SIFY TECHNOLOGIES LTD
Form 20-F
September 28, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (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.**

For the fiscal year ended March 31, 2009.

Or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the transition period from __________ to __________

o **SHELL COMPANY PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

Date of event requiring this shell company report __________

Commission file number 000-27663

Sify Technologies Limited

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation at Registrant s name into English)

Chennai, Tamil Nadu, India

(Jurisdiction of incorporation or organization)

Tidel Park, 2nd Floor
No. 4, Rajiv Gandhi Salai
Taramani, Chennai 600 113 India
(91) 44-2254-0770, Fax (91) 44 -2254 0771

(Address of principal executive offices)

M.P.Vijay Kumar, Chief Financial Officer,+ 91- 44 -2254 -0770; vijaykumar.mp@sifycorp.com
Tidel Park, 2nd Floor, No. 4, Rajiv Gandhi Salai, Taramani, Chennai 600113 India

(Name,Telephone,Email and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act

Title of Each class	Name of Each Exchange on Which Registered
American Depository Shares, each represented by one Equity Share, par value Rs.10 per share	Nasdaq Global Select Market

Securities registered or to be registered pursuant to Section 12(g) of the Act

Title of Each class	Name of Each Exchange on Which Registered

None	Not Applicable

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act

Not Applicable

(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.

42,820,082 Equity Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o **No** þ

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o **No** þ

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o **No** þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	**Accelerated filer** þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

US GAAP o	**IFRS as issued by the IASB** þ	Other o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).:

Yes o No þ

Table of Contents

Currency of Presentation and Certain Defined Terms

Unless the context otherwise requires, references in this annual report to we, us, the company, Sify or Satyam Info are to Sify Technologies Limited, a limited liability company organized under the laws of the Republic of India. 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. In January 2003, we changed the name of our company from Satyam Infoway Limited to Sify Limited. In October 2007, we gain changed our name from Sify Limited to Sify Technologies Limited. *Sify* , *SifyMax.in*, , *Sify e-ports* and *Sify online* are trademarks used by us for which we have already obtaine registration certificates in India. All other trademarks or trade names used in this Annual Report on Form 20F are the property of their respective owners. In this Annual Report on Form 20F, 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 are to our fiscal year ended March 31 of such year.

For your convenience, this Annual Report on Form 20-F 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 on Form 20F, all translations from Indian rupees to U.S. dollars contained in this Annual Report have been based on the reference rate in the City of Mumbai on March 31,2009 for cable transfers in Indian rupees as published by the Reserve Bank of India (RBI) which was Rs.50.95 per $1.00.

Our financial statements are presented in Indian rupees and prepared in accordance with International Financial Reporting Standards as issued by the International Accounts Standards Board, or IFRS. In this Annual Report, any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

Information contained in our websites, including our corporate website, *www.sifycorp.com*, is not part of this Annual Report on Form 20-F.

Forward-Looking Statements May Prove Inaccurate

This Annual Report on Form 20-F contains forward-looking statements , as defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on our current expectations, assumptions, estimates and projections about our Company, our industry, economic conditions in the markets in which we operate, and certain other matters. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as anticipate , believe , estimate , expect , intend , will seek , should and similar expressions. Those statements include, among other things, the discussions of our business strategy and expectations concerning our market position, future operations, margins, profitability, liquidity and capital resources. These statements are subject to known and unknown risks, uncertainties and other factors, which may cause actual results or outcomes to differ materially from those implied by the forward-looking statements. Important factors that may cause actual results or outcomes to differ from those implied by the forward-looking statements include, but are not limited to, those discussed in the Risk Factors section in this Annual Report on Form 20-F. In light of these and other uncertainties, you should not conclude that the results or outcomes referred to in any of the forward-looking statements will be achieved. All forward-looking statements included in this Annual Report on Form 20-F are based on information available to us on the date hereof, and we do not undertake to update these forward-looking statements to reflect future events or circumstances.

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

Summary of Consolidated Financial Data

You should read the summary consolidated financial data below in conjunction with the Company s consolidated financial statements and the related notes, as well as the section entitled Operating and Financial Review and Prospects, all of which are included elsewhere in this Annual Report on Form 20-F. The summary consolidated statements of income data for the three years ended March 31, 2009, 2008 and 2007 and the summary consolidated balance sheet data as of March 31, 2009 and 2008, have been prepared and presented in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB) have been derived from our audited consolidated financial statements and related notes to the consolidated financial statements.

Particulars (Rupees in thousands, except share and per share data)	**Year ended March 31, 2009 Rs**	**2008 Rs**	**2007 Rs**	**Year ended March 31, 2009 Convenience translation into US$ in thousands, except share and per share data (see note 1 below)**
Consolidated income statement				
Revenues	**6,162,161**	**6,006,215**	**5,447,347**	**120,945**
Cost of goods sold and services rendered	(3,613,349)	(3,419,122)	(2,939,329)	(70,920)
Selling, general and administrative expenses	(2,813,425)	(2,434,715)	(2,094,971)	(55,219)
Depreciation and amortization	(498,872)	(394,337)	(463,780)	(9,791)
Impairment loss on goodwill	(15,200)			(298)
Other income, net (4)	89,105	46,152	66,320	1,749
Total operating expenses	**6,851,741**	**6,202,022**	**5,431,760**	**134,479**
Operating (loss) / profit	(689,580)	(195,807)	15,587	(13,534)
Net finance income/(expense)	(129,095)	104,101	128,642	(2,533)
Share of profit of equity accounted investee (net of income tax)	64,091	181,127	61,030	1,258
Profit / (Loss) before income taxes and minority interest	(754,584)	89,421	205,259	(14,809)
Income tax benefit / (expense)	(97,049)	(63,975)	66,113	(1,905)
Profit / (Loss) before minority interest	(851,633)	25,446	271,372	(16,714)
Minority interest	48,941	30,142	30,531	961

Net (loss) / Profit for equity holders of the Company	**(900,574)**	**(4,696)**	**240,841**	**(17,675)**
Net (loss)/Profit per share (2)				
Basic	(20.77)	(0.11)	5.64	(0.41)
Diluted	(20.77)	(0.11)	5.63	(0.41)
Weighted-average number of equity shares used in computing earnings per equity share				
Basic	43,350,320	42,877,726	42,704,619	
Diluted	43,350,320	42,877,726	42,792,514	

6

Particulars (Rupees in thousands, except share and per share data)	2009 Rs	March 31, 2008 Rs	2007 Rs	Convenience translation into US$ in thousands, except share and per share data (see note 2 below) 2009
Balance Sheet data:				
Cash and cash equivalents including restricted cash	1,710,798	1,507,327	3,071,157	33,578
Net current assets	(175,993)	1,294,200	2,435,290	(3,454)
Total assets	9,145,555	7,710,760	7,321,891	179,502
Total equity attributable to equity shareholders of the Company	3,851,693	4,694,984	4,538,906	75,598
Cash Flow Data				
Net cash provided by (used in):				
Operating activities	(371,556)	(839,869)	116,262	(7,292)
Investing activities	(1,174,156)	(756,300)	(708,316)	(23,045)
Financing activities	968,797	(585,200)	847,939	19,015
Other Financial Data Reconciliation of Adjusted EBITDA to net profit / (loss)				
Adjusted EBITDA from operations (3)	(111,420)	379,657	540,397	(2,187)
Add: Interest income	122,565	161,783	154,192	2,406
Less: Depreciation and amortization	498,872	394,337	463,780	9,791
Less: Impairment loss on goodwill	15,200			298
Less: Interest expense	251,660	57,682	25,550	4,939
Less: Income tax expense / (benefit)	97,049	63,975	(66,113)	1,905
Net Profit / (loss)	(851,633)	25,446	271,372	(16,714)

Notes

1. The convenience translation to

U.S. Dollars was performed at the reference rate in the City of Mumbai for cable transfers as published by Reserve Bank of India on March 31, 2009 of Rs.50.95 per $1.00, 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 this rate or at all.

2. Reference to shares and per share amounts refer to our equity shares. Our outstanding equity shares include equity shares held by a depository underlying our ADSs. [Effective September 24, 2002, one ADS represented one equity share].

3. Adjusted EBITDA from operations represents earnings

(loss) from operations before interest, taxes, depreciation, amortization and impairment including the share of profit of equity accounted investee (net of income tax).

4. Refer to note 25 of the financial statements for the components of other income.

Exchange Rates

Our functional currency is the Indian rupee. The exchange rate between the rupee and the U.S. dollar has changed substantially in recent years and may fluctuate substantially in the future. Our exchange rate risk primarily arises from our foreign currency revenues, receivables and payables

The following table sets forth the high and low exchange rates for the previous six months and is based on the reference rate in the City of Mumbai on business days during the period for cable transfers in Indian rupees as published by the Reserve Bank of India (RBI).

Month	High Rs.	Low Rs.
August 2009	48.98	47.54
July 2009	49.09	47.89
June 2009	48.60	46.96
May 2009	49.83	48.17
April 2009	50.53	49.49
March 2009	52.06	50.14

The following table sets forth, for the fiscal years indicated, information concerning the number of Indian rupees for which one U.S. dollar could be exchanged based on the reference rate in the City of Mumbai on business days during the period for cable transfers in Indian rupees as published by the Reserve Bank of India (RBI). The column titled Average in the table below is the average of the last business day of each month during the year.

Fiscal Year Ended March 31	Period end Rs.	Average Rs.	High Rs.	Low Rs.
2009	50.95	45.91	52.06	39.89
2008	40.02	40.13	43.05	38.48
2007	43.10	45.12	46.83	42.78

On March 31, 2009, the reference rate in the City of Mumbai for cable transfers in Indian rupees as published by RBI was Rs. 50.95.

Capitalization and indebtedness

Not applicable.

Reasons for the offer and use of proceeds

Not applicable.

Risk Factors

This Annual Report contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth in the following risk factors and elsewhere in this Annual Report on Form 20F.

Risks Related to our Company and Industry

We may incur losses in the future and we may not achieve or maintain profitability.

We have incurred net loss of Rs.851.63 million ($ 16.71 million) for the year ended March 31, 2009 with an accumulated deficit of Rs.13,104.39 million ($ 257.20million) as at March 31, 2009. We may in the future incur additional net losses and suffer negative operating cash flows. We expect to increase our expenditures as we continue to expand our services, promote our brand, and invest in the expansion of our infrastructure. We have incurred and in the future may incur expenses in connection with investments in data centers and infrastructure. Accordingly, we will need to generate significant additional revenues in order to become profitable. We may not be able to do so. Our business model is not yet proven in consumer space, and we cannot assure you that we will improve our profitability or that we will not incur operating losses in the future. If we are unable to improve profitability, we will be unable to build a sustainable business. In this event, the price of our ADSs and the value of your investment would likely decline.

We may lose the incentive for exports availed under Serve from India Scheme on account of changes in Government policy.

The Government of India has introduced the Served from India Scheme (the Scheme) in order to accelerate growth in export of services so as to create a powerful and unique Served from India brand, instantly recognized and respected world over.

Under the Scheme, all service providers (the exporter of various services) are entitled to a customs duty credit called Duty credit scrip at 10% of the foreign exchange earned during the financial year. A service provider will be eligible for such duty credit scrip only on satisfaction of two conditions: (a) the service provider should export services; and (b) the service provider should earn foreign exchange. This duty credit may be used for settling the customs duty payable to the Government of India on the import of any capital goods including spares, office equipment and professional equipment, office furniture and consumables, provided it is part of their main line of business.

The new Foreign Trade (2009-2014) policy announced by The Commerce Ministry on August 27, 2009 has explicitly excluded Telecom Sector from the purview of Served From India Scheme (SFIS). As a result of new policy document, we will not be eligible for 10% as export incentive on Foreign Exchange earnings from all existing business streams other than E-learning and Infrastructure management services prospectively.

The loss of credits from the above scheme may impact the financial condition and operating results of the Company in the future.

The economic environment, pricing pressure and decreased utilization rates could negatively impact our revenues and operating results.

Spending on technology products and services in most parts of the world has been rising for the past few years. However, there was a decline in the growth rate of global IT purchases in the latter half of 2008 due to the global economic slowdown. This downward trend is expected to continue into 2009 with global IT purchases expected to decline due to the challenging global economic environment

With regard to the domestic Indian economy, a slow down affects enterprise customers leading to lower investments in IT infrastructure with a resultant slow down in the adoption of IT services such as ours. Lead times for orders or contracts also becomes much longer, as do credit periods. On the consumer side, sale of home PCs has dropped significantly in the last quarter of the fiscal 2009 and is likely to be depressed in 2009-10. This will have a bearing on the growth in demand for broadband services. Online advertising on our portal has also seen a decline with the slow down.

Overseas economic performance also has a bearing on our Infrastructure and e-Learning businesses. The NLD/ILD business and eLearning may likely be affected in terms of prices and growth. Currency fluctuations will also lead to variations in revenue.

9

Reductions in IT spending and extended credit terms arising from or related to the economic slowdown, and any resulting pricing pressures, reduction in billing rates, increased credit risk may adversely impact our revenues, gross profits, operating margins and results of operations.

Currency fluctuations may affect the results or our operations or the value of our ADSs

The exchange rate between the rupee and the U.S. dollar has changed significantly in recent years and may fluctuate substantially in the future.

We use derivative financial instruments such as foreign exchange forward and option contracts to mitigate the risk of changes in foreign exchange rates on accounts receivable and payable and forecast cash flows denominated in US dollar. As of March 31, 2009, we had outstanding option contracts of $ 4.75 million. We may not purchase derivative instruments adequate to insulate ourselves from foreign currency exchange risks, and over the past year, we have incurred significant losses as a result of exchange rate fluctuations that have not been offset in full by our hedging strategy.

For the year ended March 31, 2009, we recognized a gain of Rs.2.99 million ($ 0.05 million) on our forward and option contracts and Rs.25.96 million ($.0.51 million) on foreign exchange translations. If foreign exchange currency markets continue to be volatile, such fluctuations in foreign currency exchange rates could materially and adversely affect our results of operations in future periods. Also, the volatility in the foreign currency markets may make it difficult to hedge our foreign currency exposures effectively and make them expensive

Further, the policies of the Reserve Bank of India may change from time to time which may limit our ability to hedge our foreign currency exposures adequately. In addition, a high-level committee appointed by the Reserve Bank of India had recommended that India move to increased capital account convertibility over the next few years, and proposed a framework for such increased convertibility. Full or increased capital account convertibility, if introduced, could result in increased volatility in the fluctuations of exchange rates between the rupee and US dollar. Our US customers may leave us exposed to fluctuation in revenues based on currency fluctuations.

We may encounter legal confrontations as the Information Technology Act 2000 lacks specificity as to issues on online processes and/or Internet

The Information Technology Act of 2000, an Indian regulation, still does not cover all areas of online processes or the Internet comprehensively leaving many grey areas that could expose to legal complications. The regulations regarding the operation of cyber cafes are not well defined, and vary from state to state, often dependent upon the discretion of local law enforcement authorities who may not have adequate knowledge on the service. Despite our constant efforts in educating the franchisees not to have unlicensed software, some franchisees may use unlicensed software . Such events may affect the company s reputation negatively.

Intense competition in our businesses could prevent us from improving our profitability and we may be required to further modify the rates we charge for our services in response to new pricing models introduced by new and existing competition which would significantly affect our revenues

Our corporate network/data services compete with well-established companies, including Bharti Airtel, Tata Communications Limited or TCL, Reliance Infocomm, HCL Infinet, Tata Teleservices, Tulip Telecom Limited and the government-owned telecom companies, Bharat Sanchar Nigam Limited or BSNL, Mahanagar Telephone Nigam Limited or MTNL.

A significant number of competitors have entered India s Internet service provider industry. The large players, especially the state run telecommunication companies, may enjoy significant competitive advantages over our company, including greater financial resources, which could allow them to charge prices that are lower than ours in order to attract subscribers. These factors have resulted in periods of significant reduction in actual average selling prices for consumer Internet Service Provider, or ISP, services. We expect the market for Internet access and other connectivity services to remain extremely price competitive. Increased competition may result in operating losses, loss of market share and diminished value in our services, as well as different pricing, service or marketing decisions. Additionally, we believe that our ability to compete also depends in part on factors outside our control, such as the availability of skilled employees in India, the price at which our competitors offer comparable services, and the extent of our competitors responsiveness to their clients needs. We cannot assure you that we will be able to successfully compete against current and future competitors.

Margin squeeze may affect the results or our operations

Our margins have been shrinking in the recent past due to competition. Competition will continue to increase with the entry of new competitors into the Enterprise service category such as British Telecom (BT) and AT&T. However, these competitors generally will prefer to operate with a few global customers wishing to do business in India. They may attract customers for managed hosting services with their capability of superior network and competitive pricing. We expect the market for such services to remain extremely price competitive. Increased competition may result in the reduction of profit margin which would impact our results of operations

Procuring power at lower costs for data centers by the competitors may put us at a disadvantage in terms of pricing for our data center operations

The single largest operating cost in data centers is electrical power, and if a competitor were to have a source of power at a significantly lower cost, it could be a disadvantage to us. This raises the question of data centre location. While all data centres are now located in proximity to, or at the edge of major urban centers such as Mumbai, inexpensive land and labor allow companies to locate new data centres in remote locations. We may neither be in a position to develop high cost data centers at remote locations where power is cheap nor procure power at cheaper rates for our data centres. If the competitors procure power at lower cost, they can have an advantage over pricing. Our inability to offer competitive pricing may result in loss of customers and will impact our result of operations.

We have added a number of new lines of business in the past years, including the operation and licensing of public Internet cafés, as well as the provision of broadband services, security services, e-learning software development services, managed network services and infrastructure management services. It is therefore difficult to evaluate our company based on our historical results of operations

The industry we operate in is still evolving and therefore comparable benchmarks are not readily available. In India, the total number of broadband subscribers was 6.22 million as at March 31, 2009 as compared to 3.90 million as at March 31,2008 registering a growth of 59.48%.The total number of internet wireline subscribers as at December 31, 2008, was 12.85 million as compared to 11.09 million as at March 31,2008 registering a growth of 15.87 %.The base of wireless internet subscriber base was 101.10 million as at December 31, 2008 as compared to 65.50 million as at March 31,2008 registering a growth of 54.35% according to figures compiled from Telecom Regulatory Authority of India s, or TRAI s, Report on the Indian Telecom Services Performance Indicators October December 2008. The risks we face in developing Internet service market include our inability to:

- continue to develop and upgrade our technology;
- maintain and develop strategic relationships with business partners;
- offer compelling online services and content; and

We cannot assure you that we will successfully address the risks or difficulties described above. Failure to do so could lead to an inability to attract and retain corporate customers for our network/data services and subscribers for our Internet access services as well as the loss of advertising revenues.

Despite the company s best efforts to optimize costs, our future operating results could fluctuate in part because our expenses are relatively fixed in the short term while future revenues are uncertain, and any adverse fluctuations could negatively impact the price of our ADSs

Our revenues, expenses and operating results have varied in the past and may fluctuate significantly in the future due to a number of factors, many of which are outside our control. A significant portion of our investment and cost base is relatively fixed in the short term. Our revenues for the foreseeable future will depend on many factors, including the following:

- the range of corporate network/data services provided by us and the usage thereof by our customers;
- the number of subscribers to our ISP services and the prevailing prices charged.
- advertising revenue generated by our online portal services.
- the timing and nature of any agreements we enter into with strategic partners of our corporate network/data services division;
- services, products or pricing policies introduced by our competitors;
- capital expenditure and other costs relating to our operations;
- the timing and nature of our marketing efforts;
- our ability to successfully integrate operations and technologies from any acquisitions, joint ventures or other business combinations or investments;
- the introduction of alternative technologies; and
- technical difficulties or system failures affecting the telecommunication infrastructure in India, the Internet generally or the operation of our websites.

We plan to continue to expand and invest in network infrastructure. Many of our expenses are relatively fixed in the short-term. We cannot assure you that our revenues will increase in proportion to the increase in our expenses. We may be unable to adjust spending quickly enough to offset any unexpected revenues shortfall. This could lead to a shortfall in revenues in relation to our expenses and adversely affect our revenue and operating results.

You should not rely on yearly comparisons of our results of operations as indicators of future performance. It is possible that in some future periods our operating results may be below the expectations of public market analysts and investors. In this event, the price of our ADSs may decline.

We lack full redundancy for our computer systems and a system failure could prevent us from operating our business for a significant time, which could have an adverse effect on our business and results of operations

We rely on the Internet and accordingly, depend upon the continuous, reliable and secure operation of Internet servers, related hardware and software and network infrastructure such as lines leased from telecom operators. We have a back-up data facility, but we do not have full redundancy for all of our computer and telecommunications facilities. As a result, failure of key primary or back-up systems to operate properly could lead to a loss of customers, damage to our reputation and violations of our Internet service provider license and contracts with corporate customers. A loss of customers or damage to our reputation would result in a decrease in the number of our subscribers, which would cause a material decrease in revenues. A violation of our Internet service provider license could result in the suspension or termination of that license, which would prevent us from carrying on a significant portion of our operations and materially adversely affect our operating results. Violations of our contracts with corporate customers could result in the termination of these contracts, which would cause a decrease in the revenues generated by our corporate data/network services division. Any of these failures could also lead to a decrease in value of our ADSs, significant negative publicity and litigation.

We have at times suffered service outages. We guarantee to a number of our corporate customers that our network will meet or exceed contractual reliability standards, and our Internet service provider license requires that we provide an acceptable level of service quality and that we remedy customer complaints within a specified time period. Our computer and communications hardware are protected through physical and software safeguards. However, they are still vulnerable to fire, storm, flood, power loss, telecommunications failures, physical or software break-ins and similar events. We do not carry business interruption insurance to protect us in the event of a catastrophe even though such an event could lead to a significant negative impact on our business.

Security breaches could damage our reputation or result in liability to us

Our facilities and infrastructure must remain secure, and be perceived by our corporate and consumer customers to be secure, because we retain confidential customer information in our database. Despite the implementation of security measures, our infrastructure may be vulnerable to physical break-ins, computer hacking, computer viruses, programming errors or similar disruptive problems beyond our control. If a person circumvents our security measures, he or she could jeopardize the security of confidential information stored on our systems, misappropriate proprietary information or cause interruptions to our operations. We may be required to make significant additional investments and efforts to protect against or remedy security breaches. A material security breach could damage our reputation or result in liability to us, and we do carry insurance that protects us from this kind of loss.

The security services that we offer in connection with our business customers networks cannot assure complete protection from computer viruses, break-ins and other disruptive problems. Although we attempt to contractually limit our liability in such instances, the occurrence of these problems could result in claims against us or liability on our part. These claims, regardless of their ultimate outcome, could result in costly litigation and could damage our reputation and hinder our ability to attract and retain customers for our service offerings.

We face a competitive labor market for skilled personnel and therefore are highly dependent on our existing key personnel and on our ability to hire additional skilled employees

Our success depends upon the continued service of our key personnel including our senior management team. Each of our employees may voluntarily terminate his or her employment with us. We do not carry key person life insurance on any of our personnel. Our success also depends on our ability to attract and retain additional highly qualified technical, marketing and sales personnel. The labor market for skilled employees in India is extremely competitive, and the process of hiring employees with the necessary skills is time consuming and requires the diversion of significant resources. We may not be able to continue to retain or integrate existing personnel or identify and hire additional personnel in the future. The loss of the services of key personnel or the inability to attract additional qualified personnel, could disrupt the implementation of our business strategy, upon which the success of our business depends.

The failure to keep our technical knowledge confidential could erode our competitive advantage

Our technical know-how is not protected by intellectual property rights such as patents, and is principally protected by maintaining its confidentiality. As a result, we cannot be certain that our know-how will remain confidential in the long run. Employment contracts with certain of our employees who have special technical knowledge about our products or our business contain a general obligation to keep all such knowledge confidential and such obligation extends for a period of two years after the termination of employment. In addition to the confidentiality provisions, these employment agreements typically contain non-competition clauses. If either the confidentiality provisions or the non-competition clauses are unenforceable, we may not be able to maintain the confidentiality of our know-how. In the event that confidential technical information or know-how about our products or business becomes available to third parties or to the public, our competitive advantage over other companies in the wireless based IP/VPN industry could be harmed which could have a material adverse effect on our current business, future prospects, financial condition and results of operations.

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

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

In particular, compliance with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal control over financial reporting requires the commitment of significant financial and managerial resources and external auditor s independent assessment of the internal control over financial reporting.

It is also possible that laws in India may be made more stringent with respect to standards of accounting, auditing, public disclosure and corporate governance. We are committed to maintaining high standards of corporate governance and public disclosure, and our efforts to comply with evolving laws, regulations and standards in this regard have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

In addition, it may become more expensive and/or more difficult for us to obtain director and officer liability insurance. Further, our board members, Chief Executive Officer, and Chief Financial Officer could face an increased risk of personal liability in connection with their performance of duties and our SEC reporting obligations. As a result, we may face difficulties attracting and retaining qualified board members and executive officers, which could harm our business. If we fail to comply with new or changed laws or regulations, our business and reputation may be harmed

We may inadvertently fail to comply with local laws of other countries in connection with the negotiation and execution of operational agreements

As part of our international business, we may negotiate with and enter into contracts with strategic partners, clients, suppliers, employees and other third parties in various countries. We may inadvertently fail to comply with their laws may result in lawsuits or penalties, which could adversely affect our business or results of operations.

If there is an adverse outcome resulting in cash payout in excess of the insurance coverage in the class action litigation that has been filed against us, it will impact our financial condition

A class action suit was filed in the United States District Court for the Southern District of New York by a purported class of purchasers of Sify s ADS against the Company, certain of its officers and directors and several of the underwriters involved in the Company s initial public offering of American Depository Receipts. The complaint alleges that the underwriters in the Company s IPO solicited and received undisclosed commissions from, and entered into undisclosed arrangements with, certain investors who purchased Sify s ADSs in the IPO and the aftermarket. The complaint also alleges that Sify violated the United States Federal Securities laws by failing to disclose in the IPO prospectus that the underwriters had engaged in these allegedly undisclosed arrangements. This case is defended by SIFY and more than 300 issuers who went public between 1998 and 2000. The plaintiffs announced a proposed settlement between all parties, including the Group and its former officers and directors. Any direct financial impact of the proposed settlement is expected to be borne by the Company s insurers. On June 12, 2009, the Federal District Court granted preliminary approval of the proposed settlement. On September 10, 2009, the Federal District Court held the fairness hearing for final approval of the settlement. At the hearing it was noted that out of the seven million people who were sent notices of the settlement, only 140 people objected. The objectors had five main arguments: (1) the class definition is overbroad and does not exclude individuals who participated in the scheme; (2) the requested attorney s fees are excessive; (3) the awards requested by the lead plaintiffs are excessive; (4) the settlement amount is insufficient and thus the recovery to class members is too small; and (5) the notice is insufficient, in part because it does not disclose the amounts requested by individual lead plaintiffs. The Court did not rule on the motion for final approval at the hearing and did not indicate when it planned to do so. The preliminarily approved settlement is subject to final approval by the Federal District Court overseeing the IPO Litigation and, if final approval is granted, it may potentially be subject to appellate review by United States Court of Appeals for the Second Circuit. Any direct financial impact of the preliminary approved settlement is expected to be borne by the Company s insurers. We believe that we have sufficient insurance coverage to cover the maximum amount that we may be responsible for under the preliminary approved settlement and believe that our maximum exposure under this settlement is approximately U.S.$ 338,983, an amount which we believe is fully recoverable from the Group s insurer. If the settlement in an outcome necessitating a larger award and our insurance does not cover such payment, it may affect our results of operations.

Please see the section entitled Legal Proceedings in this annual report for more information on the litigation.

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

We have a significant, non-controlling minority interest in MF Global Sify Securities India Private Limited (formerly known as Man Financial Sify Securities India Private Limited) that is accounted for under IFRS using the equity method of accounting.

Under this method, we generally are obligated to report as share of profit of equity accounted investee a pro rata portion of the net income after tax of any such company in our statement of operations even though we do not control the other company, subject to limitations in the case of losses that exceed our cost of investment. Thus, our reported results of operations can be significantly increased or decreased depending on the results of MF Global Sify Securities India Private Limited or other companies in which we may make similar investments even though we may have only a limited ability to influence these activities.

Our inter-city network is leased from other service providers and is dependent on their quality and availability

We have provided inter-city connectivity for our wireless-based IP/VPN business through lease arrangements rather than through capital investment in assets for connectivity business. Our ability to offer high quality telecommunications services depends, to a large extent, on the quality of the networks maintained by other operators, and their continued availability, neither of which is under our control. However, the abundance of supply of inter-city connectivity provides us with the ability of switching to companies offering better services. Although we always use more than one service provider where required, there can be no assurance that this dependence on external parties would not affect our network availability.

The legal system in India does not protect intellectual property rights to the same extent as the legal system of the United States, and we may be unsuccessful in protecting our intellectual property rights

Our intellectual property rights are important to our business. We rely on a combination of copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect our intellectual property.

Our efforts to protect our intellectual property may not be adequate. We hold no patents, and our competitors may independently develop similar technology or duplicate our services. Unautho