Satyam for which separate financial information is available and for which operating profit/loss amounts are evaluated regularly by executive management in deciding how to allocate resources and in assessing performance. Management evaluates performance based on stand-alone revenues and net income for the companies in Satyam. Up to March 31, 2003 Satyam provided segmental disclosures based on three business groups: IT services, Internet services and Products. Subsequent to March 31, 2003 executive management evaluates Satyam s operating segments based on the following three-business groups:

IT services, providing a comprehensive range of services, including software development, packaged software integration, system maintenance and engineering design services. Satyam provides its customers the ability to meet all of their information technology needs from one service provider. Satyam s eBusiness services include designing, developing integrating and maintaining Internet-based applications, such as eCommerce websites, and implementing packaged software applications, such as customer or supply chain management software applications. Satyam also assists its customers in making their existing computing systems accessible over the Internet.

Business Process Outsourcing, providing BPO services covering HR, Finance & Accounting, Customer Contact (Voice, Mail and Chat), and Transaction Processing (industry-specific offerings).

Software Products, product development and creation of

propriety software.

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Satyam s operating segment information for the years ended March 31, 2004, 2003 and 2002 based on its new segments are as follows:

Business Segments

	IT Services	BPO	Software Products	Elimination	Consolidated totals
			(US$ in thousands)		
For the year ended March 31, 2004					
Revenue External customers	$565,028	$ 1,293	$ 51		$ 566,372
Revenue Inter-segment	405	1,097	72	$ (1,574)	
Total Revenues	**565,433**	**2,390**	**123**	**(1,574)**	**566,372**
Operating income / (loss)	125,402	(4,055)	(198)		121,149
Equity in earnings / (losses) of associated companies, net of taxes	(2,631)				(2,631)
Net income / (loss)	116,195	(4,140)	(195)		111,860
Segment assets	719,262	9,897	34	(15,425)	713,768
Depreciation, amortization and impairment of goodwill	24,006	388	3		24,397
Capital expenditures for long-lived assets	15,628	2,436			18,064
For the year ended March 31, 2003					
Revenue External customers	$458,336		$ 871		$ 459,207
Revenue Inter-segment			253	$ (253)	
Total Revenues	**458,336**		**1,124**	**(253)**	**459,207**
Operating income / (loss)	83,407		232		83,639
Equity in earnings / (losses) of associated companies, net of taxes	(3,339)				(3,339)
Net income / (loss)	82,066		232		82,298
Segment assets	590,432		1,036	(29,774)	561,694
Depreciation and amortization of other intangible assets	37,102		75		37,177
Capital expenditures for long-lived assets	11,015		1		11,016

For the year ended March 31, 2002					
Revenue	External customers	$413,906	$ 585		$ 414,491
Revenue	Inter-segment	18	284	$ (302)	
Total Revenues		**413,924**	**869**	**(302)**	**414,491**
Operating income / (loss)		(60,883)	(2,630)		(63,513)
Equity in earnings / (losses) of associated companies, net of taxes		(25,401)			(25,401)
Net income / (loss)		44,987	(2,630)		42,357
Segment assets		548,831	754	(34,083)	515,502
Depreciation and amortization of other intangible assets		135,933	385		136,318
Capital expenditures for long-lived assets		30,665	(1,001)		29,664

The capital expenditures for long-lived assets in the above table represent the additions to premises and equipment (fixed assets) of each segment.

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Geographic Information

The revenues that are attributable to countries based on location of customers and long-lived assets are as follows:

	Year ended March 31,					
	2004		2003		2002	
	Revenues from external customers	Long-lived assets	Revenues from external customers	Long-lived assets	Revenues from external customers	Long-lived assets
	(US$ in thousands)					
North America	$414,944	$ 3,973	$335,930	$ 3,939	$298,458	$ 4,280
Europe	77,790	531	53,265	579	39,202	657
India	16,050	77,446	27,911	77,785	32,089	132,428
Japan	11,108	227	10,473	348	9,152	348
Rest of the World	46,480	1,825	31,628	693	35,590	491
Total	**$566,372**	**$ 84,002**	**$459,207**	**$ 83,344**	**$414,491**	**$138,204**

The long-lived assets in the above table represent premises and equipment and intangible assets of each segment.

15. Related Party Transactions

Related party transactions comprise of

	Year ended March 31		
	2004	2003	2002
	(US$ in thousands)		
Infrastructure and other services provided by Satyam to			
Sify, its subsidiaries and associated companies	$ 72	$ 68	$1,078
Satyam Venture	1,225	875	928
Satyam GE		9	142
Total	**$1,297**	**$ 952**	**$2,148**

Services/Interest received by Satyam from			
Sify, its subsidiaries and associated companies	$1,439	$ 245	$ 47
Satyam Venture	5,338	357	
Total	**$6,777**	**$ 602**	**$ 47**

The balances receivable from and payable to related parties are as follows:

	As of March 31	
Amount due from/(to) associated companies	**2004**	**2003**
	(US$ in thousands)	
Sify, its subsidiaries and associated companies	$ (257)	$ (78)
Satyam Venture	(1,345)	(69)
Total	**$(1,602)**	**$ (147)**

16. Shareholders Equity and Dividends

a) Issuance of common stock

In May 2001, Satyam Computer Services listed its American Depository Shares (ADS) for trading on the New York Stock Exchange (NYSE ticker symbol SAY). Satyam Computer Services issued 16,675,000 ADS (representing 33,350,000 equity shares of Rs. 2 each fully paid up) at a price of US$9.71 per ADS, including ADS issued on exercise of 15% Greenshoe option by the Underwriters. Each ADS represents two equity shares of Rs 2 each fully paid up.

b) Dividends

Final dividends proposed by the Board of Directors are payable when formally declared by the shareholders, who have the right to decrease but not increase the amount of the dividend recommended by the Board of Directors. The Board of Directors declares interim dividends without the need for shareholders approval.

Dividends payable to equity shareholders are based on the net income available for distribution as reported in Satyam Computer Services unconsolidated financial statements prepared in accordance with Indian GAAP. As such, dividends are declared and paid in Indian Rupees. The net income in accordance with U.S. GAAP may, in certain years, either not be fully available or will be additionally available for distribution to equity shareholders.

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Under Indian GAAP the net income available for distribution to equity shareholders was US$128,063 thousand, US$64,680 thousand and US$92,029 thousand for the years ended March 31, 2004, 2003 and 2002 respectively.

Under the Indian Companies Act, dividends may be paid out of the profits of a company in the year in which the dividend is declared or out of the undistributed profits of previous fiscal years. Before declaring a dividend greater than 10.0% of the par value of its equity shares, a company is required to transfer to its reserves a minimum percentage of its profits for that year, ranging from 2.5% to 10.0%, depending on the dividend percentage to be declared in such year.

17. Goodwill

Goodwill consists of:

	As of March 31	
	2004	**2003**
	(US$ in thousands)	
Goodwill		
Acquisition of minority interest in		
Satyam Enterprise Solutions Limited	$ 23,702	$ 21,642
Satyam Manufacturing Technologies Inc.	3,685	3,365
Total	**27,387**	**25,007**
Less: Accumulated amortization	(11,851)	(10,821)
Goodwill, net	**$ 15,536**	**$ 14,186**

Goodwill represents the excess of amount paid towards purchase price and non-refundable deposit over the fair value of assets acquired, and currently primarily relates to the acquisition of the minority interest in Satyam Enterprise Solutions Limited by Satyam Computer Services.

Goodwill is tested when circumstances indicate that the carrying amount may not be recoverable as provided under FAS 142. Based on these tests there is no impairment of goodwill during the years ended March 31, 2004 and 2003. However there can be no assurance that future goodwill impairment tests will not result in a charge to earnings.

18. Contingencies and Commitments

a) Funding and Warrant commitments Nipuna

Satyam Computer Services has guaranteed payment of all sums payable by Nipuna to the Investors on redemption of the Preference Shares. Further Satyam Computer Services is required to subscribe to Convertible Debentures amounting to US$20 million based on certain provisions in the agreement. These convertible debentures shall bear an interest rate equal to the prime lending rate of the State Bank of India prevailing at that time and are convertible upon the election of Nipuna into Ordinary Shares at any time after issuance.

Satyam Computer Services, Nipuna and the Investors have also entered into a Warrant Agreement whereby Nipuna agrees to issue to the Investors warrants in consideration of and based upon the referral revenues received by Nipuna or its Subsidiaries at any time during the period commencing from the date of initial closing and ending in June 2007 from business referred to Nipuna or its Subsidiaries by an Investor or its Affiliates. The Investors have rights to purchase from Nipuna Ordinary Shares which, upon issuance, would constitute 7.5% of the then outstanding equity share capital of the Company on a fully diluted basis during the exercise period at the price per share then in effect and subject to other terms and conditions set forth in the agreement.

b) Bank guarantees

Bank guarantees outstanding are US$5,344 thousand and US$3,503 thousand as of March 31, 2004 and 2003 respectively. Bank guarantees are generally provided to government agencies, primarily to the Telegraph Authorities as security for compliance with and performance of terms and conditions contained in the Internet Service Provider license granted to Sify and Videsh Sanchar Nigam Limited, towards the supply and installation of an electronic commerce platform respectively. Satyam also provides guarantees to Excise and Customs authorities for the purposes of maintaining a bonded warehouse. These guarantees may be revoked by the governmental agencies if they suffer any losses or damage through the breach of any of the covenants contained in the agreements.

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c) Capital commitments

Contractual commitments for capital expenditure pending execution were US$4,414 thousand and US$4,441 thousand as of March 31, 2004 and 2003 respectively.

Contractual commitments for capital expenditures are relating to acquisition of premises, equipment and new network infrastructure.

d) Operating lease

Satyam has certain operating leases for office premises and guesthouses. Most of the operating leases provide for increased rent through increases in general price levels. Rental expense for operating leases amounted to US$9,110 thousand, US$8,735 thousand and US$9,243 thousand for the years ended March 31, 2004, 2003 and 2002 respectively.

Future minimum annual lease commitments, including those leases for which renewal options may be exercised as of March 31, 2004 are US$1,877 thousand in fiscal 2005, US$1,756 thousand in fiscal 2006, US$1,798 thousand in fiscal 2007, US$1,091 thousand in fiscal 2008 and US$1,333 thousand thereafter.

19. Concentration of Credit Risk

Accounts receivable balances are typically unsecured and are derived from revenues earned from customers primarily located in the United States. Satyam monitors the creditworthiness of its customers to which it grants credit terms in the normal course of business. The following table gives details in respect of percentage of revenues generated from top two and top five customers:

	Year ended March 31		
	2004	**2003**	**2002**
Revenues generated from top two customers			
Customer I	14.28%	16.14%	18.26%
Customer II	9.92%	8.71%	6.93%
Total revenues from top five customers	36.45%	38.41%	38.40%

20. Financial Instruments

Forward Contracts

Satyam Computer Services enters into forward foreign exchange contracts where the counter party is generally a bank. Satyam Computer Services considers the risks of non-performance by the counter party as non-material. The aggregate contracted principal amounts of Satyam Computer Services s foreign exchange forward contracts (sell) outstanding amounted to US$44,500 thousand and US$4,000 thousand as of March 31, 2004 and 2003. Gains on

foreign exchange forward contracts which are included under the head other income/expense in the statement of operations amounted to US$2,361 thousand (US$435 thousand on outstanding forward contracts), US$56 thousand (US$43 thousand on outstanding forward contracts)and US$Nil for the years ended March 31, 2004, 2003 and 2002 respectively. The outstanding forward exchange contracts as of March 31, 2004 mature between one to nine months.

Fair value

The carrying amounts reported in the balance sheets for cash and cash equivalents, investments in bank deposits trade and other receivables, investments, amounts due to or from related parties, accounts payable and other liabilities approximate their respective fair values due to their short maturity. The approximate fair value of long-term debts, as determined by using current interest rates was US$4,189 thousand and US$4,081 thousand as of March 31, 2004 and 2003 respectively as compared to the carrying amounts of US$4,182 thousand and US$4,074 thousand as of March 31, 2004 and 2003 respectively.

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21. Schedules of Balance sheet

a) Cash and Cash Equivalents

The cash and cash equivalents consist of:

	As of March 31	
	2004	**2003**
	(US$ in thousands)	
Cash and bank balances	$80,676	$53,133
Cash equivalents	6,054	9,069
Cash and cash equivalents	**$86,730**	**$62,202**

b) Accounts Receivable

Accounts receivable consist of:

	As of March 31	
	2004	**2003**
	(US$ in thousands)	
Customers (trade)	$147,142	$105,477
Related parties	615	467
Less: Allowance for doubtful debts	(13,930)	(9,180)
Accounts receivable	**$133,827**	**$ 96,764**

The allowance for doubtful debt is established at amounts considered to be appropriate based primarily upon Satyam s past credit loss experience and an evaluation of potential losses on the outstanding receivable balances.

c) Prepaid Expenses and Other Receivables

Prepaid expenses and other receivables consist of:

	As of March 31	
	2004	**2003**
	(US$ in thousands)	
Interest accrued on bank deposits	$21,074	
Prepaid expenses	$ 3,887	$ 2,725
Directors liability insurance	418	608
Advance for expenses	4,614	2,707
Loans and advance to employees	2,892	2,183
Other advances and receivables	1,616	2,019
Less: Allowance for doubtful advances	(1,596)	(1,201)
Prepaid expenses and other receivables	**$32,905**	**$ 9,041**

Prepaid expenses principally include the un-expired portion of annual rentals paid to the Department of Telecommunications, Ministry of Communications, and the Government of India for use of leased telecommunication lines, Satellite link charges, and insurance premiums.

d) Other Assets

Other assets consist of:

	As of March 31	
	2004	**2003**
	(US$ in thousands)	
Interest accrued on bank deposits		$ 3,891
Deposits	6,901	4,396
Loans and advances to employees due after one year	902	866
Deferred taxes on income	443	2,696
Others	1,599	751
Less: Allowance for doubtful deposits/advances	(1,571)	(1,434)
Other Assets	**$ 8,274**	**$11,166**

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Others include the non-current portion of the restricted cash in the form of deposits placed with banks to obtain bank guarantees amounted to US$294 thousand and US$81 thousand as of March 31, 2004 and 2003 respectively. Telephone and other deposits are primarily attributable to deposits with government organizations principally to obtain leased telephone lines and electricity supplies and advance payments to vendors for the supply of goods and rendering of services.

e) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of:

	As of March 31	
	2004	**2003**
	(US$ in thousands)	
Accrued expenses	$21,791	$17,181
Unclaimed dividend	827	567
Provision for taxation, net of payments	8,630	16,086
Provision for gratuity and leave encashment	4,935	2,737
Deferred taxes on income	1,975	1,686
Others	8,516	5,787
Accrued expenses and other current liabilities	**$46,674**	**$44,044**

22. Restatement of financial statements

Satyam has restated beginning shareholder s equity as of March 31, 2001 and shareholder s equity and net income as of and for the years ended March 31, 2003 and 2002, to reflect the impact on deferred tax liabilities and income taxes of Satyam s equity in the losses of Sify. Such impact was not previously recognized. The effects of these adjustments are as follows:

	As of March 31,		
	2003	**2002**	**2001**
	(US$ in thousands)		
Shareholder s equity as previously reported	$460,668	$369,842	$194,695
Reduction in deferred tax liabilities	27,048	24,522	8,057
Shareholder s equity as restated	$487,716	$394,364	$202,752

	For the year ended March 31,	
	2003	2002
	(US$ in thousands except per share data)	
Net income as previously reported	$ 79,772	$ 25,892
Income tax benefit	2,526	16,465
Net income as restated	$ 82,298	$ 42,357
Basic Earning per Share as previously reported	0.26	0.08
Income tax benefit	0.01	0.06
Basic Earning per Share as restated	0.27	0.14
Diluted Earning per Share as previously reported	0.25	0.08
Income tax benefit	0.01	0.06
Diluted Earning per Share as restated	0.26	0.14

Satyam recognized a deferred tax liability of US$ 36,920 thousand as at March 31, 2001 for the outside basis difference between the book carrying value and tax basis of its investment in Sify. This outside basis difference was generated from the increase in the book carrying value of Satyam s investment in Sify resulting from Sify s issuance of its shares to third parties. In subsequent periods, Satyam recognized its equity in the losses of Sify as a reduction in the book carrying value of its investment and as a charge to the income statement. However, Satyam did not recognize the tax benefit resulting from the decrease in the outside basis difference deferred tax liability.