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## MAHINDRA SATYAM - RESTORING CORPORATE GOVERNANCE

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*R Chandrasekhar wrote this case under the supervision of Professor Murray Bryant solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.*

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In Indian culture, there is a tendency to be deferential to age and authority; we have to get our people to rise above that. We see that in other Asian locations where seniority and age are important. Japan is a place where you keep bowing. If you are a senior person, you almost have to apologise if you disagree. That's not a very conducive atmosphere for an audit process. You have to have robust discussions and may have to take positions contrary to what the client thinks. It's not that it's not there, but business and people culture in India is different, say, from the United States.<sup>1</sup>

Gautam Banerjee, Chairman, PricewaterhouseCoopers India

In August 2009, Rakesh Soni was a month into his job as chief compliance officer (CCO) at Mahindra Satyam Ltd (Mahindra Satyam). Known earlier as Satyam Computer Services Ltd (Satyam), the company had been taken over four months previously in April 2009 by Tech Mahindra Ltd (an IT company within Mahindra and Mahindra Group, an Indian business conglomerate). Satyam was a beleaguered Indian information technology (IT) company which was being managed since January 2009, by a six-member caretaker board appointed by the federal government. In April 2009, Tech Mahindra had acquired 51 per cent stake at Satyam which had been renamed, post-acquisition, as Mahindra Satyam.

Soni's brief was to set right the issues related to corporate governance that had shaken Satyam in December 2008, so that Mahindra Satyam moved on without the burden of the past. As CCO, he held the oversight for redefining the code of ethics and putting in place new standards of corporate governance: tasks for which he was reporting directly to Vineet Nayyar, the vice-chairman of Mahindra Satyam. Soni was also the company's chief operating officer (COO) with profit centre responsibility for business verticals. In the latter role, he was reporting to C. P. Gurnani, the company's chief executive officer (CEO). The idea was that once Soni signed off on his mandate on corporate governance, the role of CCO would be converted into an ombudsman, a position to be occupied by an alternate person who would be overseeing compliance to the company's Code of Ethical Business Conduct which was to be put into place.

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<sup>1</sup> Pradipta Mukherjee and Ishita Ayan Dutt, "It is difficult to pick up management-perpetrated fraud," *Business Standard*, March 17, 2010, p. 2. [www.business-standard.com](http://www.business-standard.com)

Satyam, the original entity, had consistently ranked as the fourth largest among Indian IT services companies based on revenue. It was also the seventh largest among IT companies in India on the same parameter (see Exhibit 1); however, the rankings seemed incorrect because the company's revenues were discovered to be fictitious.

## ALTERING THE FIGURES

In a letter faxed on the morning of January 7, 2009 (see Exhibit 2) to the directors comprising the company's board, Ramalinga Raju, the founder, chairman and CEO of the company, stated that he had inflated the cash balances, understated the liabilities and overstated the receivables for the second quarter ending September 2008. He also said that "profits had been inflated over a period of [the] last several years." The confession of misdemeanor, copies of which were marked to the country's stock exchanges and the Securities and Exchange Board of India (SEBI) — which was the country's official regulator — stunned corporate India. Six directors of the nine-member board were independent, non-executive directors<sup>2</sup>: their roles had now come under scrutiny. The spotlight had also fallen on the role of PricewaterhouseCoopers India, the company's auditors for nine years in a row.

The ramifications were perceived to be huge: evidence of accounting irregularities in a high-profile Indian IT services company could potentially erode international confidence in the Indian IT services sector as a whole, which was managing critical business processes for customers worldwide. It could blunt the competitive edge of the Indian IT sector which had become a showpiece of Indian economic liberalization.

The financial community was particularly shocked at the developments at Satyam because the company had won the 2008 Peacock Global Award for Excellence in Corporate Governance, an award given by The World Council for Corporate Governance (WCFCG) based in London. Satyam was also listed with the New York Stock Exchange (NYSE), where the disclosure norms were known to be stringent; in addition, Satyam was among the first to switch to International Financial Reporting Standards (IFRS) in 2008. Indian companies were expected to comply with IFRS by 2011, but Satyam had already announced its results for the year ending March 2008 in accordance with IFRS.

The ruling federal coalition, which was going to the national polls in May, had quickly intervened. The extent of internal fraud was unknown, but the federal government's Ministry of Company Affairs took a stand that there would be no financial bailout for Satyam, but that in order to pre-empt an implosion of the company, the government would provide what it called a "managerial bailout." The ministry petitioned to the Company Law Board (CLB), an independent quasi-judicial body,<sup>3</sup> for suspension of Satyam's board. One of the grounds on which the ministry based its petition was that the board of Satyam had caused substantial damage to the country's IT sector.

The CLB concurred with the government's view and passed an order of suspension on January 9. Two days later, the ministry installed a three-member caretaker board comprising veterans from the Indian corporate sector. On the request of the interim board for reinforcement, the government expanded the number of directors on the board to six on June 15.<sup>4</sup>

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<sup>2</sup> They were Krishna Palepu of the Harvard Business School; Vinod Dham, a U.S.-based venture capitalist; T. R. Prasad, former cabinet secretary of the Indian federal government; M. Rammohan Rao, Dean of the Indian School of Business; Mangalam Srinivasan, special advisor to the JFK School of Government in the United States; V. S. Raju, former director of the Indian Institute of Technology, New Delhi.

<sup>3</sup> <http://clb.nic.in/org/organisation>, accessed June 9, 2010.

<sup>4</sup> It consisted of Kiran Karnik, former president of National Association of Software and Service Companies (NASSCOM); Deepak Parekh, chairman, Housing Finance Development Corporation; C. Achutan, former member of the Securities and

The new board interacted with customers, bankers and company managers, coming to a unanimous conclusion that Satyam's business model was fundamentally sound. It decided in favour of finding a strategic investor who could bring the troubled company back on track. At the end of rapid-fire developments over the next few weeks, Tech Mahindra won a competitive bid for Satyam, which it renamed Mahindra Satyam.

Soni, who was delivery head for a large customer account of Tech Mahindra before joining the new company in July 2009, said the following concerning Satyam:

A corporate asset which has taken the maximum hit at Satyam, since early January, is trust. Everything else is a fallout. Investigations are in progress by various law enforcement and regulatory agencies. The accounts of previous years are being restated. The situation is fluid in many ways. The morale among employees is low. Clients are unsure of staying on. The financials are in bad shape. Credibility of corporate governance is poor. For the core team from Tech Mahindra, it is like solving a jigsaw puzzle in which the pieces are moving and some are altogether missing. Restoring trust among various stakeholders is the need of the hour at Mahindra Satyam. Time is not on our side. Going forward, we have to shed the baggage, manage the trade-offs and provide leadership — honest, credible and decisive. How do we do it?

## DAMAGE CONTROL

By the time Soni came aboard in July, Tech Mahindra had taken a few business decisions aimed at damage control. Some were meant to trigger change, while others were meant to retain the good elements:

- A 10-member management committee had been established. It comprised five from Tech Mahindra, four from Satyam and one from the outside, symbolizing change with continuity. The vice-chairman of Tech Mahindra, Vineet Nayyar, had become the vice-chairman of Mahindra Satyam. The head of global operations of Tech Mahindra, C. P. Gurnani, had joined as CEO of Mahindra Satyam.
- Nayyar and Gurnani had gone on a road show, along with Anand Mahindra, vice-chairman and managing director, Mahindra and Mahindra, calling on leading customers worldwide to assure them of continuity of service, share future plans with them and seek renewal of long-term deals.
- Mahindra Satyam had made four lateral hires at the top in quick succession: a strategic initiatives head from Wipro, a leader for managed services in infrastructure from Infosys, a sales expert in Australia from IBM and a sales head in Singapore from HCL. Besides getting the much needed skills, the recruitments demonstrated that Mahindra Satyam was going to be in business for the long haul.
- It dispensed with the prevalent "global accounts" system at Satyam, under which industry specialist leaders could sidestep regional heads; for example, a global account head could be servicing a \$20 million<sup>5</sup> account and running all over Europe without the head of Europe even being aware. Tech Mahindra saw it as an ineffective way of functioning that had to be eliminated.
- It integrated sales and service delivery into a "two in a box" collaborative model. While adding competencies in industry specialization and business consulting, it eliminated role duplication.
- Satyam had empowered those closest to the customer: that was how it had gained market credentials for service delivery. Mahindra Satyam decided not to change this strategy.

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*Exchange Board of India; Tarun Das, chief mentor, Confederation of Indian Industry; T. N. Manoharan, former president of the Institute of Chartered Accountants of India; S. B. Mainak, executive director, Life Insurance Corporation of India.*

<sup>5</sup> All dollar amounts in US\$, unless otherwise stated.

## MANDATE BEFORE SONI

As CCO, Soni's mandate was to put into place new standards of governance at Mahindra Satyam. He enlisted the help of Sucharita Palepu, head of talent management in Human Resources (HR) at Mahindra Satyam, in defining three areas: the issues of corporate governance that needed to be set right, the processes of corporate governance that needed to be changed and the metrics by which the success or failure of his mandate could be measured.

Palepu and her team started drawing upon the code of conduct for directors (see Exhibit 3) and the code of conduct for senior management and employees prevalent at Mahindra and Mahindra Ltd as the template. They also examined the guidelines on statutory practices issued by the SEBI (see Exhibit 4) and other regulatory agencies. Palepu commented on this process:

We need to create a corporate culture wherein ethical conduct is valued. We need to develop an ambience in which our employees and our stakeholders trust the new management in its commitment to doing business with [the] utmost integrity. We need to restore a belief, at all levels, in walking the straight and the narrow path. Whistle blower policy is one example of the kind of processes we need to put in place. It is a critical means through which stakeholders can raise actual or suspected violations. It will act as a deterrent, across the organization, to unacceptable behaviour. We need to provide the necessary safeguards in the whistleblower policy which will protect employees from reprisal or victimization.

Employee training is another process. It will be a massive effort because we have over 30,000 employees at Mahindra Satyam. Each employee needs to address simulated issues of conflicts of interest and other dilemmas in the individual workplace. Training will also have to be an ongoing initiative. As far as metrics are concerned, the number of issues raised by employees would be one indicator of how the system is working. Timelines would be another. We could track how the system is responding to and resolving employee concerns within defined time limits. The important thing is to ensure credibility of our initiatives among various stakeholders.

## IT SERVICES INDUSTRY

Although both large and small corporations were depending on IT to remain competitive, many of them, particularly in the developed economies of the United States and Europe, were outsourcing their IT requirements to external providers in developing countries such as India. The main reason was that the latter provided cost advantages over developing in-house capabilities. IT was outside of the core competitive skill sets of many companies; in addition, IT projects were characterized by increasing complexity due to rapid changes in technologies, and non-IT companies lacked internal resources with which to keep pace. The outsourcing trend had thus spawned a service industry in which the geographic locations of either customers or service providers did not matter. India had become the preferred destination for companies in the United States and Europe seeking to outsource their IT requirements.

The IT industry was affected by recessionary trends that were evident worldwide since 2007: companies were reducing their IT budgets. Global spending on IT services was valued at \$809 billion in 2008, and was expected to decline to \$777 billion in 2009. An improvement was forecasted by the latter half of 2010 (see Exhibit 5). Brand perceptions in the IT services industry, unlike those in the consumer packaged

goods industry, for example, were based on tangible and measurable metrics. Service delivery was a critical component on which corporate reputations were built.

## COMPANY BACKGROUND – SATYAM

Satyam was established in 1987 by Ramalinga Raju, an entrepreneur from a farming family in the province of Andhra Pradesh in southern India, with a capital investment of less than \$100,000. After graduating in commerce in 1975 and securing an MBA from Ohio State University in the United States in 1976, Raju had “dabbled for about a decade in manufacturing, construction, infrastructure, agriculture, and imports and exports, among other businesses,”<sup>6</sup> before zeroing in on IT in 1987. He had founded Satyam Construction in 1984 and rechristened it as Maytas Infra in 1998. Maytas (which was Satyam spelt backwards) was to be the epicentre of the accounting irregularities at Satyam that surfaced in 2009.

Headquartered in Hyderabad, the capital city of Andhra Pradesh, Satyam offered a range of IT services such as application development and maintenance, consulting and enterprise business solutions, extended engineering solutions and infrastructure management. The company went for an initial public offering (IPO) in 1991. Between 2001 and 2008, the promoter’s stake had come down from 26 per cent to about three per cent (see Exhibit 6).

It was in 1991 that Satyam won its first offshore contract from the United States: the tractor maker John Deere & Co. It grew quickly during the next two decades to become the fourth-largest Indian IT services company. In 2000, the World Economic Forum identified Satyam as among the “100 leading pioneering technology companies.”<sup>7</sup>

Satyam was listed on the NYSE in 2001. One of the reasons why companies from emerging markets sought listing on NYSE was to access low-cost capital; in return, they had to agree to higher norms of regulatory compliance and corporate governance. Satyam also became the first IT company in the world to receive ISO certification that year. In June 2002, Satyam set up a business process outsourcing (BPO) unit offering back-office transaction processing in the areas of finance and accounting, human resources and claims administration. In 2006, revenues had crossed the \$1 billion mark.

Between 2005 and 2008, Satyam had made a series of acquisitions: Citisoft Plc, a U.K.-based business consulting firm, in April 2005 at a cost of \$38 million paid in tranches; Knowledge Dynamics, a Singapore-based consulting solutions provider, in July 2005 for an all-cash deal of \$3.3 million; Nitor Global Solutions, a U.K.-based infrastructure management services and consultancy group, in October 2007 in a \$5.5 million all-cash deal; Bridge Strategy Group, a Chicago-based management consulting firm, in January 2008 for \$35 million in an all-cash purchase; S&V Management Consultants, a supply-chain management firm based in Belgium and the market research and customer analytics operations of construction equipment maker Caterpillar Inc in April 2008 — both for an all-cash deal of \$95.5 million.

Credit Lyonnais Securities Asia (CLSA), a global brokerage firm, said the following in a report in August 2008: “There has been little articulation of any follow-on wins, thanks to these assets, and the scale of

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<sup>6</sup> Prashant Gandhi and Joydeep Sengupta, “Spurring value creation in IT Services: An interview with the chairman of India’s Satyam Computers,” *McKinsey Quarterly*, September 2007, [www.mckinseyquarterly.com](http://www.mckinseyquarterly.com), accessed May 12, 2010.

<sup>7</sup> Gayathri Varma, “How Satyam got formed, got famous, got wild and got caught,” <http://www.indianexpress.com/news/408106/0>, accessed June 10, 2010

acquisitions continues to raise doubts on whether they can truly move the needle for a \$2-billion top-line company.”<sup>8</sup>

By 2008, Satyam had 52,856 employees and a presence in 65 countries. It had 690 global customers, of whom 185 were Fortune 500 companies. Its share capital was INR1,341 million,<sup>9</sup> while its reserves were INR72,217.10 million as of March 31, 2008 (see Exhibit 7). Its “free” reserves (after loans, guarantees and investments) stood at INR20,023 million as of March 31, 2008. This was according to the data filed by the company with the regional office of the Registrar of Companies (RoC) based in Hyderabad.<sup>10</sup> The RoC was part of the Ministry of Corporate Affairs.

Satyam delivered its services to global customers through three channels: technology centres (located in India), overseas facilities (in Australia, Canada, China, Hungary, Japan, Malaysia, Singapore, United Arab Emirates, United Kingdom and United States) and onsite locations (at customers’ own premises). The company was competing with four categories of business: global consulting firms (such as Accenture, Bearing Point, CapGemini and Deloitte Consulting); divisions of large multinational technology firms (such as Hewlett-Packard and IBM); IT outsourcing firms (such as Computer Sciences Corporation, Electronic Data Systems and IBM Global Services); Indian IT services firms (such as Tata Consultancy Services, Infosys Technologies and Wipro). It also competed with numerous software firms, service groups of computer equipment companies, in-house IT departments of large corporations, programming companies and temporary staffing firms.

Soni discussed Satyam’s position: “Satyam had strong delivery capabilities. There was depth in its relationships with clients. The company had high quality human resources. These are formidable assets for an IT firm. It also had diversity in terms of geographical presence, business verticals and customer coverage.”

## COMPANY BACKGROUND – TECH MAHINDRA

Tech Mahindra was formed in 1986 as a joint venture between Mahindra & Mahindra Ltd — an Indian conglomerate with interests in two-wheelers, farm equipment, financial services, infrastructure development and trading — and British Telecommunications Plc (BT), a leading telecom company in the United Kingdom. Tech Mahindra was a niche player with a high traction in one vertical, one client and one market. It was focused on telecom vertical, which provided 100 per cent of its revenues. Within telecom, it depended on BT, which provided 65 per cent of revenues. It was also focused on the European market, which provided 68 per cent of revenues. Headquartered in Mumbai, Tech Mahindra had revenues of INR44,647 million (US\$934.7 million) for the year ending March 2009. It had 24,972 employees, and the company floated an IPO in March 2006.

Telecom was one of the fastest-growing verticals in the Indian IT space with a compound annual growth rate (CAGR) of 45 per cent.<sup>11</sup> Tech Mahindra was already a leading telecom service provider in Europe. The company had, however, taken a strategic decision in September 2008 to move out of the niche space and diversify into new verticals, new clients and new markets: acquisition was the preferred route. Tech Mahindra had started tracking Satyam as a potential target for an alliance. It had also given a brief to an

<sup>8</sup> Puja Mehra, “On the trail of fraud,” *www.business-today.com* Cover feature entitled “The great Satyam robbery,” *Business Today* dated January 20, 2009, accessed June 05, 2010

<sup>9</sup> INR47.87=US\$1 on August 3, 2009, available at *www.rbi.org.in/home.aspx*, accessed September 30, 2010

<sup>10</sup> Bhupesh Bhandari, “Salvaging Satyam,” *The Satyam Saga*, British Standard Books, 2009, p. 126.

<sup>11</sup> Tech Mahindra Investor Presentation, *www.techmahindra.com/content/investor/Tech\_Mahindra\_Investor\_Presentation\_Final.pdf*, p. 6, accessed May 10, 2010.

investment banking firm in Mumbai to conduct the negotiations with Satyam. Tech Mahindra had completed due diligence, but before the talks could be held Raju had confessed.

When the new board sought an “Expression of Interest” in March 2009 and invited potential buyers to participate in the bidding process for a controlling stake in Satyam, Tech Mahindra saw it as a strategic opportunity to move to the next level of growth. It could diversify across customers, geographies, verticals and technologies, market a wide range of services to existing customers and leverage common support systems in order to not only reduce operating expenses but also secure operational synergies.<sup>12</sup>

In an interview with a business magazine, Anand Mahindra, vice-chairman and managing director of Mahindra & Mahindra, described the bidding:

It is not as though we did not have a plan going in. It was not as though once we won the bid, we scratched our heads and said, “Okay, what do we do next?” When we took over the company, we had a road map of what to do from day one. We were like commandos hitting the ground with a battle plan. The key message was: the past is, by definition, gone, so let’s pick up the pieces, the good ones, and start running.<sup>13</sup>

## SEQUENCE OF EVENTS

On December 16, 2008, the board of Satyam met to consider a proposal for an unrelated diversification into real estate (see Exhibit 8). The governance protocol required that although Raju was the chairman of the board, he could not chair the particular meeting because he had a personal interest in the issue under discussion. The meeting was therefore chaired by Rammohan Rao, an independent director who was the dean of the Indian School of Business.

The proposal was for Satyam to acquire a stake in two family-owned concerns. The board members had already received the relevant background material from the company secretary’s office for review before attending the meeting. In his opening remarks at the meeting, Raju said that he had just returned from a trip to the United States where he learned that IBM was planning to mount a bid on Satyam. It was therefore necessary for the board to strategize ways of defending the company’s turf.

The proposed diversification into real estate would serve as a “poison pill,” Raju said at the board meeting. If a company took on a huge liability or acquired unrelated assets, it would automatically put off a potential investor from mounting a bid. The poison pill proposed by Raju was meant to make Satyam unattractive to a potential predator such as IBM.<sup>14</sup>

In a conference call with analysts later that day, Raju announced that the board of Satyam had approved the purchase of 100 per cent stake in Maytas Properties and 51 per cent stake in Maytas Infrastructure (Maytas Infra) on an investment of \$1.3 billion and \$ 0.3 billion, respectively. Both of the infrastructure companies were controlled by Raju’s sons. Maytas Properties, founded in 2005, was involved in the development of urban space infrastructure (such as integrated townships and special economic zones) while Maytas Infra, founded in 1984, was involved in building highways, metros and ports.

<sup>12</sup> *Tech Mahindra Annual Report 2008-2009*, [www.techmahindra.com/content/investor/TML\\_AR\\_2009\\_final.pdf](http://www.techmahindra.com/content/investor/TML_AR_2009_final.pdf), p. 8, accessed June 05, 2010.

<sup>13</sup> Kandula Subramaniam, “...Like Commandos Hitting The Ground,” *Businessworld*, January 18, 2010, [www.businessworld.in/bw/2010\\_01\\_09\\_Like\\_Commandos\\_Hitting\\_The\\_Ground.html](http://www.businessworld.in/bw/2010_01_09_Like_Commandos_Hitting_The_Ground.html), accessed June 09, 2010.

<sup>14</sup> Bhupesh Bhandari, “Modus Operandi,” *The Satyam Saga*, British Standard Books, 2009, p. 41.

The decision was portrayed as a “judgment call” based on “assessment of value” in the “normal course of business,” and therefore did not require approval by shareholders. “The two acquisitions pave the way for accelerated growth in additional geographies and market segments such as transportation, energy, and other infrastructure sectors, for the core IT business,” Raju said. “This would de-risk the core business by bootstrapping a new business vertical in infrastructure.”<sup>15</sup>

The investor outrage was immediate. It was rooted in two factors: that the decision to invest \$1.6 billion was made by the board and not by the shareholders, and that the diversification was unrelated. The Satyam stock fell the next day. The American Depositary Receipt (ADR) had declined by 55 per cent from \$12.55 to \$5.70. The domestic stock fell by 30 per cent to INR158.05. Together, the two falls amounted to an erosion of shareholder value of INR46.1 billion in a single day.

The law governing the board’s decision to invest in group companies was governed by Section 292 and Section 372A of the Companies Act 1956. Section 292 dealt with the power of the board to invest the funds of the company by means of resolutions passed at meetings of the board. Section 372A stated that the consent of the shareholders is required when the aggregate of any loans made, or investment made or guarantee given or security provided by the company, exceeded 60 per cent of the aggregate of the paid up capital and free reserves or 100 per cent of its free reserves, whichever was more.<sup>16</sup>

The board reconvened the next day and called off the proposed investment. The incident did not, however, cool off: analysts put sell recommendations on the stock. On December 30, analysts with Forrester Research advised clients to stop doing business with Satyam due to fear of widespread fraud. Four independent directors resigned. Satyam hired Merrill Lynch to advise it on ways to increase shareholder value.

Raju’s confession was followed by the resignation of Srinivas Vadlamani, Satyam’s chief financial officer (CFO) and the appointment of Ram Mynampati, an executive director on Satyam’s board, as the interim CEO. In a press conference held in Hyderabad on January 8, Mynampati told reporters that the company’s cash position was not encouraging and that “our only aim at this time is to ensure that the business continues.”<sup>17</sup> A day later, Raju was arrested. In the next 48 hours, two independent directors had resigned.

Hours before Raju disclosed the fraud on January 7, Merrill Lynch sent a letter to the Indian stock exchanges indicating that it was withdrawing from its engagement with Satyam because during the course of its representation, it learned of “material accounting irregularities.” The board called an emergency meeting for January 10 to address the company’s rapidly deteriorating reputation; however the board was suspended by the federal government before it could meet.

Kiran Karnik, the chairman of the newly-appointed board, described the situation: “The first day, I felt like I was part of a bomb disposal squad, sent in not knowing too much about bombs and then deciding whether to cut the red wire or the white wire.” The board hired KPMG and Deloitte to work on restating the accounts, expecting this to be completed in the first half of 2010. The immediate priority was to ensure that employees received their salaries for the month of January. If they were not paid, they would likely desert their jobs. In addition to sending out a general appeal to clients to pay their outstanding bills early, the board looked for ways to arrange loans from banks.

<sup>15</sup> <http://knowledge.wharton.upenn.edu/india/article.cfm?articleid=4344> “Scandal at Satyam: Truth, Lies and Corporate Governance,” accessed April 23, 2010.  
*Final transcript of Satyam Computers Services conference call with analysts on December 16, 2008, accessed May 13, 2010.*

<sup>16</sup> [http://www.mca.gov.in/Ministry/actsbills/pdf/Companies\\_Act\\_1956\\_Part\\_1.pdf](http://www.mca.gov.in/Ministry/actsbills/pdf/Companies_Act_1956_Part_1.pdf), accessed June 9, 2010.

<sup>17</sup> [www.oppapers.com/essays/Scam-Of-Satyam/198614](http://www.oppapers.com/essays/Scam-Of-Satyam/198614), accessed June 20, 2010.



It was evident to the interim board that the scam was limited to Raju's closest circle. It was therefore necessary to bifurcate the scam from the company's core. Clients had a 90-day cancellation clause in their contracts. The board set a deadline of 100 days within which to find a strategic investor for Satyam.

The task of identifying the buyers and coordinating the process of sale was given to the Indian affiliate of Goldman Sachs. There were a total of five bidders: Spice Corp, iGate, L&T, Tech Mahindra and Cognizant. All bidders were given access to data rooms containing the company's operating data and other information. They were also briefed by Satyam's lawyers and accountants on the company's likely liabilities from class action lawsuits. iGate dropped out of bidding due to concerns over falling revenues and inadequate clarity on customers and margins. Spice Corp pulled out on the ground that the bidding process was not transparent. Tech Mahindra won the bid with an offer of INR58 per share, compared to L&T's bid of INR46 and Cognizant's bid of INR20 per share.

### ISSUES BEFORE SONI IN AUGUST 2009

- The biggest challenge was to ensure corporate governance standards so that there would be no further violation, either overt or covert. The scam had happened at Satyam in spite of the company having built up good credentials with its clients; for example, it had been listed on the NYSE, whose standards of disclosures were stringent. It had also won several awards for corporate governance.
- Mahindra and Mahindra had outlined three immediate priorities in the area of corporate governance at Mahindra Satyam: introduce strong corporate best practices, review key processes and implement suggestions from forensic accounting/investigating authorities<sup>18</sup>
- It was important to get everyone, from top down, to walk the talk on integrity. Soni had the mandate to ensure corporate governance, but that would not be his concern alone. He had the backing of Mahindra and Mahindra as a 64-year old business house with a reputation for integrity. How should he leverage it?
- The information available to independent directors (and even to the members of the Audit Committee, a board committee) was inherently limited. There was nothing to prevent willful withholding of crucial information. At the end of the day, they had to rely on what the management was presenting to them.
- Tech Mahindra had taken over Satyam against the backdrop of what was billed as "the world's worst economic downturn in seven decades." The downturn in the IT services industry had compounded the uncertainties at Mahindra Satyam over customer loyalty, employee retention and corporate governance.
- Satyam, as a brand, was tainted. It was therefore important, from the point of view of corporate governance, to downplay Satyam among stakeholders; however, between Tech Mahindra and Satyam, it was the latter which was the dominant source of value creation. This was already evident in two areas. Firstly, Satyam was a larger entity — by revenue, number of employees, technologies and scale of operations — than Tech Mahindra. Secondly, Satyam was better known in the global IT industry than Tech Mahindra. Here was a difficult trade-off. Mahindra Satyam would be losing a major part of the source of value creation if the identity of Satyam was downplayed.
- Tech Mahindra was swallowing a target larger than itself. Although it provided an opportunity to break into the big league of Indian IT, there were challenges concerning integration, particularly of people. The mainspring of competence in the IT industry was the people. The quality of HR at Satyam was high. Tech Mahindra had to tread carefully in managing people at the acquired entity, particularly at the middle and senior management levels.

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<sup>18</sup> *Tech Mahindra Investor Presentation*, [www.techmahindra.com/content/investor/Tech\\_Mahindra\\_Investor\\_Presentation\\_Final.pdf](http://www.techmahindra.com/content/investor/Tech_Mahindra_Investor_Presentation_Final.pdf), p. 21 of 23, accessed on May 10, 2010.

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- Companies in the Mahindra & Mahindra Group were usually expected to be number one or two in their line of business: there was a declared policy to that effect. The group had exited in the past from businesses which could not match up. Tech Mahindra was a leader in telecom vertical, but the pecking order in Indian IT was not easy for Mahindra Satyam to negotiate, even as a combined entity. It had to grow 20 per cent each year for the next five years just to stay on course.
  - It was evident, during the months since Tech Mahindra took over Satyam, that the employees of Satyam had shown passion, resolve and commitment; otherwise, it would not have been possible, given the crisis of confidence it had just gone through, for Mahindra Satyam to sign on new clients. How should the positive energy from within be channelled towards restoring honesty, integrity and transparency at individual workplaces?
  - It was ultimately an issue of leadership at the top: the organization was fundamentally sound.

## Exhibit 1

## TOP 20 IT COMPANIES IN INDIA

Ranking		Company name	Revenues (in millions of INR)	
2007-08	2006-07		2007-08	2006-07
1	1	TCS	214,650	175,600
2	2	Wipro	168,840	132,520
3	3	Infosys technologies	157,580	132,400
4	4	HP India	154,540	119,170
5	5	IBM India	101,790	82,450
6	6	Ingram Micro	86,200	68,960
7	7	<b>Satyam Computer Services</b>	78,890	61,110
8	11	Cognizant Technology Solutions	63,100	45,840
9	8	Redington India	62,800	50,230
10	9	HCL Technologies	62,000	49,300
11	12	Cisco Systems	58,370	44,240
12	10	Oracle India	58,080	47,530
13	15	HCL Infosystems	50,580	35,220
14	14	Intel India	43,100	37,600
15	-	Accenture India	38,000	-
16	16	<b>Tech Mahindra</b>	36,360	29,000
17	18	Microsoft India	32,630	25,800
18	24	SAP India	32,600	17,740
19	21	Dell India	32,000	20,000
20	19	Lenovo India	30,140	25,620

Source: Data Quest, July 21, 2008, [http://dqindia.ciol.com/content/dqtop20\\_08/CompanyRanking/2008/108072101.asp](http://dqindia.ciol.com/content/dqtop20_08/CompanyRanking/2008/108072101.asp), accessed May 12, 2010.

**Exhibit 2****SATYAM – LETTER FROM THE CHAIRMAN<sup>1</sup>**

To: The Board of Directors, Satyam Computer Services Ltd.

From: B. Ramalinga Raju, Chairman, Satyam Computer Services Ltd.

January 7, 2009

Dear Board Members,

It is with deep regret, and tremendous burden that I am carrying on my conscience, that I would like to bring the following facts to your notice:

1. The Balance Sheet carries as of September 30, 2008
  - a) Inflated (non-existent) cash and bank balances of 50.40 billion rupees (\$1.04 billion) (as against 53.61 billion reflected in the books).
  - b) An accrued interest of 3.76 billion rupees which is non-existent.
  - c) An understated liability of 12.30 billion rupees on account of funds arranged by me.
  - d) An overstated debtors position of 4.90 billion rupees (as against 26.51 billion reflected in the books).
2. For the September quarter (Q2) we reported a revenue of 27.00 billion rupees and an operating margin of 6.49 billion rupees (24 pct of revenues) as against the actual revenues of 21.12 billion rupees and an actual operating margin of 610 million rupees (three per cent of revenues). This has resulted in artificial cash and bank balances going up by 5.88 billion rupees in Q2 alone.

The gap in the Balance Sheet has arisen purely on account of inflated profits over a period of last several years (limited only to Satyam standalone, books of subsidiaries reflecting true performance). What started as a marginal gap between actual operating profit and the one reflected in the books of accounts continued to grow over the years. It has attained unmanageable proportions as the size of company operations grew significantly (annualized revenue run rate of 112.76 billion rupees in the September quarter, 2008, and official reserves of 83.92 billion rupees). The differential in the real profits and the one reflected in the books was further accentuated by the fact that the company had to carry additional resources and assets to justify higher level of operations — thereby significantly increasing the costs.

Every attempt made to eliminate the gap failed. As the promoters held a small percentage of equity, the concern was that poor performance would result in a take-over, thereby exposing the gap. It was like riding a tiger, not knowing how to get off without being eaten.

The aborted Maytas acquisition deal was the last attempt to fill the fictitious assets with real ones. Maytas' investors were convinced that this is a good divestment opportunity and a strategic fit. Once Satyam's problem was solved, it was hoped that Maytas' payments can be delayed. But that was not to be. What followed in the last several days is common knowledge. I would like the Board to know:

1. That neither myself, nor the Managing Director (including our spouses) sold any shares in the last eight years — excepting for a small proportion declared and sold for philanthropic purposes.

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<sup>1</sup> <http://uk.reuters.com/article/idUKBOM36807220090107?sp=true>, accessed January 21, 2010.

**Exhibit 2 (continued)**

2. That in the last two years a net amount of 12.30 billion rupees was arranged to Satyam (not reflected in the books of Satyam) to keep the operations going by resorting to pledging all the promoter shares and raising funds from known sources by giving all kinds of assurances (Statement enclosed, only to the members of the board). Significant dividend payments, acquisitions, capital expenditure to provide for growth did not help matters. Every attempt was made to keep the wheel moving and to ensure prompt payment of salaries to the associates. The last straw was the selling of most of the pledged share by the lenders on account of margin triggers.
3. That neither me, nor the Managing Director took even one rupee/dollar from the company and have not benefitted in financial terms on account of the inflated results.
4. None of the board members, past or present, had any knowledge of the situation in which the company is placed. Even business leaders and senior executives in the company, such as Ram Mynampati, Subu D, T.R. Anand, Keshab Panda, Virender Agarwal, A.S. Murthy, Hari T, S.V. Krishnan, Vijay Prasad, Manish Mehta, Murali V, Sriram Papani, Kiran Kavale, Joe Lagiola, Ravindra Penumetsa, Jayaraman and Prabhakar Gupta are unaware of the real situation as against the books of accounts. None of my or the Managing Director's immediate or extended family members has any idea about these issues.

Having put these facts before you, I leave it to the wisdom of the board to take the matters forward. However, I am also taking the liberty to recommend the following steps:

1. A Task Force has been formed in the last few days to address the situation arising out of the failed Maytas acquisition attempt. This consists of some of the most accomplished leaders of Satyam., Subu D, T.R. Anand, Keshab Panda and Virender Agarwal, representing business functions, and A.S. Murthy, Hari T and Murali V representing support functions. I suggest that Ram Mynampati be made the Chairman of this Task Force to immediately address some of the operational matters on hand. Ram can also act as an interim CEO reporting to the board.
2. Merrill Lynch can be entrusted with the task of quickly exploring some Merger opportunities.
3. You may have a restatement of accounts' prepared by the auditors in light of the facts that I have placed before you.

I have promoted and have been associated with Satyam for well over twenty years now. I have seen it grow from few people to 53,000 people, with 185 Fortune 500 companies as customers and operations in 66 countries. Satyam has established an excellent leadership and competency base at all levels. I sincerely apologize to all Satyamites and stakeholders, who have made Satyam a special organization, for the current situation. I am confident they will stand by the company in this hour of crisis.

In light of the above, I fervently appeal to the board to hold together to take some important steps. Mr. T.R. Prasad is well placed to mobilize support from the government at this crucial time. With the hope that members of the Task Force and the financial advisor, Merrill Lynch (now Bank of America) will stand by the company at this crucial hour, I am marking copies of this statement to them as well.

Under the circumstances, I am tendering my resignation as the chairman of Satyam and shall continue in this position only till such time the current board is expanded. My continuance is just to ensure enhancement of the board over the next several days or as early as possible. I am now prepared to subject myself to the laws of the land and face consequences thereof.

(B. Ramalinga Raju)

**Exhibit 3****MAHINDRA & MAHINDRA – CODE OF CONDUCT FOR DIRECTORS**

**Introduction:** Mahindra & Mahindra Limited is committed to conducting its business in accordance with applicable laws, rules and regulations and the highest standards of business ethics and ethical conduct. This Code of Conduct (“Code”) reflects the business practice and principles of behaviour that support this commitment. The Board of Directors (“the Board”) is responsible for setting the standards of conduct contained in the Code and for updating these standards as appropriate to reflect legal and regulatory developments. The Code is intended to provide guidance and help in recognizing and dealing with ethical issues and to help foster a culture of honesty and accountability. Every Director is expected to read and understand this Code and its application to the performance of his or her duties, functions and responsibilities.

Every Director must (i) represent the interests of the shareholders of the Company; (ii) exhibit high standards of integrity, commitment and independence of thought and judgement; (iii) dedicate adequate time, energy and attention to ensure the diligent performance of his/her duties including making all reasonable efforts to attend Board or Committee Meetings; and (iv) comply with every provision of this Code.

**Compliance Officer:** The Company has designated its Executive Director as its Compliance Officer to administer this Code. Directors, at their discretion, may make any report or complaint provided for in this Code to the Chairman of the Board of the Company or to the Compliance Officer. The Compliance Officer will refer complaints submitted to the Chairman of the Board.

**Compliance with Applicable Laws:** In the discharge of their duties and responsibilities, Directors must comply with all applicable laws, rules and regulations. These would include securities laws, insider trading laws and the Company’s insider trading compliance policies.

**Conflicts of Interest:** Directors must avoid conflicts of interest. Directors should also be mindful of, and seek to avoid, conduct which could reasonably be construed as creating an appearance of a conflict of interest. While Directors should be free to make personal investments and enjoy social relations and normal business courtesies, they must not have any interests that adversely influence the performance of their duties, functions and responsibilities as Directors of the Company. A conflict of interest can arise when a Director or a Member of his/her immediate family receives improper personal benefits as a result of his/her position as a Director of the Company. A conflict situation can also arise when a Director takes an action or has an interest that may make it difficult for him or her to perform his or her duties, functions and responsibilities objectively and effectively.

While the Code does not attempt, and indeed it would not be possible, to describe all conceivable conflicts of interest that could develop, the following are some examples of situations which may constitute conflicts of interest:

- Working, in any capacity, for a competitor, customer, supplier or other third party while employed by the Company.
- Competing with the Company for the purchase or sale of property, products, services or other interests.
- Directing business to a supplier owned or managed by, or which employs, a relative or friend.
- Receiving loans or guarantees of obligations as a result of one’s position as a Director.
- Accepting bribes, kickbacks or any other improper payments for services relating to the conduct of the business of the Company.

**Exhibit 3 (continued)**

- Accepting, or having a Member of a Director's family accept, a gift from persons or entities that deal with the Company, where the gift is being made in order to influence the Director's actions as a Member of the Board, or where acceptance of a gift could otherwise reasonably create the appearance of a conflict of interest.

Conflicts of interest may not always be clear-cut. Any question therefore about a Director's actual or potential conflict of interest with the Company should be brought promptly to the attention of the Chairman of the Board, who will review it and determine a proper course of action, including whether consideration or action by the full Board is necessary. Directors involved in any conflict or potential conflict situations shall excuse themselves from any discussion or decision relating thereto.

**Corporate Opportunity:** Directors shall not (a) compete with the Company; or (b) take for themselves personally any business opportunities that belong to the Company or are discovered through the use of corporate property, information or position; or (c) use corporate property, information or position for personal gain.

**Confidentiality:** All Directors must maintain the confidentiality of confidential information entrusted to them or disclosed or acquired by them in carrying out their duties and responsibilities, except where such disclosure is authorised by the Company or is required by laws, regulations or legal proceedings. The term "confidential information" includes, but is not limited to, non-public information that might be of use to competitors of the Company or harmful to the Company or its customers, if disclosed. Whenever feasible, Directors should consult the Chairman of the Board or the Compliance Officer if they believe they have a legal obligation to disclose confidential information.

**Fair Dealing:** Directors should endeavour to deal fairly with the Company's customers, suppliers, competitors, officers and employees. No Director shall take unfair advantage of the Company's customers, suppliers, competitors or employees through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair dealing practice. Gifts or entertainment in any form that is likely to result in a feeling of expectation of personal obligation should not be extended or accepted.

**Protection and Proper Use of Company Assets:** Directors should perform their duties in a manner that protects the Company's assets and ensures their efficient use. The Company's assets should be used for legitimate business purposes.

**Reporting any illegal or Unethical Behaviour:** Directors are encouraged to promptly contact the Chairman of the Board or the Compliance Officer if the Director believes that he or she has observed illegal or unethical behaviour by any employee, officer or director, or by any one purporting to be acting on the Company's behalf or any violation or possible violation of this Code and the reporting Director has any doubt as to the best course of action in a particular situation. Confidentiality will be maintained, to the extent permitted by law.

**Exhibit 3 (continued)**

**Public Company Reporting:** As a public company, it is of critical importance that the Company's filings with the Securities and Exchange Board of India, the Reserve Bank of India and/or the concerned Stock Exchange(s) on which the securities of the Company are or may be listed be full, fair, accurate, timely and understandable. The Directors shall provide information necessary to ensure that the Company's published reports meet these requirements. The Company expects Directors to provide prompt and accurate answers to enquiries relating to its public disclosure requirements.

**Amendment, Modification and Waiver:** This Code may be amended, modified or waived only by the Company's Board of Directors and must be publicly disclosed if required by any applicable law or regulation. As a general policy, the Board will not grant waivers to the Code.

*Source: Code of Conduct for Directors, [www.mahindra.com/OurGroup/whatdrives\\_corporate\\_governance.html](http://www.mahindra.com/OurGroup/whatdrives_corporate_governance.html), accessed June 1, 2010.*



**Exhibit 4****CORPORATE GOVERNANCE IN LISTED COMPANIES IN INDIA<sup>1</sup>****I. Board of Directors****(A) Composition of Board**

- (i) The Board of directors of the company shall have an optimum combination of executive and non-executive directors with not less than fifty percent of the board of directors comprising of non-executive directors.
- (ii) Where the Chairman of the Board is a non-executive director, at least one-third of the Board should comprise of independent directors and in case he is an executive director, at least half of the Board should comprise of independent directors.
- (iii) For the purpose of the sub-clause (ii), the expression ‘independent director’ shall mean a non-executive director of the company who:
  - a. apart from receiving director’s remuneration, does not have any material pecuniary relationships or transactions with the company, its promoters, its directors, its senior management or its holding company, its subsidiaries and associates which may affect independence of the director;
  - b. is not related to promoters or persons occupying management positions at the board level or at one level below the board;
  - c. has not been an executive of the company in the immediately preceding three financial years;
  - d. is not a partner or an executive or was not partner or an executive during the preceding three years, of any of the following:
    - i. the statutory audit firm or the internal audit firm that is associated with the company, and
    - ii. the legal firm(s) and consulting firm(s) that have a material association with the company.
  - iii. is not a material supplier, service provider or customer or a lessor or lessee of the company, which may affect independence of the director; and
  - iv. is not a substantial shareholder of the company i.e. owning two percent or more of the block of voting shares.
  - v. (iv) Nominee directors appointed by an institution which has invested in or lent to the
  - vi. company shall be deemed to be independent directors.

**(B) Non executive directors’ compensation and disclosures**

All fees/compensation, if any paid to non-executive directors, including independent directors, shall be fixed by the Board of Directors and require previous approval of shareholders in general meeting. The shareholders’ resolution shall specify the limits for the maximum number of stock options that can be granted to non-executive directors, including independent directors, in any financial year, in aggregate.

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<sup>1</sup> [www.sebi.gov.in/circulars/2004/cfdcir0104.pdf](http://www.sebi.gov.in/circulars/2004/cfdcir0104.pdf), accessed May 15, 2010.

**Exhibit 4 (continued)****(C) Other provisions as to Board and Committees**

- (i) The board shall meet at least four times a year, with a maximum time gap of three months between any two meetings. The minimum information to be made available to the board is given in Annexure– I A.
- (ii) A director shall not be a member in more than 10 committees or act as Chairman of more than five committees across all companies in which he is a director. Furthermore it should be a mandatory annual requirement for every director to inform the company about the committee positions he occupies in other companies and notify changes as and when they take place.

**(D) Code of Conduct**

- (i) The Board shall lay down a code of conduct for all Board members and senior management of the company. The code of conduct shall be posted on the website of the company.
- (ii) All Board members and senior management personnel shall affirm compliance with the code on an annual basis. The Annual Report of the company shall contain a declaration to this effect signed by the CEO.

**II Audit Committee****(A) Qualified and Independent Audit Committee**

A qualified and independent audit committee shall be set up, giving the terms of reference subject to the following:

- (i) The audit committee shall have minimum three directors as members. Two-thirds of the members of audit committee shall be independent directors.
- (ii) All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.
- (iii) The Chairman of the Audit Committee shall be an independent director;
- (iv) The Chairman of the Audit Committee shall be present at Annual General Meeting to answer shareholder queries;
- (v) The audit committee may invite such of the executives, as it considers appropriate (and particularly the head of the finance function) to be present at the meetings of the committee, but on occasions it may also meet without the presence of any executives of the company. The finance director, head of internal audit and a representative of the statutory auditor may be present as invitees for the meetings of the audit committee;
- (vi) The Company Secretary shall act as the secretary to the committee.

**Exhibit 4 (continued)****(B) Meeting of Audit Committee**

The audit committee should meet at least four times in a year and not more than four months shall elapse between two meetings. The quorum shall be either two members or one third of the members of the audit committee whichever is greater, but there should be a minimum of two independent members present.

**(C) Powers of Audit Committee**

The audit committee shall have powers, which should include the following:

1. To investigate any activity within its terms of reference.
2. To seek information from any employee.
3. To obtain outside legal or other professional advice.
4. To secure attendance of outsiders with relevant expertise, if it considers necessary.

**(D) Role of Audit Committee**

The role of the audit committee shall include the following:

1. Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
2. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
4. Reviewing, with the management, the annual financial statements before submission to the board for approval, with particular reference to:
  - a. Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (2AA) of section 217 of the Companies Act, 1956
  - b. Changes, if any, in accounting policies and practices and reasons for the same
  - c. Major accounting entries involving estimates based on the exercise of judgment by management
  - d. Significant adjustments made in the financial statements arising out of audit findings
  - e. Compliance with listing and other legal requirements relating to financial statements
  - f. Disclosure of any related party transactions
  - g. Qualifications in the draft audit report.
5. Reviewing, with the management, the quarterly financial statements before submission to the board for approval.
6. Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems.

**Exhibit 4 (continued)**

7. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
8. Discussion with internal auditors any significant findings and follow up thereon.
9. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.
10. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
11. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.
12. To review the functioning of the Whistle Blower mechanism, in case the same is existing.
13. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

**(E) Review of information by Audit Committee**

The Audit Committee shall mandatorily review the following information:

1. Management discussion and analysis of financial condition and results of operations;
2. Statement of significant related party transactions (as defined by the audit committee), submitted by management;
3. Management letters / letters of internal control weaknesses issued by the statutory auditors;
4. Internal audit reports relating to internal control weaknesses; and
5. The appointment, removal and terms of remuneration of the Chief internal auditor shall be subject to review by the Audit Committee.

**III. Subsidiary Companies**

- i. At least one independent director on the Board of Directors of the holding company shall be a director on the Board of Directors of a material non listed Indian subsidiary company.
- ii. The Audit Committee of the listed holding company shall also review the financial statements, in particular, the investments made by the unlisted subsidiary company.
- iii. The minutes of the Board meetings of the unlisted subsidiary company shall be placed at the Board meeting of the listed holding company. The management should periodically bring to the attention of the Board of Directors of the listed holding company, a statement of all significant transactions and arrangements entered into by the unlisted subsidiary company.

**Exhibit 4 (continued)****IV. Disclosures****(A) Basis of related party transactions**

- (i) A statement in summary form of transactions with related parties in the ordinary course of business shall be placed periodically before the audit committee.
- (ii) Details of material individual transactions with related parties which are not in the normal course of business shall be placed before the audit committee.
- (iii) Details of material individual transactions with related parties or others, which are not on an arm's length basis should be placed before the audit committee, together with Management's justification for the same.

**(B) Disclosure of Accounting Treatment**

Where in the preparation of financial statements, a treatment different from that prescribed in an Accounting Standard has been followed, the fact shall be disclosed in the financial statements, together with the management's explanation as to why it believes such alternative treatment is more representative of the true and fair view of the underlying business transaction in the Corporate Governance Report.

**(C) Board Disclosures – Risk management**

The company shall lay down procedures to inform Board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework.

**(D) Proceeds from public issues, rights issues, preferential issues etc.**

When money is raised through an issue (public issues, rights issues, preferential issues etc.), it shall disclose to the Audit Committee, the uses / applications of funds by major category (capital expenditure, sales and marketing, working capital, etc), on a quarterly basis as a part of their quarterly declaration of financial results. Further, on an annual basis, the company shall prepare a statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice and place it before the audit committee. Such disclosure shall be made only till such time that the full money raised through the issue has been fully spent. This statement shall be certified by the statutory auditors of the company. The audit committee shall make appropriate recommendations to the Board to take up steps in this matter.

**(E) Remuneration of Directors**

- (i) All pecuniary relationship or transactions of the non-executive directors vis-à-vis the company shall be disclosed in the Annual Report.
- (ii) Further the following disclosures on the remuneration of directors shall be made in the section on the corporate governance of the Annual Report:

**Exhibit 4 (continued)**

- (a) All elements of remuneration package of individual directors summarized under major groups, such as salary, benefits, bonuses, stock options, pension etc.
  - (b) Details of fixed component and performance linked incentives, along with the performance criteria.
  - (c) Service contracts, notice period, severance fees.
  - (d) Stock option details, if any – and whether issued at a discount as well as the period over which accrued and over which exercisable.
- (iii) The company shall publish its criteria of making payments to non-executive directors in its annual report. Alternatively, this may be put up on the company's website and reference drawn thereto in the annual report.
- (iv) The company shall disclose the number of shares and convertible instruments held by non-executive directors in the annual report.
- (v) Non-executive directors shall be required to disclose their shareholding (both own or held by / for other persons on a beneficial basis) in the listed company in which they are proposed to be appointed as directors, prior to their appointment. These details should be disclosed in the notice to the general meeting called for appointment of such director.

**(F) Management**

- (i) As part of the directors' report or as an addition thereto, a Management Discussion and Analysis report should form part of the Annual Report to the shareholders. This Management Discussion & Analysis should include discussion on the following matters within the limits set by the company's competitive position:
- i. Industry structure and developments.
  - ii. Opportunities and Threats.
  - iii. Segment-wise or product-wise performance.
  - iv. Outlook.
  - v. Risks and concerns.
  - vi. Internal control systems and their adequacy.
  - vii. Discussion on financial performance with respect to operational performance.
  - viii. Material developments in Human Resources / Industrial Relations front, including number of people employed.
- (ii) Senior management shall make disclosures to the board relating to all material financial and commercial transactions, where they have personal interest, that may have a potential conflict with the interest of the company at large (for e.g. dealing in company shares, commercial dealings with bodies, which have shareholding of management and their relatives etc.).

**(G) Shareholders**

- (i) In case of the appointment of a new director or re-appointment of a director the shareholders must be provided with the following information:

**Exhibit 4 (continued)**

- (a) A brief resume of the director;
  - (b) Nature of his expertise in specific functional areas;
  - (c) Names of companies in which the person also holds the directorship and the membership of Committees of the Board; and
  - (d) Shareholding of non-executive directors as stated in Clause 49 (IV) (E) (v) above.
- (ii) Quarterly results and presentations made by the company to analysts shall be put on company's web-site, or shall be sent in such a form so as to enable the stock exchange on which the company is listed to put it on its own web-site.
- (iii) A board committee under the chairmanship of a non-executive director shall be formed to specifically look into the redressal of shareholder and investors complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc. This Committee shall be designated as 'Shareholders - Investors Grievance Committee'.
- (iv) To expedite the process of share transfers, the Board of the company shall delegate the power of share transfer to an officer or a committee or to the registrar and share transfer agents. The delegated authority shall attend to share transfer formalities at least once in a fortnight.

**V. CEO/CFO certification**

The CEO, i.e. the Managing Director or Manager appointed in terms of the Companies Act, 1956 and the CFO i.e. the whole-time Finance Director or any other person heading the finance function discharging that function shall certify to the Board that:

- (a) They have reviewed financial statements and the cash flow statement for the year and that to the best of their knowledge and belief:
  - (i) these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
  - (ii) these statements together present a true and fair view of the company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
- (b) There are, to the best of their knowledge and belief, no transactions entered into by the company during the year which are fraudulent, illegal or violative of the company's code of conduct.
- (c) They accept responsibility for establishing and maintaining internal controls and that they have evaluated the effectiveness of the internal control systems of the company and they have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of internal controls, if any, of which they are aware and the steps they have taken or propose to take to rectify these deficiencies.
- (d) They have indicated to the auditors and the Audit committee

**Exhibit 4 (continued)**

- (i) significant changes in internal control during the year;
- (ii) significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and
- (iii) instances of significant fraud of which they have become aware and the involvement therein, if any, of the management or an employee having a significant role in the company's internal control system.

**VI. Report on Corporate Governance**

- (i) There shall be a separate section on Corporate Governance in the Annual Reports of company, with a detailed compliance report on Corporate Governance. Non-compliance of any mandatory requirement of this clause with reasons thereof and the extent to which the non-mandatory requirements have been adopted should be specifically highlighted. The suggested list of items to be included in this report is given in Annexure- I C and list of non-mandatory requirements is given in Annexure – I D.
- (ii) The companies shall submit a quarterly compliance report to the stock exchanges within 15 days from the close of quarter as per the format given in Annexure I B. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of the company.

**VII. Compliance**

- (1) The company shall obtain a certificate from either the auditors or practicing company secretaries regarding compliance of conditions of corporate governance as stipulated in this clause and annex the certificate with the directors' report, which is sent annually to all the shareholders of the company. The same certificate shall also be sent to the Stock Exchanges along with the annual report filed by the company.
- (2) The non-mandatory requirements given in Annexure – I D may be implemented as per the discretion of the company. However, the disclosures of the compliance with mandatory requirements and adoption (and compliance) / non-adoption of the non-mandatory requirements shall be made in the section on corporate governance of the Annual Report

**VIII. Information to be placed before Board of Directors**

- 1. Annual operating plans and budgets and any updates.
- 2. Capital budgets and any updates.
- 3. Quarterly results for the company and its operating divisions or business segments.
- 4. Minutes of meetings of audit committee and other committees of the board.
- 5. The information on recruitment and remuneration of senior officers just below the board level, including appointment or removal of Chief Financial Officer and the Company Secretary.
- 6. Show cause, demand, prosecution notices and penalty notices which are materially important.
- 7. Fatal or serious accidents, dangerous occurrences, any material effluent or pollution problems.
- 8. Any material default in financial obligations to and by the company, or substantial non-payment for goods sold by the company.



**Exhibit 4 (continued)**

9. Any issue, which involves possible public or product liability claims of substantial nature, including any judgement or order which, may have passed strictures on the conduct of the company or taken an adverse view regarding another enterprise that can have negative implications on the company.
10. Details of any joint venture or collaboration agreement.
11. Transactions that involve substantial payment towards goodwill, brand equity, or intellectual property.
12. Significant labour problems and their proposed solutions. Any significant development in Human Resources/ Industrial Relations front like signing of wage agreement, implementation of Voluntary Retirement Scheme etc.
13. Sale of material nature, of investments, subsidiaries, assets, which is not in normal course of business.
14. Quarterly details of foreign exchange exposures and the steps taken by management to limit the risks of adverse exchange rate movement, if material.
15. Non-compliance of any regulatory, statutory or listing requirements and shareholders service such as non-payment of dividend, delay in share transfer etc.

## Exhibit 5

## IT SPENDING – GLOBAL FORECAST

Segment	(in US\$ billion)		
	2010	2009	2008
Computer hardware	353	333	381
Software	232	221	222
IT services	821	777	809
Telecom	1,988	1,892	1,948
All IT	3,394	3,223	3,361

Source: *Gartner*, [www.gartner.com/it/page.jsp?id=1339013](http://www.gartner.com/it/page.jsp?id=1339013) and [www.gartner.com/it/page.jsp?id=925314](http://www.gartner.com/it/page.jsp?id=925314), accessed May 12, 2010.

## Exhibit 6

## SATYAM SHAREHOLDING PATTERN

Category	March 2001		March 2005		December 2008	
	Number of shares held	% of holdings	Number of shares held	% of holdings	Number of shares held	% of holdings
Promoters	71,984,640	25.60	50,03,5603	15.67	14,67,5239	2.70
Non-promoters						
- Mutual Funds	48,484,734	17.24	24,194,791	7.58	41,908,159	7.72
- Banks, FIs	5,328,661	1.9	10,601,137	3.32	1,473,514	0.27
- Insurance firms	-	-	-	-	62,931,864	11.59
- FIIs	94,919,698	33.76	178,970,470	56.06	302,056,830	55.61
Sub-Total	148,733,093	52.89	213,766,398	66.96	408,370,367	75.18
Others						
- Corporations	8,009,020	2.85	3,193,718	1.00	22,988,850	4.23
- Indian public	44,945,984	15.98	14,281,946	4.47	87,579,607	16.12
- Non-Residents	4,553,723	1.62	3,967,720	1.24	9,561,541	1.76
- Trusts	2,963,540	1.05	3102	-	3,629	-
- ADS Holders	-	21.51	34,016,154	10.65	-	-
- Foreign nationals	-	-	650	-	6,410	-
Sub-Total	60,472,267		55,463,290	17.37	120,140,037	22.12
Grand Total	281,190,000	100.00	319,265,291	100.00	543,185,643	100.00

Source: *Bombay Stock Exchange*, [http://www.bseindia.com/corporates/corporate\\_filings/shareholding\\_patterns/satyam\\_computer\\_services/](http://www.bseindia.com/corporates/corporate_filings/shareholding_patterns/satyam_computer_services/), accessed June 13, 2010.

## Exhibit 7

## SATYAM FINANCIALS

Year ending March (in INR million)	2007	2008
Net sales	62,285	81,373
Other income	1,816	2,572
Total income	64,101	83,945
Operating expenditure	46,933	63,087
Operating profit	17,107	20,858
Interest	76	59
Depreciation	1,299	1,379
Profit before tax	15,732	19,419
Tax	1,500	2,261
Net profit	14,232	17,157
Equity capital	1,334	1,341
Reserves	56,481	72,217

Source: <http://www.moneycontrol.com/annual-report/mahindrasatyam/directors-report/scs>, accessed June 13, 2010.

## Exhibit 8

## TIMELINE

