

SIFY LTD  
Form 20-F  
October 15, 2007

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

**FORM 20-F**

(Mark One)

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

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

**For the fiscal year ended March 31, 2007.**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

- 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 Limited**

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation at Registrant's name into English)

Republic of India

(Jurisdiction of incorporation or organization)

Tidel Park, 2nd Floor

No. 4, Canal Bank Road

Taramani, Chennai 600 113 India

(91) 44-2254-0770

(Address of principal executive offices)

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

Securities registered or to be registered pursuant to Section 12(g) of the Act: American Depositary Shares, each representing one Equity Share, par value Rs.10 per share

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

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.

42,800,265 Equity Shares were issued and outstanding as of March 31, 2007.

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

Yes  No

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  No

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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  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Item 17  Item 18

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  No

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### **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 Infoway are to Sify 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. Until December 2002, we were a majority-owned subsidiary of Satyam Computer Services Limited, a leading Indian information technology services company which is traded on the New York Stock Exchange and the major Indian stock exchanges. In January 2003, we changed the name of our company from Satyam Infoway Limited to Sify Limited. *Sify.com* and *SifyOnline* are trademarks used by us for which we have obtained registration in India. In this annual report, references to \$, Dollars or U.S. dollars are to the legal currency of the United States, references to Rs., rupees or Indian rupees are to the legal currency of India and references to GBP are to the legal currency of the United Kingdom. References to a particular fiscal year are to our fiscal year ended March 31 of that year.

For your convenience, this annual report contains translations of some Indian rupee amounts into U.S. dollars which should not be construed as a representation that those Indian rupee or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Indian rupees, as the case may be, at any particular rate, the rate stated below, or at all. Except as otherwise stated in this annual report, all translations from Indian rupees to U.S. dollars contained in this annual report have been based on the noon buying rate in the City of New York on March 31, 2007, for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York. The noon buying rate on March 31, 2007 was Rs.43.10 per \$1.00.

Our financial statements are prepared in Indian rupees and presented in accordance with United States generally accepted accounting principles, or U.S. GAAP. 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.

**Forward-Looking Statements May Prove Inaccurate**

IN ADDITION TO HISTORICAL INFORMATION, THIS ANNUAL REPORT CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE SUBJECT TO RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE REFLECTED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN THE SECTION ENTITLED ITEM 3. KEY INFORMATION RISK FACTORS, ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS AND ELSEWHERE IN THIS ANNUAL REPORT. YOU ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH REFLECT MANAGEMENT'S ANALYSIS ONLY AS OF THE DATE OF THIS ANNUAL REPORT. THESE FORWARD-LOOKING STATEMENTS SPEAK ONLY AS OF THE DATE OF THIS ANNUAL REPORT ON FORM 20-F AND WE ASSUME NO DUTY TO UPDATE OUR FORWARD-LOOKING STATEMENTS. IN ADDITION, YOU SHOULD CAREFULLY REVIEW THE OTHER INFORMATION IN THIS ANNUAL REPORT AND IN OUR QUARTERLY REPORTS AND OTHER DOCUMENTS FILED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, OR SEC, FROM TIME TO TIME. OUR FILINGS WITH THE SEC ARE AVAILABLE ON ITS WEBSITE, [WWW.SEC.GOV](http://WWW.SEC.GOV).

## PART I

### **Item 1. Identity of Directors, Senior Management and Advisers.**

Not applicable.

### **Item 2. Offer Statistics and Expected Timetable**

Not applicable.

### **Item 3. Key Information**

#### **Selected Financial Data**

You should read the selected consolidated financial data below in conjunction with the consolidated financial statements, the related notes and Item 5. Operating and Financial Review and Prospects, all of which are included elsewhere in this Annual Report. The selected consolidated statements of operations data for the five years ended March 31, 2007 and the selected consolidated balance sheet data as of March 31, 2003, 2004, 2005, 2006 and 2007 have been derived from our audited consolidated financial statements and related notes, which have been prepared and presented in accordance with U.S. GAAP.

The selected consolidated historical financial data includes a presentation of Adjusted EBITDA from continuing operations. Adjusted EBITDA from continuing operations represents earnings/(loss) from continuing operations before interest, taxes, stock compensation expense and depreciation and amortization. Adjusted EBITDA is neither an Indian GAAP measure nor a U.S. GAAP measure and should not be considered in isolation or as an alternative to net income as an indicator of operating performance or as an alternative to cash flow as a measure of liquidity. Our presentation below also includes a reconciliation of Adjusted EBITDA to net loss, which we believe to be the most comparable financial measure under U.S. GAAP. Adjusted EBITDA is presented because it is a basis upon which our management assesses our financial performance and because we believe some investors find it to be a useful tool for measuring a company's ability to fund operating obligations and capital expenditure. Investors evaluating our financial performance or analyzing our discounted cash flows based on Adjusted EBITDA should consider financing activities and non-recurring charges that are not included in the calculation of Adjusted EBITDA. Our calculation includes significant charges recorded to reflect the impairment of goodwill. Investors should also review carefully Item 5. Operating and Financial Review and Prospects included elsewhere in this annual report for further information regarding the underlying financial performance of our company. While Adjusted EBITDA is frequently reported by many companies as a supplemental measure of operations, it is not necessarily comparable to other similarly titled captions of other companies due to potential inconsistencies in the method of calculation.

	2003	2004	2005	2006	2007	2007 U.S. Dollars
		Indian Rupees(1)				
		(In thousands, except share and per share data)				
<b>Statement of Operations Data:</b>						
Revenues	1,959,855	2,751,623	3,554,237	4,606,409	5,447,347	126,389
Revenue from related parties	34,345	49,561	59,220	75,398		
Total Revenue	1,994,200	2,801,184	3,613,457	4,681,807	5,447,347	126,389
Cost of revenues (excluding depreciation and amortization)	1,264,101	1,476,714	2,023,942	2,534,723	2,908,256	67,477
Selling, general and administrative expenses	1,090,935	1,208,884	1,418,757	1,852,296	1,921,771	44,589
Provision for doubtful debts, receivables and advances	156,233	76,487	57,579	90,670	153,638	3,564
Impairment of assets	246,999	22,251				
Depreciation	474,261	432,684	472,400	395,018	410,321	9,520
Amortization of intangible assets	69,907	99,350	84,387	68,759	50,486	1,171
Employee stock compensation expense	57,729	27,946	10,639	12,749	60,933	1,414
Foreign exchange (gain)/loss	18	52,148	(2,595)	(23,221)	(8,332)	(193)
Total operating expenses	3,360,183	3,396,764	4,065,109	4,930,994	5,497,073	127,542
Operating (loss) / Profit	(1,365,983)	(595,580)	(451,652)	(249,187)	(49,726)	(1,153)
Other income, net (5)	52,948	144,147	77,614	59,239	128,642	2,985
	(26,061)	80,142	50,752	40,703	70,221	1,629



Equity in net profit of affiliate						
Gain on sale of investments / subsidiary			15,710-		226	5
Profit / (Loss) before income taxes and minority interest	(1,339,096)	(371,291)	(307,576)	(149,245)	149,363	3,466
Income taxes	(2,856)	(72)			68,928	1,599
Profit / (Loss) before minority interest	(1,341,952)	(371,363)	(307,576)	(149,245)	218,291	5,065
Minority interest	12,564	79			(30,531)	(708)
Net (loss) / Profit	(1,329,388)	(371,284)	(307,576)	(149,245)	187,760	4,357
Net (loss)/Profit per share (3)						
- Basic	(51.15)	(10.76)	(8.75)	(4.05)	4.40	0.10
- Diluted	(51.15)	(10.76)	(8.75)	(4.05)	4.39	0.10
Weighted-average number of equity shares used in computing earnings per equity share						
- Basic	25,988,095	34,519,545	35,156,120	36,811,476	42,704,619	42,704,619
- Diluted	25,988,095	34,519,545	35,156,120	36,811,476	42,792,514	42,792,514

	2003	2004	2005	2006	2007	2007 U.S. Dollars
	<b>Indian Rupees(1)</b>					
	<b>(In thousands, except share and per share data)</b>					
<b>Balance Sheet Data:</b>						
Cash and cash equivalents	897,596	1,325,803	1,323,912	2,822,501	3,070,157	71,233
Total assets	3,700,387	3,799,073	4,020,782	5,951,771	7,162,952	166,194
Capital Lease obligations, excluding current installments	3,767	5,151	3,814	2,546	3,671	85
Total shareholders equity	2,888,696	2,715,668	2,498,589	4,054,509	4,381,090	101,649
<b>Cash Flow Data</b>						
<b>Net cash provided by (used in):</b>						
Operating activities	(238,273)	273,985	480,117	220,382	178,519	4,142
Investing activities	(273,674)	11,327	(552,669)	(426,406)	(788,692)	(18,299)
Financing activities	758,777	189,058	69,182	1,684,055	866,060	20,094
<b>Other Financial Data Reconciliation of Adjusted EBITDA to net profit / (loss)</b>						
Adjusted EBITDA from operations (4)	(755,394)	142,635	209,029	268,057	492,000	11,416
Add: Interest income (Note 22)	31,999	48,187	52,759	70,314	154,190	3,577
Add: Income tax benefits					68,928	1,599
Less: Depreciation and amortization	544,168	532,034	556,787	463,777	460,807	10,691
Less: Stock compensation cost	57,729	27,946	10,639	12,749	60,933	1,414
Less: Interest expense (Note 22)	4,096	2,126	1,938	11,090	5,618	130

Less: Income tax  
expense

Net Profit / (loss)	(1,329,388)	(371,284)	(307,576)	(149,245)	187,760	4,357
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### Notes

1. Certain prior-year data has been reclassified to conform to the current year presentation.
2. Convenience translation to U.S. Dollars done at the noon buying rate on March 31, 2007 of Rs.43.10 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.
3. Reference to shares and per share amounts refer to our equity shares. Our outstanding equity shares include equity shares held by a depositary underlying our ADSs. Effective

September 24,  
2002, one ADS  
represented one  
equity share.

4. Adjusted EBITDA from continuing operations represents earnings (loss) from continuing operations before interest, taxes, stock compensation expense and depreciation, and amortization.
5. Refer to note 22 of the financial statements for the components of other income, net.

**Exchange Rates**

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

	<b>Month</b>	<b>High Rs.</b>	<b>Low Rs.</b>
December 2006		44.70	44.11
January 2007		44.49	44.07
February 2007		44.21	43.87
March 2007		44.43	42.78
April 2007		43.05	40.56
May 2007		41.04	40.14

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 average of the noon buying rate in the City of New York on the last day of each month during the period for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York:

<b>Fiscal Year Ended March 31</b>	<b>Period end Rs.</b>	<b>Average Rs.</b>	<b>High Rs.</b>	<b>Low Rs.</b>
2003	47.53	48.49	49.14	47.39
2004	43.40	43.46	47.46	43.40
2005	43.62	44.86	46.45	43.27
2006	44.48	44.34	44.58	44.09
2007	43.10	45.12	46.83	42.78

On March 31, 2007, the noon buying rate in the city of New York was Rs.43.10 per \$1.00.

**Capitalization and indebtedness**

Not applicable.

**Reasons for the offer and use of proceeds**

Not applicable.

**Risk Factors**

*The following risk factors, among others, could cause actual results to differ materially from those contained in forward-looking statements in this Annual Report on Form 20-F for the year ended March 31, 2007. Such factors, among others, could have a material adverse effect upon our business, results of operations and financial condition. This could cause the trading price of our ADS's to decline and a loss of all or part of your investment.*

*Please refer to the discussion of Forward-Looking Statements on page 4 of this Annual Report on Form 20-F in connection with your consideration of the risk factors and other important factors that may affect future results described below.*

***Risks Related to Sify Limited***

**We have added a number of new lines of business in the last five 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 and managed network 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. As of March 31, 2007, the Internet penetration in India was only 3% according to figures compiled from Telecom Regulatory Authority of India's, or TRAI's, Report on Performance of Telecom Industry, March 2007. You must consider the risks and difficulties frequently encountered by companies in this stage of development, particularly companies in the new and rapidly evolving Internet service markets. These risks and difficulties include our ability to:

continue to develop and upgrade our technology;

maintain and develop strategic relationships with business partners;

offer compelling online services and content; and

promptly address the challenges faced by early stage companies, which do not have an experience or performance base to draw on.

We have decided to compete in four primary businesses that we believe are complementary. These four businesses are corporate network/data services, retail Internet access services, online portal services and content offerings and International Business. 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.

**For the fiscal years ended March 31, 2006, we incurred net losses of Rs.149.2 million and for the fiscal year ended 31 March, 2007 we made net profit of Rs.187.76 million. As of March 31, 2007, we had an accumulated deficit of approximately Rs.12,378 million (\$287 million). We may incur additional losses in the future because our business plan calls for additional corporate customers and subscribers to maintain profitability.**

We may incur operating losses as we expand our services, advertise and promote our brand and respond to competition. Our business plan assumes that businesses in India will demand private network and related services. Our business plan also assumes that an increasing number of consumers and corporate customers in India will be attracted to and use Internet access services, content available on the Internet and other connectivity services offered by us. The loss of major clients, a decrease in the volume of business they provide us or a decrease in the price at which we sell our services to them could adversely affect our revenues. Accordingly, we cannot assure you that we will be able to sustain profitability or that we may not incur operating losses in the future.

**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 business faces significant competition from well-established companies, including Bharti Airtel, Videsh Sanchar Nigam Limited or VSNL, Reliance Infocomm, HCL Infinet, Tata Teleservices and the incumbent government-owned telecommunication companies, Bharat Sanchar Nigam Limited or BSNL, and Mahanagar Telephone Nigam Limited or MTNL. A significant number of competitors have entered India's liberalized Internet service provider market that were operational in India. New entrants into the national Internet service provider market in India, 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. We cannot assure you that we will be able to successfully compete against current and future competitors.



**We are required to comply with certain conditions imposed by the Government of India or GOI in connection with the National Long Distance/International Long Distance or NLD/ILD licenses issued to Sify Communications Limited or Sify Comm, our subsidiary company, on a continuous basis during the validity of the licence period.**

On November 21, 2006, Sify Comm executed two License Agreements with the GOI, for NLD / ILD services respectively, which enable Sify Comm to provide VPN services. Sify Comm furnished bank guarantees for Rs.200,000 each for NLD and ILD licenses to GOI. These licenses are valid for an initial period of 20 years and can be renewed for another 10 years at one time, upon request of the licensee made during the 19th year of license. The Company has transferred its VPN business to Sify Comm effective November 22, 2006 and the latter commenced the said services on the same day. The above licenses have imposed certain conditions to be complied with by Sify Comm on a continued basis to maintain the validity of the license during the license period. The following are the important conditions:

The company to ensure that the foreign holding never exceeds 74% of the outstanding capital of the company, which is the threshold limit of Foreign Direct Investment for the Telecom sector.

The Managing Director, Chief Technical Officer and Chief Financial Officer shall be resident Indian citizens.

The company shall always have a net worth as well as paid up capital of Rs.250 million.

The company shall pay the annual fee at 6% of the Adjusted Gross Revenue to Department of Telecommunications or DOT.

In addition to the above, the company is required to furnish all information to DOT and Telecom Regulatory Authority of India or TRAI.

**Our marketing campaign to establish brand recognition and loyalty for the Sify Broadband, Sify Max, Sify and *ipay* brands could be unsuccessful.**

In order to expand our customer base and increase traffic on our websites, we must establish, maintain and strengthen the Sify Broadband, Sify Max, Sify and *ipay* and other key brands. We plan to continue to incur significant marketing expenditure to establish brand recognition and brand loyalty. If our marketing efforts do not produce a significant increase in business to offset our marketing expenditure, our losses will increase or, to the extent that we are generating profits, our profits will decrease. Furthermore, our Internet portal will be more attractive to advertisers if we have a large audience of consumers with demographic characteristics that advertisers perceive as favorable. Therefore, we intend to introduce additional and enhanced content, interactive tools and other services and features in the future in an effort to retain our current subscribers and users and attract new ones. Our reputation and brand name could be adversely affected if we are unable to do so successfully.

**If our efforts to retain our customers through past investment in network infrastructure and ongoing investment in online content offerings and customer and technical support are unsuccessful, our revenues will decrease without a corresponding reduction in costs.**

Our sales, marketing and other costs of acquiring new customers are substantial, relative to the fees actually derived from these customers. Accordingly, our long-term success depends to a great extent on our ability to retain our existing customers, while continuing to attract new customers. We have invested significant resources in our network infrastructure and continue to invest in online content offerings and in our customer and technical support capabilities to provide high levels of customer service. We cannot be certain, however, that these investments will maintain or improve subscriber retention. We believe that intense competition from our competitors has caused, and may continue to cause, some of our customers to switch to our competitors' services. In addition, some new customers use the Internet only as a novelty and do not become consistent users of Internet services, and therefore are more likely to discontinue their service. Any decline in our customer retention rate would likely decrease the revenues generated by our Internet access services division. We may not be able to realize sufficient future revenues to offset our past investment in network infrastructure and our ongoing investment in online content offerings and technical



support or achieve positive cash flow or profitability in the future.

**Despite cost-reduction measures, 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; and

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 develop content and enhance our technology. 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.

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. From time to time, a number of large Internet companies have suffered highly publicized system failures resulting in adverse reactions to their stock prices, significant negative publicity and, in some instances, 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. 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 in 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 not 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.

**Over the past several years we have experienced significant growth, and continuing this pace of growth could put excessive strain on our resources, which in turn could adversely affect our results of operations.**

Over the last several years, we have experienced a period of significant revenue growth. This growth has placed, and will continue to place, a significant strain on our managerial, operational, financial and information systems resources. We will have to implement new operational and financial systems and procedures and controls, expand our office facilities, train and manage our employee base and maintain close coordination among our technical, accounting, finance, marketing, sales and editorial staff. If we are unable to manage our growth effectively, we will be unable to implement our strategy, upon which the success of our business depends.

**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. Most of our employees are located in India. 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, especially the unexpected death or disability of such 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.**

Like many of our competitors, we possess extensive technical knowledge about our products. Our know-how is a significant independent asset, which may not be protected by intellectual property rights such as patents, but is protected only 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. Even if every possible precaution, whether contractual or otherwise, is taken to protect confidential technical knowledge about our products or our business, there is still a danger that such information may be disclosed to others or become public knowledge in circumstance beyond our control. 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.**

Laws, regulations and standards relating to accounting, corporate governance and public disclosure, new SEC regulations, NYSE rules, Securities and Exchange Board of India rules, are subject to change and can create uncertainty for companies like ours. New or changed laws, regulations and standards could lack specificity or be 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, our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal controls over financial reporting will require commitment of significant financial and managerial resources. We have formed an internal control steering committee and adopted a project work plan to assess the adequacy of our internal controls over financial reporting, remediate any control deficiencies that may be identified, and validate through testing that our controls are functioning as documented.

We are committed to maintaining high standards of corporate governance and public disclosure, and our efforts to comply with evolving laws, regulations and standards in this regard have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. In addition, the new laws, regulations and standards regarding corporate governance may make it more difficult for us to obtain director and officer liability insurance. Further, our board members, Chief Executive Officer, and Chief Financial Officer could face an increased risk of personal liability in connection with the performance of their duties. As a result, we may face difficulties in 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 have little or no experience conducting business in many of these countries and 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 in the class action litigation that has been filed against us, our business may be harmed.**

Our company and certain of our officers and directors are named as defendants in a securities class action lawsuit filed in the United States District Court for the Southern District of New York. This action, which is captioned *In re Satyam Infoway Ltd. Initial Public Offering Securities Litigation*, also names as defendants several of the underwriters involved in our initial public offering of American Depositary Shares. This class action is brought on behalf of a purported class of purchasers of our ADSs from the time of our Initial Public Offering, or IPO in October 1999 through December 2000. The central allegation in this action is that the underwriters in our IPO solicited and received undisclosed commissions from, and entered into undisclosed arrangements with, certain investors who purchased our ADSs in the IPO and the aftermarket. The complaint also alleges that we 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. More than 300 issuers have been named in similar lawsuits. In June 2003, the plaintiffs in the consolidated IPO class action lawsuits currently pending against us and more than 300 other issuers who went public between 1998 and 2000 announced a proposed settlement with us and the other issuer defendants. The proposed settlement provides that the insurers of all settling issuers will guarantee that the plaintiffs recover \$1.0 billion from non-settling defendants, including the investment banks who acted as underwriters in those offerings. In the event that the plaintiffs do not recover \$1.0 billion, the insurers for the settling issuers will make up the difference. We believe that we have sufficient insurance coverage to cover the maximum amount that we may be responsible for under the proposed settlement, which we estimate to be approximately U.S. \$3.9 million. Although the Federal District Court has preliminarily approved the settlement, it is possible that the Federal District Court may not finally approve the settlement in whole or part. We believe that we have adequate legal defences for these actions and that the ultimate

outcome of these actions will not have a material adverse effect on our company.

**We face risks associated with potential acquisitions, investments, strategic partnerships or other ventures, including whether any such transactions can be identified, completed and the other party integrated with our business on favorable terms.**

We may attempt to grow our business through acquisitions. We are actively seeking opportunities to expand our corporate services business, including through possible acquisition transactions in India, the United States or elsewhere. We may acquire or make investments in other complementary businesses, technologies, services or products, or enter into additional strategic partnerships with parties that can provide access to those assets, if appropriate opportunities arise in the future. From time to time, we have had discussions and negotiations with a number of companies regarding our acquiring, investing in or partnering with their businesses, products, services or technologies, and we regularly engage in such discussions and negotiations in the ordinary course of our business. Some of those discussions also contemplate the other party making an investment in our company. We may not identify suitable acquisition, investment or strategic partnership candidates in the future, or if we do identify suitable candidates, we may not complete those transactions on commercially acceptable terms or at all. In addition, the key personnel of an acquired company may decide not to work for us. If we make other types of acquisitions, we could have difficulty in integrating the acquired products, services or technologies into our operations. These difficulties could disrupt our ongoing business, distract our management and employees and increase our expenses, which could adversely affect our operating results and cause the price of our ADSs to decline. Furthermore, we may incur indebtedness or issue additional equity securities to pay for any future acquisitions. The issuance of additional equity securities would dilute the ownership interests of the holders of our ADSs.

**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 Man Financial Sify Securities India Private Limited (formerly known as Refco Sify Securities India Private Limited) that is accounted for under U.S. GAAP using the equity method of accounting. Under this method, we generally are obligated to report as Equity in losses (gains) of affiliates a pro rata portion of the net income 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 Man Financial 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 connectivity assets. 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.

**A significant majority of the *ipay* cybercafés are franchised operations that we do not operate or control. We also provide Internet access services through a network of Cable Television Operators, or CTO s, whom we do not control.**

As of March 31, 2007, 3,638 cybercafés, representing substantially all of the *ipay* cafes, were franchised by our company. Broadband Internet access to homes was provided through a network of about 2,200 CTO s. Our relationships with franchisees and CTO s are subject to a number of special risks. For example, we do not operate or control our franchisees or CTO s, and they may not meet their obligations under our agreements with them. The failure of a franchisee or CTO to provide quality services to its customers could result in end user dissatisfaction with our company. We may become involved in disputes with our franchisees or CTO s, which may result in litigation or the termination of one or more of our agreements. Our franchisees or CTO s could attempt to organize themselves into unions in order to negotiate more favorable terms in our agreements. Any failure to continue our relationships with our franchisees or CTO s on favorable terms could reduce the size of our market share for Internet access in India and decrease the revenues generated by our Internet access services division. Our company does not provide any financial



support or guarantee to the franchisees.

**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. Unauthorized parties may infringe upon or misappropriate our services or proprietary information. In addition, the laws of India do not protect proprietary rights to the same extent as laws in the United States, and the global nature of the Internet makes it difficult to control the ultimate destination of our services. For example, the legal processes to protect service marks in India are not as effective as those in place in the United States. The misappropriation or duplication of our intellectual property could disrupt our ongoing business, distract our management and employees, reduce our revenues and increase our expenses. In the future, litigation may be necessary to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Any such litigation could be time-consuming and costly.

We could be subject to intellectual property infringement claims as the number of our competitors grows and the content and functionality of our websites or other service offerings overlap with competitive offerings. Defending against these claims, even if not meritorious, could be expensive and divert management's attention from operating our company. If we become liable to third parties for infringing their intellectual property rights, we could be required to pay a substantial damage award and forced to develop non-infringing technology, obtain a license or cease selling the applications that contain the infringing technology. We may be unable to develop non-infringing technology or obtain a license on commercially reasonable terms, or at all.

**Our current infrastructure and its scalability may not accommodate increased use while maintaining acceptable overall performance.**

Currently, only a relatively limited number of customers use our corporate network, our Internet service provider services and our Internet portal. We must continue to add to our network infrastructure to accommodate additional users, increasing transaction volumes and changing customer requirements. We may not be able to project accurately the rate or timing of increases, if any, in the use of our websites or upgrade our systems and infrastructure to accommodate such increases. Our systems may not accommodate increased use while maintaining acceptable overall performance. Service lapses could cause our users to use the online services of our competitors.

**The success of our newly acquired on line travel business in the United States depends on various factors, and to a large extent, beyond our control.**

The success of our online travel and travel related business, through our acquisition of Globe Travels, Inc., depends on various factors, among other things:

Obtaining the ARC Accreditation in the name of Sify from the Airline Reporting Corporation, an nodal agency run by various airline companies;

How quickly we integrate an airlines on line platform for ticketing;

Our ability to quickly improve our online sales in the United States;

The growth of the tourism and the hospitality industry;

The threat of terrorism and outbreak of any epidemic;

Lost revenue from credit card fraud.

If the above risks are not addressed suitably, it may impact the volume and profitability of this segment of our business.

**We do not plan to pay dividends in the foreseeable future.**

We do not anticipate paying cash dividends to the holders of our ADSs and equity share holders in the foreseeable future. Accordingly, investors must rely on sales of their ADSs after price appreciation, which may never occur, as the only way to realize a positive return on their investment. Investors seeking cash dividends should not purchase our ADSs.

***Risks Related to the ADSs and Our Trading Market***

**The interests of our significant shareholder, Infinity Capital Ventures, L.P., may differ from your interests.**

We believe Infinity Capital owns approximately 42% of our outstanding equity capital, and Mr. Raju Vegesna of Infinity Capital serves as our Chairman of the Board of Directors and we have appointed Mr. P.S. Raju as the second nominee of Infinity Capital to our Board of Directors. As a result, Infinity Capital will be able to exercise significant influence over many matters requiring approval by our Board of Directors and/or our shareholders, including the election of directors and approval of significant corporate transactions, such as a sale of our company. Under Indian law, a simple majority is sufficient to control all shareholder action except for those items, which require approval by a special resolution. If a special resolution is required, the number of votes cast in favor of the resolution must not be less than three times the number of votes cast against it. Examples of actions that require a special resolution include:

altering our Articles of Association;

issuing additional shares of capital stock, except for pro rata issuances to existing shareholders;

commencing any new line of business; and

commencing a liquidation.

Circumstances may arise in which the interests of Infinity Capital, or a subsequent purchaser of the shares currently owned by Infinity Capital, could conflict with the interests of our other shareholders or holders of our ADSs. Infinity Capital could delay or prevent a change of control of our company even if a transaction of that sort would be beneficial to our other shareholders, including the holders of our ADSs.

**Holders of ADSs are restricted in their ability to exercise preemptive rights under Indian law and thereby may suffer future dilution of their ownership position.**

Under the Indian Companies Act, 1956, a public company incorporated in India must offer its holders of equity shares preemptive rights to subscribe and pay for a proportionate number of shares to maintain their existing ownership percentages prior to the issuance of any new equity shares, unless the preemptive rights have been waived by adopting a special resolution by holders, whether on a show of hands or on a poll, holding not less than three times the number of votes, if any, cast against the resolution. At our 2000 Annual General Meeting, our shareholders approved a special resolution permitting us to issue up to one million equity shares in connection with acquisitions. We issued virtually all of these equity shares in connection with our acquisitions of India World Communications, Indiaplaza.com and Kheladi.com and our investment in CricInfo Limited. At our 2001 Annual General Meeting, our shareholders approved a special resolution permitting us to issue up to four million additional equity shares in connection with acquisitions or capital raising transactions, and our ADS holders are deemed to have waived their preemptive rights with respect to these shares. At our December 2002 Extraordinary General Meeting, our shareholders approved a special resolution permitting us to issue up to 12.5 million additional equity shares in connection with the sale of equity shares to SAIF and Venture Tech, and our ADS holders are deemed to have waived their preemptive rights with respect to these shares. In December 2005 at an extraordinary general meeting, our shareholders waived their preemptive rights with respect to the issuance of 6.7 million shares to Infinity capital.

U.S. holders of ADSs may be unable to exercise preemptive rights for equity shares underlying ADSs unless approval of the Ministry of Finance of the Government of India is obtained and a registration statement under the Securities Act of 1933, as amended, is effective with respect to the rights or an exemption from the registration requirements of the Securities Act is available. Our decision to file a registration statement will depend on the costs and potential liabilities associated with any given registration statement as well as the perceived benefits of enabling the holders of our ADSs to exercise their preemptive rights and any other factors that we deem appropriate to consider

at the time the decision must be made. We may elect not to file a registration statement related to preemptive rights otherwise available by law to our shareholders. In the case of future issuance, the new securities may be issued to our depository, which may sell the securities for the benefit of the holders of the ADSs. The value, if any, our depository would receive upon the sale of such securities cannot be predicted. To the extent that holders of ADSs are unable to exercise preemptive rights granted in respect of the equity shares represented by their ADSs, their proportional interests in our company would be reduced.

**Holders of ADSs may be restricted in their ability to exercise voting rights and the information provided with respect to shareholder meetings.**

As a holder of ADSs, you generally have the right under the deposit agreement to instruct the depository bank to exercise the voting rights for the equity shares represented by your ADSs. At our request, the depository bank will mail to you any notice of shareholders' meeting received from us together with information explaining how to instruct the depository bank to exercise the voting rights of the securities represented by ADSs. If the depository bank timely receives voting instructions from a holder of ADSs, it will endeavor to vote the securities represented by the holder's ADSs in accordance with such voting instructions. However, the ability of the depository bank to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities on deposit. We cannot assure you that you will receive voting materials in time to enable you to return voting instructions to the depository bank in a timely manner.

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

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

**The market price of our ADSs has been and may continue to be highly volatile.**

The market price of our ADSs has fluctuated widely and may continue to do so. Many factors could cause the market price of our ADSs to rise and fall. Some of these factors include:

perception of the level of political and economic stability in India;

actual or anticipated variations in our quarterly operating results;

announcement of technological innovations;

conditions or trends in the corporate network/data services, Internet and electronic commerce industries;

the competitive and pricing environment for corporate network/data services and Internet access services in India and the related cost and availability of bandwidth;

the perceived attractiveness of investment in Indian companies;

acquisitions and alliances by us or others in the industry;

changes in estimates of our performance or recommendations by financial analysts;

market conditions in the industry and the economy as a whole;

introduction of new services by us or our competitors;

changes in the market valuations of other Internet service companies;

announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;

our failure to integrate successfully our operations with those of any acquired companies;

additions or departures of key personnel; and

other events or factors, many of which are beyond our control.

The financial markets in the United States and other countries have experienced significant price and volume fluctuations, and the market prices of technology companies, particularly Internet-related companies, have been and continue to be extremely volatile with negative sentiment prevailing. Volatility in the price of our ADSs may be caused by factors outside of our control and may be unrelated or disproportionate to our operating results. In the past, following periods of volatility in the market price of a public company's securities, securities class action litigation has often been instituted against that company. Such litigation could result in substantial costs and a diversion of our management's attention and resources.

**We may not be able to maintain our Nasdaq National Market listing.**

In order to maintain the listing of our ADSs on the Nasdaq National Market, we are required to comply with, or obtain an exemption from, the continuing listing requirements of Nasdaq, including the \$1.00 minimum bid price requirement. In fiscal 2003, the price of our ADSs on the Nasdaq National Market closed below \$1.00 for more than 30 consecutive days. Effective September 24, 2002, our equity share-to-ADS exchange ratio was adjusted to one-to-one in order to reestablish compliance with Nasdaq's minimum bid price requirement. There are also material changes to the listing requirements of the Nasdaq National Market relating to implementation of the Sarbanes-Oxley Act of 2002 and other reforms that have been or will be implemented. These requirements have and will continue to impose significant additional substantive and administrative requirements on all public companies listed on the Nasdaq National Market, including foreign private issuers. We do not know whether we will be able to maintain our Nasdaq National Market listing in the future.

**An active or liquid market for the ADSs is not assured.**

We cannot predict the extent to which an active, liquid public trading market for our ADSs will continue to exist. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. Liquidity of a securities market is often a function of the volume of the underlying shares that are publicly held by unrelated parties. Although ADS holders are entitled to withdraw the equity shares underlying the ADSs from the depositary at any time, there is no public market for our equity shares in India or the United States.

**The future sales of securities by our company or existing shareholders may reduce the price of our ADSs.**

Based on our review of filings made with the SEC, as of the date of this report, we believe Infinity Capital holds approximately 42% of our outstanding equity capital. Any significant sales of our equity shares or ADSs or a perception that such sales may occur might reduce the price of our ADSs and make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. We may issue additional equity shares to raise capital and to fund acquisitions and investments, and the parties to any such future transactions could also decide to sell them.

**Forward-looking statements contained in this report may not be realized.**

This 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 the risks faced by us described above and elsewhere in this report. We do not intend to update any of the forward-looking statements after the date of this report to conform such statements to actual results.

***Risks Related to Investments in Indian Companies***

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

**Political instability in India and around the world could halt or delay the liberalization of the Indian economy and adversely affect business and economic conditions in India generally and our business in particular.**

During the past decade, the Government of India has pursued policies of economic liberalization, including significantly relaxing restrictions on the private sector. Nevertheless, the role of the Indian central and state governments in the Indian economy as producers, consumers and regulators has remained significant. The Government of India has changed six times since 1996, including most recently in May 2004. The rate of economic liberalization, specific laws and policies affecting technology companies, foreign investment, currency exchange rates and other matters affecting investment in our securities could also change. A significant change in India's economic liberalization and deregulation policies could adversely affect business and economic conditions in India generally and our business in particular.

**Conflicts in South Asia and terrorist attacks in the United States, South Asia and around the world could adversely affect the economy and cause our business to suffer.**

South Asia has from time to time experienced instances of civil unrest and hostilities among neighboring countries, including between India and Pakistan. Since May 1999, military confrontations between India and Pakistan have periodically occurred in the Himalayan region of Kargil and other border areas. Military activity or terrorist attacks in the future could influence the Indian economy by disrupting communications and making travel more difficult and political and economic tensions could create a greater perception that investments in Indian companies involve higher degrees of risk. This, in turn, could have a material adverse effect on the market for securities of Indian companies, including our ADSs, the market for our services, and our results of operations.

**We are subject to foreign investment restrictions under Indian law that limit our ability to attract foreign investors which, together with the lack of a public market for our equity shares, may adversely impact the value of our ADSs.**

Currently, there is no public trading market for our equity shares in India or elsewhere nor can we assure you that we will take steps to develop one. Our equity securities are only traded on Nasdaq through the ADSs as described in this report. Under prior Indian laws and regulations, our depository could not accept deposits of outstanding equity shares and issue ADRs evidencing ADSs representing such equity shares without prior approval of the Government of India. The Reserve Bank of India has announced fungibility regulations permitting, under limited circumstances, the conversion of ADSs to equity shares and the reconversion of equity shares to ADSs provided that the actual number of ADSs outstanding after such reconversion is not greater than the original number of ADSs outstanding. If you elect to surrender your ADSs and receive equity shares, you will not be able to trade those equity shares on any securities market and, under present law, likely will not be permitted to reconvert those equity shares to ADSs.

If in the future a market for our equity shares is established in India or another market outside of the United States, those shares may trade at a discount or premium to the ADSs. Under current Indian regulations and practice, the approval of the Reserve Bank of India is required for the sale of equity shares underlying ADSs by a non-resident of India to a resident of India as well as for renunciation of rights to a resident of India, unless the sale of equity shares underlying the ADSs is through a recognized stock exchange or in connection with the offer made under the regulations regarding takeovers. Since exchange controls still exist in India, the Reserve Bank of India will approve the price at which the equity shares are transferred based on a specified formula, and a higher price per share may not be permitted. Holders who seek to convert the rupee proceeds from a sale of equity shares in India into foreign currency and repatriate that foreign currency from India will have to obtain Reserve Bank of India approval for each transaction. We cannot assure you that any required approval from the Reserve Bank of India or any other government agency can be obtained.

**Because we operate our business in India, exchange rate fluctuations may affect the value of our ADSs independent of our operating results.**



The exchange rate between the rupee and the U.S. dollar has changed substantially in recent years and may fluctuate substantially in the future. Historically, the value of the rupee has declined against the U.S. dollar, although the rupee appreciated against the dollar in late 2003 and 2004. In fiscal 2005, the rupee depreciated in the first six months and thereafter appreciated considerably. However, during January – August 2006, the rupee was showing a depreciation against U.S. dollar and thereafter it has appreciated remarkably and the trend is continuing now. Depreciation of the rupee will result in higher expenses to our company for the purchase of capital equipment, such as servers, routers, modems and other telecommunications and computer equipment, which is generally manufactured in the U.S. In addition, our market valuation could be materially adversely affected by the devaluation of the rupee if U.S. investors analyze our value based on the U.S. dollar equivalent of our financial condition and results of operations. Appreciation of the rupee against the U.S. dollar will result in foreign exchange losses to the extent we hold excess cash in U.S. dollar-denominated assets.

**The Government of India may change its regulation of our business or the terms of our license to provide Internet access services, VoIP and VPN services without our consent, and any such change could decrease our revenues and/or increase our costs, which would adversely affect our operating results.**

The Company's business is highly regulated as per extant telecom policy of the Government of India. The Company's ISP license issued in the year 1998 runs for a term of 15 years. If the Company is unable to renew the ISP license for any reason, the Company will not be able to carry on the said business beyond license term.

The GOI has right to revoke, terminate or suspend or take over entire operations for reasons such as national security or similar reasons without compensation to the Company. In view of increasing cyber threats and attacks, the GOI may require telecom licensees (including ISPs) at their costs to provide monitoring facility across its network, and facilities for capture and retention of data in terms of traffic flow, usage details, etc. This would result in significant increase in costs and possible lesser usage due to perceived invasion of privacy by customers.

Certain government departments have been making queries whether use of Session Initiation Protocol, or SIP, terminal to make calls to phones abroad is permissible within ISP license. The Company believes that such overseas phone calls are permitted, since, SIP terminal is a computer as defined in Information Technology Act, 2000. In case this view is not found favour by authorities, the Company may have to make significant investment as capital outlay in SIP terminals to make it a PC-equivalent.

**The Government of India has brought out new guidelines for grant of licence for operating internet services, which is applicable to the new entrants. The Government is also likely to bring out new guidelines for grant of licence for operating internet services for the existing licence holders, which may be difficult to comply with by us and any such change could decrease our revenues and/or increase our costs, which would adversely affect our operating results.**

The company's business is regulated as per the present policy of the Government of India. The Company's ISP license issued in the year 1998 runs for a term of 15 years. If the Company is unable to renew the ISP license for any reason, the Company will not be able to carry on the said business beyond license term.

In August 2007, the Government of India has issued new guidelines for grant of licence for operating internet services applicable to the new entrants. In terms of the guidelines, inter alia, a) the applicant must be an Indian Company registered under the Indian Companies Act, 1956, b) Foreign Direct Investment (FDI) shall be 74% including indirect investment, c) Chairman, Managing Director, Chief Executive Officer (CEO) and Chief Financial Officer (CFO), if held by foreign nationals, require special approval from the Government and certain other financial and technical conditions.

We believe that the Government of India is likely to release similar guidelines for the existing licence holders also. When the Government issues such guidelines, the company has to initiate steps to bring down the FDI limit to 74% within the stipulated time apart from complying with other guidelines for the continuing the business of internet service. We may not be able to comply with certain guidelines which may adversely affect our revenues and/or increase our costs, which would adversely affect our operating results.

**Changes in Indian income taxes will increase our tax liability and decrease any profits we might have in the future.**

The statutory corporate income tax rate in India was 30% during fiscal 2007 and was subject to a 10% surcharge and 2% education cess, resulting in an effective tax rate of 33.66%. For fiscal year 2008, the statutory corporate income tax rate is still 30% and subject to a 10% surcharge and 3% education cess, resulting in an effective tax rate of 33.99%. We cannot assure you that the surcharge will be in effect for a limited period of time or that additional surcharges will not be implemented by the Government of India. The Finance Minister of India had introduced a fringe benefits tax, or FBT, that would be levied on employers. Under this FBT, employers would be required to pay a tax of 30% exclusive of applicable surcharge and cess on the taxable value of the fringe benefits or privileges that are provided or deemed to be provided to employees on a collective, rather than individual, basis. The impact of FBT for the quarter ended and year ended March 31, 2007 was Rs 4.4 million and Rs.17.5 million respectively included under selling and administration expenses.

***Risks Related to the Internet Market in India***

Our success will depend in large part on the increased use of the Internet by consumers and businesses in India. However, our ability to exploit the Internet service provider and other data service markets in India is inhibited by a number of factors. If India's limited Internet usage does not grow substantially, our business may not succeed.

**The success of our business depends on the acceptance of the Internet in India, which may be slowed or halted by high bandwidth costs and other technical obstacles in India.**

Bandwidth, the measurement of the volume of data capable of being transported in a communications system in a given amount of time, remains very expensive in India, especially when compared to bandwidth costs in the United States. Bandwidth rates are commonly expressed in terms of Kbps (kilobytes per second, or thousands of bits of data per second) or Mbps (megabytes per second, or millions of bits of data per second). Although prices for bandwidth in India have declined recently, they are high due to, among other things, capacity constraints and lack of competition.

**The limited installed personal computer base in India limits our pool of potential customers and restricts the amount of revenues that our Internet access services division may generate.**

The market penetration rates of personal computers and online access in India are far lower than such rates in the United States. Alternate methods of obtaining access to the Internet, such as through set-top boxes for televisions, are currently not popular in India. There can be no assurance that the number or penetration rate of personal computers in India will increase rapidly or at all or that alternate means of accessing the Internet will develop and become widely available in India. While the personal computer penetration level in India is relatively low, we are addressing the demand for public Internet access through the establishment of a retail chain of public Internet access centers, which we refer to as cybercafés, under the *iway* brand name. As of March 31, 2007, 3,600 *iway* cybercafés were franchised and 38 *iway* cybercafés were owned and operated by our company. Although this service creates a larger market, it also imposes on the operator of the cybercafé the considerable costs of providing the consumer access to a personal computer and related hardware and software.

**The high cost of accessing the Internet in India limits our pool of potential customers and restricts the amount of revenues that our Internet access services division might generate.**

The growth of our consumer services is limited by the cost to Indian consumers of obtaining the hardware, software and communications links necessary to connect to the Internet in India. If the costs required to access the Internet do not significantly decrease, most of India's population will not be able to afford to use our services. The failure of a significant number of additional Indian consumers to obtain affordable access to the Internet may adversely affect our business and results of operations.

**The success of our business depends on the acceptance and growth of electronic commerce in India, which is uncertain, and, to a large extent, beyond our control.**

Many of our existing and proposed services are designed to facilitate electronic commerce in India, although there is relatively little electronic commerce currently being conducted in India. Demand and market acceptance for these services by businesses and consumers, therefore, are highly uncertain. Many Indian businesses have deferred purchasing Internet access and deploying electronic commerce initiatives for a number of reasons, including the existence or perception of, among other things:

inconsistent quality of service;

the need to deal with multiple and frequently incompatible vendors;

inadequate legal infrastructure relating to electronic commerce in India;

a lack of security of commercial data, such as credit card numbers; and

low number of Indian companies accepting credit card numbers over the Internet.

If usage of the Internet in India does not increase substantially and the legal infrastructure and network infrastructure in India are not developed further, we are not likely to realize any benefits from our investment in the development of electronic commerce services.



***Risks Related to the Internet***

**We may be liable to third parties for information retrieved from the Internet.**

Because users of our Internet service provider service and visitors to our websites may distribute our content to others, third parties may sue us for defamation, negligence, copyright or trademark infringement, personal injury or other matters. We could also become liable if confidential information is disclosed inappropriately. These types of claims have been brought, sometimes successfully, against online services in the United States and Europe. Others could also sue us for the content and services that are accessible from our websites through links to other websites or through content and materials that may be posted by our users in chat rooms or bulletin boards. We do not carry insurance to protect us against these types of claims, and there is no precedent on Internet service provider liability under Indian law. Further, our business is based on establishing our network as a trustworthy and dependable provider of information and services. Allegations of impropriety, even if unfounded, could damage our reputation, disrupt our ongoing business, distract our management and employees, reduce our revenues and increase our expenses.

**The success of our strategy depends on our ability to keep pace with technological changes.**

Our future success depends, in part, upon our ability to use leading technologies effectively, to continue to develop our technical expertise, to enhance our existing services and to develop or otherwise acquire new services that meet changing customer requirements. The markets for our service are characterized by rapidly changing technology, evolving industry standards, emerging competition and frequent new service introductions. We may not successfully identify new opportunities and develop and bring new services to market in a timely manner.

**Our business may not be compatible with delivery methods of Internet access services developed in the future.**

We face the risk that fundamental changes may occur in the delivery of Internet access services. Currently, Internet services are accessed primarily by computers and are delivered by modems using telephone lines. As the Internet becomes accessible by cellular telephones, personal data assistants, television set-top boxes and other consumer electronic devices, and becomes deliverable through other means involving digital subscriber lines, coaxial cable or wireless transmission mediums, we will have to develop new technology or modify our existing technology to accommodate these developments. Our pursuit of these technological advances, whether directly through internal development or by third-party license, may require substantial time and expense. We may be unable to adapt our Internet service business to alternate delivery means and new technologies may not be available to us at all.

**Our service offerings may not be compatible with industry standards developed in the future.**

Our ability to compete successfully depends upon the continued compatibility and inter-operability of our services with products and architectures offered by various vendors. Although we intend to support emerging standards in the market for Internet access, industry standards may not be established and, if they become established, we may not be able to conform to these new standards in a timely fashion or maintain a competitive position in the market. The announcement or introduction of new services by us or our competitors and any change in industry standards could cause customers to deter or cancel purchases of existing services.

#### **Item 4. Information on the Company History and Development**

We were organized as a limited liability company under the laws of the Republic of India pursuant to the provisions of the Indian Companies Act, 1956 on December 12, 1995. Until December 2002, we were a majority-owned subsidiary of Satyam Computer Services, a leading Indian information technology services company traded on the New York Stock Exchange and the principal Indian stock exchanges. Our company was formed as a separate business unit of Satyam Computer Services to develop and offer connectivity-based corporate services allowing businesses in India to exchange information, communicate and transact business electronically. We conduct substantially all of our business in India. Our subsidiaries include Sify Communications Limited, Indiaworld Communications Limited, Sify International Inc. and Sify Networks Private Limited. The address of our principal executive office is Tidel Park, 2nd Floor, No. 4, Canal Bank Road, Taramani, Chennai 600113 India, and our telephone number is (91) 44-2254-0770.

From December 1995 through 1997, we focused on the development and testing of our private data network. In 1997, we began forming strategic partnerships with a number of leading technology and electronic commerce companies, including UUNet Technologies, in order to broaden our service offerings to our corporate customers. In March 1998, we obtained network certification for conformity with Indian and international network operating standards from the Technical Evaluation Committee of India. In April 1998, we began offering private network services to businesses in India. Our initial services included electronic data interchange, e-mail and other messaging services, virtual private networks and related customer support.

We started development of *www.sify.com*, our online portal, and other related content sites for personal finance, movies and automobiles with the goal of offering a comprehensive suite of websites offering content specifically tailored to Indian interests worldwide.

On November 6, 1998, the Indian government opened the Internet service provider market place to private competition. Capitalizing on our existing private data network, we launched our Internet service provider business, *SifyOnline* (formerly known as *SatyamOnline*), on November 22, 1998 and became the first private national Internet service provider in India. We began offering *SifyOnline* Internet access and related services to India's consumer market as a complement to the network services offered to our business customers. Our *SifyOnline* service was the first in India to offer ready-to-use CD-ROMs enabling online registration and immediate usage.

In March 2000, we launched our network of public Internet cafés called *iways* to cater to the needs of Indians who do not have access to the Internet. In September 2000, we commenced our hosting services from our Tier-I data center at Vashi, Mumbai to provide co-location and managed services to our clients. In June 2001, we obtained permission to provide wireless connectivity on the 5.7 GHz spectrum from the Wireless Planning Commission. This enabled us to convert all our *iways* from Integrated Services Digital Network, or ISDN, connectivity on the last mile to wireless connectivity. This technology also enabled us to commence our high-speed/broadband access to homes, which began in March 2003. To enable quicker access to homes, we developed a model of partnering with Cable Television Operators, or CTOs, who already interface with households for providing cable television facilities to millions of households in India.

In April 2002, ISPs were permitted to provide restricted VoIP limited to outbound calls to International destinations and personal computer to personal computer calls in India. We started providing this service through our network of cybercafés, and later on through VoIP booths located in large commercial areas and corporate office complexes across major cities in India.

From the time we launched our corporate services in 1997, we have constantly upgraded our technology to provide data services to corporate clients. We were the first Internet service provider in India to make our entire network IP-based and subsequently Multi Protocol Label Switching (MPLS)-enabled, which permitted us to continue to grow our corporate customer base. As of March 31, 2007, we provide data connectivity services to more than 1,575 corporate clients in industries ranging from information technology, manufacturing, banking and financial services industry, pharmaceuticals, retail distribution and the government.

*Initial Public Offering and Subsequent Financing Transactions*

In October 1999, we completed our initial public offering on the Nasdaq National Market and issued 4,801,250 ADSs at a price of \$18.00 per ADS. We received approximately \$79.2 million, net of underwriting discounts, commissions and other offering costs. In connection with our initial public offering, we received the benefit of exemptions from the Nasdaq corporate governance rules relating to shareholder meeting quorum, solicitation of proxies and shareholder approval for issue of shares other than in a public offering under Nasdaq Rules 4350(f), 4350(g) and 4350(i)(1)(D), respectively.

In February 2000, we completed a secondary offering and issued 467,175 ADSs at a price of \$320.00 per ADS. We received approximately \$141.2 million, net of underwriting discounts, commissions and other costs.

In October 2002, we agreed to sell an aggregate of 7,558,140 ADSs to SAIF for consideration of \$13.0 million and to sell an aggregate of 2,034,883 equity shares to VentureTech for consideration of \$3.5 million. This transaction was approved by our shareholders at our Extraordinary General Meeting held on December 9, 2002. In December 2002, we completed the sale of the ADSs to SAIF and the sale of 2,034,883 equity shares to VentureTech. In April 2003, we sold an additional 1,017,442 equity shares to VentureTech. In July 2003, we sold an additional 1,017,441 ADSs to an affiliate of Venture Tech.

On November 10, 2005, Infinity Capital Ventures, LP ( Infinity Capital ) acquired 11,182,600 ADS of our Company from Satyam Computer Services Limited ( Satyam ) for US \$5.60 per share in cash through a Sponsored ADR Programme arranged by the Company. The total purchase price for the Satyam shares was approximately US \$62.6 million.

In a separate transaction, also on November 10, 2005, Infinity Capital entered into a Subscription Agreement with us pursuant to which, upon the terms and subject to the conditions set forth therein, Infinity Capital agreed to purchase from us approximately 6.7 million newly-issued equity shares or ADSs at a purchase price of US \$5.60 per share in cash. The total purchase price for the newly issued shares was approximately US \$ 37.5 million. This transaction was approved by our shareholders at our Extraordinary General Meeting held on December 23, 2005. Subsequent to the quarter end, in January 2006, we completed the transaction. Also on November 10, 2005, Sify, Infinity Capital and Raju Vagesna entered into a Standstill Agreement pursuant to which, upon the terms and subject to the conditions set forth therein, Infinity Capital agreed not to purchase more than 45% of our fully diluted equity.

In connection with the transactions, Mr. Raju Vagesna of Infinity Capital was appointed as the Chairman of our Board of Directors. We also appointed Mr. P. S. Raju as the second nominee of Infinity Capital to our Board of Directors.

Based on our review of filings made with the SEC, we believe Infinity Capital now owns approximately 42% of our outstanding equity shares.

#### *Investment Strategy*

In evaluating investment opportunities, we consider important factors, such as strategic fit, competitive advantage and financial benefit, through a formal net present value evaluation. There is no significant difference in the analysis undertaken in connection with an investment in an affiliate compared to other uses of cash. Our investment strategy has not undergone major changes in the last four years.

#### *Sify Networks Private Limited (formerly E Alcatraz Consulting Private Limited)*

In March 2004, we acquired E Alcatraz Consulting Private Limited, a company engaged in the business of providing security services to corporate customers, for a consideration of Rs.32.6 million.

#### *Globe Travels, USA.*

In April 2006, we acquired Globe Travels, USA., engaged in the business of selling online airline tickets in US with a special focus on US-India sector along with its Indian outfit for a consideration of USD 2.50 million, apart from 125,000 stock options and some conditional earn out payments. We believe this acquisition marks Sify's entry into the fast growing online travel business, particularly e-ticketing, the category with highest revenues and fastest growth in online e-commerce today. We also believe that the addition of a travel portal is in line with the Company's strategy of providing end-to-end services to Sify users.



## Business Overview

We are one of the largest integrated Internet, network and electronic commerce services company in India, offering end-to-end solutions with a comprehensive range of services delivered over a common Internet backbone infrastructure. Our services enable our business and consumer customers to communicate, transmit and share information, access online content and conduct business remotely using our private data network or the Internet. Our Internet and network services include the following:

*Corporate Network/Data Services.* We offer a suite of technology and network-based services that provide our corporate customers with comprehensive Internet and private network access. Our services enable our corporate customers to offer a full range of business-to-business and electronic commerce related services.

*Internet Access Services.* We offer dial-up Internet access, e-mail and web page hosting to consumers in India through convenient online registration and user-friendly software. In addition, we offer public Internet access to consumers through a retail chain of *ipay* cybercafés. We also have agreements with certain cable television operators through which we offer Internet access through cable. As of March 31, 2007, we had approximately 1 million retail Internet access subscribers.

*Online Portal Services.* We operate online portals, such as [www.sify.com](http://www.sify.com), [www.samachar.com](http://www.samachar.com) and [www.sifymax.in](http://www.sifymax.in), that function as principal entry points and gateway for accessing the Internet by providing useful web-related services and links. We also offer related content sites specifically tailored to Indian interests worldwide.

*Other.* We facilitate web based learning for various organizations by digitizing and uploading content to facilitate the same .

We began providing corporate network/data services to businesses in April 1998, and as of March 31, 2007 we had more than 1,575 corporate customers. We launched our Internet service provider business in November 1998, becoming the first private Internet service provider to begin service after the Indian government opened the market to private competition. We also operate online portals, [www.sify.com](http://www.sify.com), [www.sifymax.in](http://www.sifymax.in), [www.samachar.com](http://www.samachar.com), and related content sites specifically tailored for Indian interests worldwide. *Sify.com* is one of India's leading portals with services in areas such as news, travel, finance, health and shopping in addition to e-mail, chat and search. *Sifymax* is a broadband portal offering live streaming and on demand video and audio content, news clips, TV reality shows and highlights of cricket matches.

We currently operate a large national private data network in India. Our network utilizes Internet protocol, which is an Internet industry standard for tracking Internet addresses, routing outgoing messages and recognizing incoming messages. In February 2002, we became the first Indian company to be certified ISO 9001:2000 for network services, data center operations and customer relationship management. The ISO 9001:2000 certification from Det Norske Veritas (DNV), Netherlands under the RvA accreditation scheme provides recognition for self-defined benchmarks against international companies with respect to facilities, metrics, processes and practices. In fiscal year 2003, our Enterprise Solutions division was also certified ISO 9001:2000 for provisioning of corporate VPN's, Internet bandwidth, VoIP, and integrated security solutions including pre-sales, sales, order processing and project management.

As of March 31, 2007, we operated 188 points of presence serving more than 250 cities across India, which we believe represents an estimated 95% of the installed personal computer base in India. Points of presence are telecommunications facilities located in a particular market which allow our customers to connect to the Internet through a local telephone call. Although our Internet service provider license permits us to establish and maintain our own direct connection to the international Internet, we no longer maintain satellite gateways. We intend to provide international bandwidth by leasing capacity of multiple oceanic systems.

We continue to seek to be the premier integrated Internet, network and electronic commerce solutions provider to businesses and consumers in India. We believe that demand for our services is significant in India and growing rapidly as businesses and consumers seek alternatives to the communications services offered by telecom providers that were

formerly controlled by the Government of India. We intend to continue to focus on providing superior network performance and high levels of customer service and technical support to increase our customer base and maximize customer satisfaction.

## **Industry Overview**

*Development of the Internet.* We believe that the large and increasing number of home and office computers linked to the Internet, advances in network design, increased availability of Internet-based software and applications, the emergence of useful content and electronic commerce technologies, and convenient, fast and inexpensive Internet access will continue to drive Internet growth and usage in the near future.

*Special Communications Needs of Businesses.* As the Internet becomes more developed and reliable, businesses are increasingly utilizing the Internet for functions critical to their core business strategies, such as sales and marketing, customer service and project coordination. The Internet presents a compelling profit opportunity for businesses by enabling them to reduce operating costs, access valuable information and reach new markets. To maintain a significant presence on the Internet, businesses typically purchase Internet access services and establish a website. Internet access provides a company with its basic gateway to the Internet, allowing it to transfer e-mail, access information and connect with employees, customers and suppliers. A website provides a company with a tangible identity and an interactive presence on the Internet. Many corporations are also converting their legacy information systems and databases to web-enabled systems.

*The Opportunity in India.* The resulting service remains inferior to service in developed countries. At the same time, however, the Indian economy continues to modernize and expand, particularly in sectors such as software development that are dependent on a reliable communications network. The growth of these industries is leading to an increasing base of personal computers and wired homes and businesses in India with a resulting increased demand for Internet services. We believe these trends, which mirror trends in more mature economies, will continue to develop in India.

The ability to exploit the Internet service provider and other data service markets in India is currently inhibited by bandwidth limitations imposed by cost and technical obstacles. Generally, bandwidth remains very expensive in India however the emergence of private players in the last couple of years and liberalization measures have brought an increase in supply and a consequent downtrend in prices. Ceilings for bandwidth prices are set by the DOT and the TRAI plays the advisory role to the DOT.

We expect the growth in personal computers and Internet users to increase the demand for Internet content directed towards domestic Indian consumers as well as the amount of electronic commerce in India.

Private market participants historically have not been able to exploit the market opportunities in India because the regulatory environment in India largely prevented any competition with the national government-controlled telecom providers. Until November 1998, the only Internet service provider permitted in India was VSNL, which began providing Internet access on August 15, 1995. On November 6, 1998, the government opened the Indian Internet service provider market to private competition and granted Internet service provider licenses. The licensees include cable television operators and joint ventures between local companies and large international telecom providers. Internet service provider licenses are granted for 15 years, with only nominal license fees. Currently, pricing of Internet service is not regulated by the Government of India, although it has the power to do so through policy directives. However, the interconnection charges between service providers are regulated by the TRAI.

## **Sify Business Model**

We believe that the growth of the Internet and other network services in India has been inhibited by relatively high costs and poor user experiences caused by an inadequate telecommunications infrastructure and slow network connection speeds. We are committed to expanding and enhancing our private network backbone and to providing high quality technical support to attract users to our services. We believe that our services provide our customers with the ability to exchange information, communicate and transact business over the Internet with speed, efficiency, reliability and security superior to other Internet service providers. Key advantages of the Sify business model include:

*End-to-end network solutions for business customers.* We provide our business customers with a comprehensive range of Internet, connectivity, security and consulting, hosting and managed service solutions complemented by a broad base of web-based business applications. Our corporate services range from dial-up and dedicated Internet access, virtual private networks, security, web implementation, electronic commerce solutions and web hosting. Our end-to-end solutions enable our corporate customers to address their networking and data communication needs efficiently without having to assemble products and services from

different value-added resellers, Internet service providers and information technology firms.

*National private Internet protocol network backbone and Wireless delivery on the last mile.* We operate a large national Internet protocol data network in India. As of March 31, 2007, we owned and operated 188 points of presence serving more than 250 cities across India, which we believe represents an estimated 95% of the installed personal computer base in India. Our network provides the platform for the national delivery of Internet access to consumers as well as the backbone for our full range of corporate network/data services. A significant portion of our last mile delivery for corporates, and almost the entire iway cybercafe network and hi speed / broadband delivery to homes, is on the wireless mode, thereby enabling us to implement and deliver superior services compared to the wireline medium.

*Internet content and electronic commerce websites customized for the Indian market.* We view the Indian market as a series of specific market segments with unique cultural and topical interests, rather than an extension of a homogeneous, worldwide Internet market. We have assembled a team of India-based employees familiar with the local culture, language and business environments in our markets to develop Internet content and electronic commerce websites tailored for the Indian market. We regularly incorporate new and original third-party content suited to our local and regional audiences to enhance our customers' online experience and to attract new users both within India and abroad. As a result of our local market knowledge, we have been able to increase traffic flow to our websites and to create brand awareness for our SifyOnline access service.

*Managed Infrastructure services and Managed Security Services.* We have customer engagements in all aspects of infrastructure services, networks security and hosting, with digital certificates based authentication service. We have experience in providing information assurance and compliance certification, following frameworks such as Committee of Sponsoring Organizations of the Treadway Commission (COSO) / Control Objectives for Information and related Technology (COBIT). We believe that our managed infrastructure and security services utilise our experience and skill sets to provide constant value to our customers, better service levels and reduced costs. We constantly look at ways to efficiently manage customer assets remotely thus providing focused superior service at lower cost.

## **Strategy**

Our goal is to become the premier integrated Internet, network and electronic commerce solutions provider to businesses and consumers in India. Our principal business strategies to accomplish this objective are:

*Invest in the continued enhancement and expansion of our network infrastructure to support customer growth, enter new markets and accommodate increased customer usage.* We intend to continue to increase the capacity and geographic reach of our network in order to support subscriber growth, enter new markets and accommodate increased customer usage. We are committed to using proven technologies and equipment and to providing superior network performance. We have deployed asynchronous transfer mode, or ATM, switches on nine points of presence along our network. The rest of our network is based on Internet Protocol, or IP, and we are the first Indian service provider to have made our network Multi Protocol Label Switching (MPLS) compliant. As of March 31, 2007, we had procured six Synchronous Transport Mode ( STM-1 ) bandwidth lines, all from leading telecom players. We have also leased intercity links from multiple suppliers including BSNL, Bharti, Reliance and Power Grid corporation, in such a way that each one of our nodes are accessible from at least two other nodes, if not by two long distance operators. We believe that as the size and capacity of our network infrastructure grows, its large scale and national coverage will create economies of scale.

*Increase penetration in our existing markets by expanding awareness of the Sify brand name to capitalize on our first mover advantage in India.* We intend to capitalize on our first-to-market advantage in India to establish national service and a brand name in advance of other private competitors. As of March 31, 2007, we had approximately 1 Million retail Internet subscribers and 3,638 cybercafés, of which 38 were owned by us and 3,600 were franchised. Approximately 99% of these iways are on broadband, which provides the user with significantly faster access speeds. Our marketing strategy includes print, television and radio advertising, direct

mailing campaigns targeting personal computer owners and operating cybercafés. We are also actively promoting our broadband services to homes through cable television operators. As of March 31, 2007, we had agreements with more than 2,100 cable television operators across 109 cities in India. We believe that increased focus on delivery of broadband services by the Government of India, availability of broadband content, reduced cost of personal computers and increased purchasing capacity of the middle class in India will drive this business forward in the future.

*Expand our services with new technologies to enable our customers to use the Internet more effectively.* We continually seek to expand the breadth of our service offerings with new technologies. Our cybercafés prominently display the Sify and SifyOnline brands and offer a full range of our Internet connectivity services. We have previously introduced a number of other services, including VoIP, video conferencing, e-mail designed for regional Indian dialects, a user customized portal site and micro-payments.

*Provide more value added services by leveraging on the rapid growth of wireless Internet and mobile services in India and strengthen our Internet portal with more content tailored to Indian interests worldwide.* Our portals *www.sify.com* and *www.samachar.com*, function as initial gateways to the Internet, the user's starting point for web browsing and other Internet services, for our consumer Internet service provider subscribers and cybercafé users. Our portals are media rich, user friendly, interactive websites offering hyperlinks to a wide variety of websites and services, including our own websites. Our websites cater to a variety of Indian interests within and outside of India. To achieve our goal of developing the premier Internet portal focused on the Indian market, we intend to continue to expand and improve the quality of *www.sify.com*, and are developing additional content oriented towards topical and cultural interests of Indians worldwide.

During the course of 2004-05, we also developed a broadband channel, *Sify Max*, that provides audio visual content to Sify subscribers. We also created a short code 4545 for downloading ringtones and sending SMS to tap the growing mobile user market. To expand our short code product offering, we are also forming business alliances with copyright owners and mobile service providers. In addition, we are forming strategic alliances with several offline media partners to deliver content to our users. As the availability of Internet access expands in India, we believe that increasing numbers of Internet users will be attracted to our high quality websites and online content designed specifically for the Indian consumer. We will seek to attract advertisers, electronic commerce merchants and third-party content providers trying to reach our users in order to generate additional revenues for *sify.com*.

*Expand our customer distribution channels through strategic alliances to take advantage of the sales and marketing capabilities of our strategic partners.* We intend to continue to expand our customer acquisition channels, for both our consumer Internet access and corporate network/data services. We have arrangements with leading personal computer manufacturers to bundle our *SifyOnline* Internet access service with the sale of their personal computers in India.

*Pursue selective strategic investments, alliances and acquisitions to expand our customer base, increase utilization of our network and add new technologies to our service mix.* We believe that our growth can be supplemented by selective acquisitions of complementary businesses. We may seek to expand our market presence in our corporate network business through the acquisition of web hosting, data center, web implementation and/or systems integration companies serving India, the United States or other markets. We will also consider acquisitions of Internet service providers that have a significant or growing customer base in our current or targeted markets.

*Expand into international markets for providing managed network services.* Our network and application level support can be provided remotely with a minimum of on-site presence. We are seeking to provide these services to international markets. The tools utilized to provide these services were developed in-house on Linux/open source platforms, and we plan to upgrade these tools in the future to meet customer requirements. We expect our expertise in network management, to enable us to perform these services to international customers at lower costs. We also intend to provide managed security solutions, including monitoring and vulnerability assessment, in addition to managed firewall and intrusion detection services.

*Superior end-user performance and customer support.* We provide a high level of customer service, network performance and technical support to maximize customer satisfaction. A significant number of our employees are engaged in our customer service or technical support departments, which operate 24-hours-a-day, seven-days-a-week. Our network engineers continually monitor network traffic and congestion points to deliver consistent, high quality network performance. Our backend processes are ISO 9001:2000 compliant for network operations, data center operations and customer care. Our strategy of providing superior network performance and customer service is designed to result in significant customer growth from referrals and

industry recognition.



## Service Offerings

*Corporate network/data services.* Our corporate network/data services division addresses the network, security and application services needs of Indian enterprises by leveraging our national Tier 1 IP network infrastructure. The services include a comprehensive range of Internet protocol based Virtual Private Network, or IPVPN, offerings, including intranets, extranets and remote access applications to both small and large corporate customers. There is a strong focus on industry verticals such as IT/ITES (IT enabled services), banking and financial services industry (BFSI), government, manufacturing, pharmaceutical and FMCG. We were the first service provider in India to provide MPLS-enabled IPVPNs on its entire network. During 2007, we have entered into a strategic partnership with the Power Grid Corporation of India (PGCIL) to provide enterprise network services to end customers across the country. We provide last mile connectivity in over 185 locations throughout India. Our entire network is MPLS enabled with built in redundancy with world class design and service standards. Frost & Sullivan, in its report on IPVPN service offerings in India, reported that we had emerged as the single largest player in the IPVPN space in India with 37% market share. We were also awarded the Frost & Sullivan Market Leadership Award for IPVPNs in India for the years 2003, 2005 and 2006.

SecureConnect (TM) is our comprehensive offering of secure, reliable and scalable IPVPN solutions that meet both mission-critical data networking and converged voice, video and data connectivity needs. It offers a variety of intranet and extranet configurations for connecting offices, remote sites, traveling employees and business partners, whether in India or abroad. Our platform of services includes:

SiteConnect (TM), which offers site-to-site managed MPLS-enabled IPVPN solutions, ideal for securely connecting regional and large branch offices within India to the corporate Intranet.

GlobalSiteConnect which is an international site-to-site managed MPLS-enabled IPVPN solution, ideal for securely connecting international branch offices to the corporate Intranet. It provides connectivity anywhere in the world through Sify's alliances and partnerships with global overseas service providers such as Global Crossing (GC), Asia Net Com (ANC), and BtNA to name a few.

ExpressConnect, which offers a premium range of high-performance Internet bandwidth solutions for connecting regional offices, branch offices and remote locations to the corporate network. These solutions complement our SiteConnect range of MPLS enabled IPVPN solutions, provide high-speed bandwidth in those situations where basic connectivity and cost are the top concerns

RoamConnect is our national and international remote access VPN, ideal for securely connecting employees, while they are traveling, to the corporate intranet; features single number access to SifyNet from anywhere in the country and provides access from anywhere in the world through Sify's alliances with overseas service providers such as MCI, GRIC, IPASS and Fiberlink.

PartnerConnect is our remote access VPN offering, for providing secure and restricted dial-up access to business partners such as dealers, distributors and suppliers to the corporate extranet.

In February 2002, we became the first Indian company to be certified ISO 9001:2000 for network services, data center operations and customer relationship management. The ISO 9001:2000 certification from Det Norske Veritas (DNV), Netherlands under the RvA accreditation scheme provides recognition for self-defined benchmarks against international companies with respect to facilities, metrics, processes and practices. Our corporate network/data services were also certified 9000:2001 compliant for pre-sales, sales, project management and backend operations in September 2003.

We also offer a suite of security solutions, including security design, audit, procurement and integration. Our enterprise solutions portfolio includes a range of application services, such as enterprise class e-mail platforms, audio and video conferencing solutions and business web services. Contracts for these services are negotiated on an individual basis to provide specifically tailored network/data services to each customer.

*Application Services.* We offer value-added services to organisations such as website design, development, content management, search engine optimisation, hosting and management services, including domain name management,

secure socket layer (SSL) certificate for websites, and server space in required operating system and database. We provide state of the art messaging and collaboration services and solutions such as e-mail servers, LAN mail solutions, anti-spam appliances, bulk mail services, instant messaging, and also offer solutions and services to enable data & access security over the Internet. We also offer web-applications such as online merchandising with on-line payment gateways, sales force automation, supply chain management, intranet and extranets, workflow engine and knowledge management systems. We also provide infrastructure-based services on demand, including on-line testing engine and network management. On-line testing services include test management software, required servers and proctored examination facilities at Sify's *iway* cybercafés. On-line exam engine offered allows a secure and flexible way of conducting examinations involving a wide range of question patterns.

*Security and Assurance Services.* We offer a comprehensive suite of security solutions including security design, procurement and integration services for infrastructure security, vulnerability assessment and penetration testing. Implementation services include implementation of security equipment, such as firewalls, intrusion detection systems, content security, authentication tools and VPN services. We also provide assurance services centered around auditing, risk assessment, policies and procedures, business continuity/disaster recovery planning.

*Data Centers.* We operate India's first level 3 Internet Data Centers (IDC) in Mumbai (Bombay), Chennai (Madras) and Bangalore designed to act as reliable secure and scalable facilities to host mission-critical applications. We offer co-location services which allow customers to bring in their own rack-mountable servers and house them in shared racks, hire complete racks, and rent secure cages at the hosting facility to meet their application requirements. We also offer a wide variety of managed hosting services, such as storage, back-up and restoration, performance monitoring and reporting hardware and software procurement and configuration, network configuration as well as spares and replacement. The Fort Knox platform for security management of hosted servers offers Service Level Agreement (SLA)-based security services to protect servers. Our Infrastructure Data Management Services (IDMS) service provides specific services related to building data centers, leveraging on our proven expertise to build world-class infrastructure. During 2006, Sify IDCs at TIDEL Park, Chennai, Vashi, Mumbai and Bangalore certified ISO 27001:2005 standards by BSI. Sify is the first organization to achieve this certification in India for Internet Data Centers.

*Digital Certification.* In technical collaboration with Verisign, a leading provider of Internet trust services, we have formed a wholly-owned subsidiary, Sify Communications Limited, to provide managed digital certificate-based authentication services in India. Sify Communications Limited is the principal affiliate of Verisign in India and is a member of Verisign's Global Affiliate Network. Sify Communications Limited was accredited as the first Certifying Authority for issuance of Certificate for Digital Signature by the Ministry of Information Technology, Government of India.

*Remote Management Services.* This service provides continuous proactive management and support of customer operating systems, applications and database layers through specialized monitoring tools and infrastructure experts to ensure that our customers' infrastructure is performing optimally.

Our corporate network/data services division accounted for approximately 56%, 54% and 58% respectively, of our revenues in fiscal years 2005, 2006 and 2007. We believe that corporate services will continue to be the largest part of our business for the immediate future.

*VOIP Services.* We offer a comprehensive VOIP services covering Managed Voice for Enterprises particularly in IT/ITES segment to meet their international business communications. As part of the service Hosted dialer platform is also provided to enable BPOs to use this infrastructure as a service.

*Internet access services.*

Our Internet access services for retail consumers include high-speed/broadband access to homes over cable, public Internet access from our network of *iway* cybercafés, VoIP and dial-up access to homes.

*Public Internet Access.* We provide public Internet access to the large segment of the Indian population that does not own a personal computer through our network of *iway* cybercafés. Sify operates these *iway* cybercafés on a franchisee model. As of March 31, 2007, we had 3,638 *iways* in 129 cities, of which 3,600 cybercafés were franchised and 38 cybercafés were owned and operated by our company. We believe we are the largest branded network of cybercafés in India.

In connection with our franchised *iways*, we grant each franchisee a non-exclusive license to operate the cybercafé using our logo, brand and trade names. We enter into an agreement with the franchisee establishing the rights and obligations of each party. In connection with the establishment of a franchised *iway*, we receive an initial franchise fee that covers the following upfront services rendered by our company:

conducting a market survey and deciding on the best location for the cybercafé;

installing the broadband receiver equipment on the roof of the cybercafé and linking it to one of our broadcasting towers;

obtaining the regulatory approvals for wireless transmission at the allotted frequency range;

installing the wiring from the receiver unit to the individual personal computers;

assistance in obtaining facilities, including computers and furnishings; and

providing an operations manual with instructions and guidelines for running the cybercafé.

The cybercafés are owned and operated by the franchisees. The franchisee procures the retail space, invests in furniture, interior decor, personal computers, point of sale signage and employs/trains the staff. The franchisee is responsible for the maintenance of the premises and interface with customers. We provide the complete back-end support, including bandwidth, the authentication/usage engine and the billing/collection system. The prices to be charged to the customers and the services that can be rendered are controlled by Sify. On average, these *iways* have about seven personal computers and operate in an area of about 250 square feet. All *iways* operate on a prepaid subscription model, and the end customer has the ability to browse from any of the *iways* using the roaming facility that Sify provides. The billing system allows us the option of charging different prices based on the services used, time of usage and the place of use. More than 99% of these cafés are connected through the wireless mode, on the 5.7 GHz or the 2.4 GHz spectrum, with a subscriber unit placed on the top of the building and connected to an access point in a tower that is within a 5 kilometre radius from this location. We believe the *iways* offer a superior browsing experience compared to other cybercafés that operate on either a leased line or an ISDN facility. Today, *iways* are being used for a multitude of services including VoIP, video conferencing, online examination centres, online games and also as e-distribution points.

*Voice Over Internet Protocol.* VoIP can be used in India for making International calls. We have leveraged on our extensive network of *iways* to offer VoIP. As of March 31, 2007, more than 2,108 of the *iways* had the capability to provide VoIP. We have also started providing these services through standalone VoIP booths at various strategic locations (851 of them) in major cities. We offer the ability of making international calls to more than 165 countries, and have partnered with a few international carriers for carrying the traffic. These services are offered at prices that are up to 70% lower than those offered by the International long distance operators, and therefore provide a distinct value advantage to the end user. We use MPLS enabled technology that ensures voice clarity. Based on statistics provided by the various ISPs to TRAI, we enjoy the market share of around 20.3 % share of the Internet telephony market for the year ended March 31, 2007.

*VoIP for home:* We apart from offering VoIP services through *iways* and VoIP booths, provide VoIP services for all home users. This product is called Sifytalk and is a PC 2 Phone prepaid product. Using the prepaid pack the user will be able to make international calls from his PC to any international destinations. The pricing for this product is extremely affordable and starts with Re1. The user can use sifytalk by connecting to any broadband connection.

*BroadBand/High Speed Internet to Home:* The Sify Broadband Business Model, over the past few years, has emerged as the most unique and cost-efficient model for scaling up broadband across the country. It leverages the brand, marketing and technical might of Sify as an ISP and the strengths of cable Operators in having right of way & the network required to connect Customers at a marginal cost.

Our model, a hybrid (a cable and wireless combination), has given us a winning edge in terms of the connect-cost over the incumbent-BSNL / MTNL as well as new TELCOs. Sify's India-Model becomes further unique as the availability

of wireless spectrum is uncertain and subject to serious commercial controversy. Consequently, a combination of wireless to the cable operator and cable to home (70 million cable homes) is definitely a plan that will enable us in succeeding as broadband to 30 million urban fixed lines is much tougher than it would have been with LLU in place. The remainder 15 million fixed lines are rural and outside our consideration set. We believe that our current biggest strength lies in our marketing. We have built our reputation through our focused and targeted investment and business development strategy. Due to our relations with cable operators, we can utilize huge reach available over 20 million homes in promoting our service on cable networks.

Innovation at Sify is a continuous process and coupled with Customer focus, we have dedicated the entire power and control to our valued subscribers by introducing Direct Renewal Facility, which allows a Sify broadband subscriber to renew his connection at anytime of the day or night from the comfort of his home. Even users whose validity has expired or pack amount is not available can login and re-charge his account. The subscriber gets full freedom to recharge according to the needs, convenience and at any time of the day-the recharge amount can be paid conveniently within three days from the time of recharge.

We believe that we have added another wave of revolution in the telecom landscape in this country. By introducing Sify Phone, the first of its kind in India to allow unlimited calls for a flat monthly charge of Rs. 230/- for our broadband subscribers, we believe we greatly expanded the number of telephone users. Based on Voice over Internet Protocol, this facility will be available to Sify Broadband subscribers as a Closed User Group service.

Furthermore, to increase the penetration of broadband users by providing seamless connectivity for a home broadband user, we are in the process of launching a unique service called Sify Anywhere. This innovation for the first time again in the industry will allow the user to use the broadband service whilst at home and when on the move can access it through dialup or even walk into any of the 3638 Sify iways across the country.

Our Internet access services division accounted for approximately 38.9%, 38.8%, and 34.2% of our revenues in fiscal years 2005, 2006, and 2007 respectively.

#### *Online Portal Services*

We operate online portals, including India's first broadband content portal, [www.sifymax.in](http://www.sifymax.in), and a group of websites under [www.sify.com](http://www.sify.com) and an NRI portal, [www.samachar.com](http://www.samachar.com), that function as principal entry points and gateways for accessing the Internet by providing useful web-related services and links. We also offer related content sites specifically tailored to Indian interests worldwide in five local Indian languages. Our portal sites, [www.sifymax.in](http://www.sifymax.in) and [sify.com](http://sify.com), are designed to be the initial launch screen for all of our SifyOnline customers and iway users.

Sify.com provides a gateway to the Internet by offering communication and search tools such as email in 11 languages, messaging, chat, blogs, e-greetings and search engine to classifieds, jobs, travel, online portfolio management and channels for personal finance, astrology, lifestyle, shopping, movies, sports and news. It has been designed to address a wide audience, incorporating world class design and usability. The finance portal [www.walletwatch.com](http://www.walletwatch.com) covers the entire spectrum of equity markets, business news, insurance, mutual funds, loans and a host of paid and free financial services. The sports channel [www.khel.com](http://www.khel.com) covers the entire gamut of Indian and international sports with special focus on cricket. The food channel [www.bawarchi.com](http://www.bawarchi.com) focuses on Indian recipes and cooking and is especially popular among Non-resident Indians (NRIs) audiences with over 90% of its content being user generated. The community tools in Sify.com include discussion boards, blogs and groups.. The astrology website Sify astrology was adjudged the best Indian astrology by PC World magazine, in May 2007 on account of its high interactivity and relevant content.

SifyMax.in provides live streaming and on demand video and audio content in 28 categories, including films and music, general entertainment, lifestyle, TV reality shows, podcasts, video blogs, business, sports and national news. Sify Max streams video content live (24 X 7) from TV channels like CNN-IBN & CNBC and hosts 3 radio stations offering Bollywood hits, latest chart-busters, Indipop and international in multiple languages. Sify Max has also been the official Internet partner of India's most popular reality shows. Sify Max is a pioneer in live video streaming, having webcast the Indian budget 2007, Mumbai Marathon, Lakme Fashion Week, the India Today Conclave and cricket matches. We now also have city specific entertainment focused websites [www.mumbailive.in](http://www.mumbailive.in), [www.bangalorelive.in](http://www.bangalorelive.in), [www.hyderabadlive.in](http://www.hyderabadlive.in) that focus on rich video content of interest to the residents of that particular city including shopping, best buys, cinema and entertainment, and popular restaurants in the city.

We believe that NRIs or non-resident Indians, have greater ease of access to the internet than Indians residing domestically. Our NRI news portal, [www.samachar.com](http://www.samachar.com) focuses on Indian news and allows NRIs to stay connected to India by aggregating news from across all popular newspapers and other news portals. This portal provides a range of news in English and five Indian languages, entertainment and services, including money transfer and gifting, that help millions of NRIs. We also launched our NRI Finance site to cater to increasing financial needs of the NRI community.

Sifymall.in, the online shopping mall, stocks products from India's leading brands and products. We believe that it offers competitive prices and a secure and convenient method of purchase. Users can buy using their credit or debit card, pay cash on delivery or send a check.

Sify Mobile was launched during the year 2004 with 4545 as its short code. Its focus has been on providing relevant regional content to cater to the burgeoning number of mobile users in India. The range of services includes downloadable ring tones, wallpapers, news, cricket scores and a variety of other interactive services. Sify mobile has also tied up with mobile operators to tailor specific applications and content of interest to mobile consumers. In fiscal years 2005, 2006 and 2007, our online portal services division accounted for approximately 2.9%, 3.8% and 5.1%, respectively, of our total revenues. The increase in revenue from portal services is on account of diversified service offering and increased sponsorship and advertising revenues.

#### **Corporate Customers**

We have established a diversified base of corporate customers in a variety of data intensive industries, including information technology enabled services (ITES), banking financial services and Insurance (BFSI), publishing, retail, pharmaceuticals and manufacturing. Our corporate customer base has grown to over 1,500 customers. Based on fiscal year 2007 revenues generated by our corporate network/data services division, our ten largest corporate customers were GE Capital Services India, Global Crossing, The Oriental Insurance Company Limited, Sigma Distributors (P) Limited, Satyam Computer Services, ERNET, Hutchison Essar, Financial Technologies India Limited, ICICI Prudential Life Insurance Company and Oracle Software India Ltd. No single customer accounted for more than 10% of our revenues in respect of the fiscal years ended March 31, 2005, March 31, 2006 and March 31, 2007. The increased scope of the services we offer, particularly the provision of broadband services to our existing customers and International IPVPN services along with the increased reach of our network, has increased our market base.

#### **Customer Service and Technical Support**

We believe that excellent customer support is critical to our success in attracting and retaining subscribers. We currently provide customer service and technical support via a local telephone call in most of the cities in which we have a point of presence. Our web-based help desk and MIS system provide online information to our clients. Subscribers can also e-mail their questions directly to a customer service and technical support address at our company. Our customer service and technical support staff handles all questions regarding a subscriber's account and the provision of our services and is available 24-hours-a-day, seven-days-a-week.

#### **Sales and Marketing**

*Corporate Offerings.* The principal focus of our sales and marketing staff is to acquire new customers and maintain account relationship with the existing corporate customers. We seek to penetrate this market through trade publication ads, industry trade shows and seminars for the benefit of industry associations and potential customers. As of March 31, 2007, we had 153 employees dedicated to sales and marketing exclusively for our corporate offerings.

*Consumer Offerings.* A key element of our business strategy is to increase our brand awareness and market penetration among consumers through a number of means including an expanded advertising campaign focused primarily on print advertising, direct mail and free software to consumers who become subscribers.

In addition, we intend to continue to operate cybercafés under the *iway* brand name, and to enter into relationships with independent cybercafés to co-brand our websites with their businesses, in order to expand access to our portal and websites by consumers who do not own a personal computer or have Internet access at home. To increase Internet access and use of our websites by personal computer buyers, we have entered into arrangements with a leading personal computer manufacturers to have our Internet access software bundled with their computers sold in India.

#### **Technology and Network Infrastructure**

We operate a national Internet protocol private data network with 188 points of presence serving more than 250 cities and towns across India, which we believe represents an estimated 95% of the installed personal computer base in India. A point of presence is commonly defined as the ability to access online services in a market through a local telephone call or local leased lines. We operate our network facilities and customer service operations, which gives us greater control over the utilization and quality of our network. We have designed and built our network using advanced technologies and equipment which allows us to continue to expand the geographic range of our network, integrate improved data processing technologies and enhance speed and capacity with little or no disruption to our customers.



*Geographic Coverage.* Through our national network of points of presence, our business and consumer Internet access customers are able to access the Internet in 188 of the largest markets in India via a local phone call on dial-up or through our cybercafé chain or local leased lines. We have backbone points of presence, or POPs, in Ahmedabad, Bangalore, Bhopal, Kolkata (Calcutta), Chennai (Madras), Kochi (Cochin), Chandigarh, Delhi, Hyderabad, Lucknow, Mumbai (Bombay) and Pune. These backbone points of presence, or primary nodes, reside at the core of a larger Internet protocol network with a partially meshed topology architecture. We have additional points of presence, or secondary nodes/base stations, in 179 other towns and cities. Each point of presence contains data communications equipment housed in a secure facility owned, leased or operated on an infrastructure co-location basis by our company located near a Bharat Sanchar Nigam Limited (BSNL), Mahanagar Telephone Nigam Limited (MTNL) or private basic service operator (BSO) telephone switching station. Most points of presence contain a modem bank which receives and aggregates incoming calls from customers who access our system by modem connection through a local call on the public telephone system, and then switches and routes aggregating broadband subscribers on wireless and fiber. The last mile of the Internet could be a leased line, ISDN or point-to-multipoint radio link in the 5.7, 2.5 or 3.3 gigahertz range which we have licensed from the Wireless Planning Commission. We also use 2.4 ghz radios, which do not require an operating license, in some locations. Our larger corporate customers access the point of presence directly through leased lines or wireless links.

*Network Architecture.* We ensure network reliability through several methods and have invested in proven technologies. We use Cisco routers to route traffic between nodes interconnected using a high speed interface. Most of our applications and network verification servers are manufactured by IBM, Sun and Hewlett-Packard.

The primary nodes on the backbone network are connected by multiple high-speed fiber optic lines that we lease from long distance operators. The secondary nodes are connected by lower speed leased lines. A number of nodes are accessible from at least two other nodes, if not, by two long distance operators, allowing us to reroute traffic in the event of failure on one route. We reduce our exposure to failures on the local loop by usually locating our points of presence within range of service providers switching equipment and purchasing connectivity from multiple providers. To further maximize our network uptime, we are almost completely connected on fiber optic cables to the switching points of our service providers from our POPs.

In addition to a fundamental emphasis on reliability and security, our network design philosophy has focused on compatibility, interoperability, scalability and quality of service. We use Internet protocol with Multi Protocol Label Switching, or MPLS, to transmit data, thus ensuring that our network is completely interoperable with other networks and systems and that we may port any application onto our network. The modular design of our network is fully scalable, allowing us to expand without changing the network design or architecture, thus ensuring little or no service disruption.

*Network Operations Center.* We maintain a network operation center located in Chennai (Madras) and a backup secondary facility in Mumbai (Bombay). The Chennai facility houses our central network servers as well as our network staff which monitors network traffic, service quality and equipment at all our points of presence to ensure a reliable Internet service. These operation centers are staffed 24-hours-a-day, seven-days-a-week. We have backup power generators and software and hardware systems designed to prevent network downtime in the event of system failures. In the future, we may add additional facilities to supplement or add redundancy to our current network monitoring capability.

*Data Centre Infrastructure.* We operate three level 3 Internet Data Centres, one each in Mumbai, Chennai and Bangalore. Sify offers industry ready managed hosting, security and infrastructure management services from these facilities.

## Competition

*General.* We face competition in each of our markets and expect that this competition will intensify as the markets in India for corporate network/data services, Internet access services and online content develop and expand. We compete primarily on the basis of service, reliability and customer support. Price and ease of use are also competitive factors.

*Corporate Network/Data Services.* Our competitors for many private network services include government services companies that have built and operate their own private data networks. For Internet access, our main competitors are Bharti Televentures, Reliance Infocomm and VSNL, whereas for domestic VPN, our main competition includes terrestrial network providers, such as Bharti, Reliance and Tata Indicom, and satellite communications agencies, such as Bharti BT (which recently bought Comsat Max) and HCL Comnet. For international MPLS VPN, our main competition is from MCI, AT&T and Bharti BT.

*Internet Access Services.* As of March 31, 2007, approximately 125 companies were operational with an Internet service provider license in India. During the last few years, BSNL and MTNL, the leading government owned telecom providers, have grown their dial-up businesses significantly by bundling their Internet services with basic telephony services. Their subscriber base grew by around 55% during the year 2004 and by about 50% in the year 2005, while the subscriber base of the private operators increased marginally in 2004 and decreased by 1% in 2005. BSNL and MTNL have approximately 58% of the market share as of December 31, 2005. While the dial-up segment will grow, we expect the market for broadband Internet services to grow rapidly in the future due to additional telecom providers emerging as competitors. We expect the market for consumer Internet access to remain extremely price competitive as late market entrants attempt to acquire customers.

There is no single significant competitor in the cybercafé space. Reliance Infocomm, a member of the Reliance group, has approximately 225 webworlds. Currently, the market is highly fragmented and dominated by individual entrepreneurs who own Internet cafés, with a few personal computers connected to the Internet through a leased line or ISDN line. With considerably lower overheads, these individuals are able to offer Internet access at lower rates. We compete by offering faster browsing speeds, improved overall ambience at our *iways*, convenient billing systems and roaming facilities.

*Online Portal Services.* There are several other companies in India that have developed websites, including rediff.com which completed its initial public offering in the United States in June 2000. The market is dominated by Sify.com, Rediff.com, Indiatimes.com, Yahoo.co.in, MSN.co.in and Google.com. Most of the services offered on these portals are similar with very little differentiation. Google established an office in India and began operations during the year ended March 31, 2005.

All the above mentioned portals are competing for a share of the online services market in India, which is dominated by online advertising, mobile telephone short code revenues and e-commerce. In terms of the share of the online advertising market, we are one of the leading companies. However, we lag competitors in mobile telephony short code and e-commerce services.

Most of our online portal competitors enjoy the following advantages compared to our company:

- larger production and technical staff;

- greater name recognition and larger marketing budgets and resources; and

- substantially greater financial, technical and other resources.

To be competitive, we must constantly innovate and introduce new services to the market quickly. We also need to keep pace with rapidly changing technology in this area. Increased competition could result in loss of market share, reduced prices or reduced margins, any of which could adversely affect our business.

## Intellectual Property

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. We have filed a number of trademark applications for registering our product and service offerings. The registration certificates for some of the critical Trade Marks viz. Sify , Sify com. , Internet works for you , Sify Online

have been received and the other are currently pending with regulatory authorities.

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. Unauthorized parties may infringe upon or misappropriate our services or proprietary information. In addition, the laws of India do not protect proprietary rights to the same extent as laws in the United States, and the global nature of the Internet makes it difficult to control the ultimate destination of our services. For example, the legal processes to protect service marks in India are not as effective as those in place in the United States. The misappropriation or duplication of our intellectual property could disrupt our ongoing business, distract our management and employees, reduce our revenues and increase our expenses. In the future, litigation may be necessary to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Any such litigation could be time-consuming and costly.

We could be subject to intellectual property infringement claims as the number of our competitors grows and the content and functionality of our websites or other service offerings overlap with competitive offerings. Defending against these claims, even if not meritorious, could be expensive and divert management's attention from operating our company. If we become liable to third parties for infringing their intellectual property rights, we could be required to pay a substantial damage award and forced to develop non-infringing technology, obtain a license or cease selling the applications that contain the infringing technology. We may be unable to develop non-infringing technology or obtain a license on commercially reasonable terms, or at all.

We also rely on a variety of technologies that are licensed from third parties. We use software developed by these and other companies to perform key functions. These third-party licenses may not be available to us on commercially reasonable terms in the future. The loss of any of these licenses could delay the introduction of software enhancements, interactive tools and other features until equivalent technology could be licensed or developed. Any such delays could materially adversely affect our business, results of operations and financial condition.

#### **Government Regulation**

Our business is subject to comprehensive regulation by the Ministry of Communications through the Telecom Commission and the Department of Telecommunication, or DOT, pursuant to the provisions of the Indian Telegraph Act of 1885, or Telegraph Act, the India Wireless Telegraphy Act, 1933, or Wireless Act, the Information Technology Act, 2000 or IT Act and the terms of our Internet service provider license issued by the DOT under which we operate. Pursuant to the Telegraph Act, the provision of any telecommunications services in India requires a license from the Government of India, obtained through the DOT. While the Telegraph Act sets the legal framework for regulation of the telecommunications sector and the Wireless Act regulates the possession of wireless telegraphy equipment, much of the supervision and regulation of our company is implemented more informally through the general administrative powers of the DOT, including those reserved to the DOT and other governmental agencies under our license.

In March 1997, the Government of India established the TRAI, an independent regulatory authority, under the provisions of the Telecom Regulatory Authority of India Act. The TRAI is an autonomous body consisting of a chairperson and at least two and not more than four members.

Under the Telecom Regulatory Authority of India Act, the functions of the TRAI are to:

- make recommendations on (i) the need and timing for the introduction of new service providers, (ii) the terms and conditions of licenses granted to service providers, (iii) the revocation of licenses for non-compliance, (iv) measures to facilitate competition and promote efficiency in the operation of telecommunications services so as to facilitate growth in such services, (v) technological improvements in the services provided by service providers, (vi) the type of equipment to be used by service providers, (vii) measures for the development of telecommunications technology and the telecommunications industry and (viii) the efficient management of the available spectrum;

discharge the following functions: (i) ensure compliance of the terms and conditions of licenses, (ii) fix the terms and conditions of interconnectivity between service providers, (iii) ensure technical compatibility and effective interconnection between service providers, (iv) regulate revenue sharing arrangements between service providers, (v) establish standards of quality of service, (vi) establish time periods for providing local and long distance

telecommunications circuits between service providers, (vii) maintain and keep for public inspection a register of interconnect agreements and (viii) ensure effective compliance of universal service obligations;

levy fees and other charges at such rates and in respect of such services as may be determined by regulation; and

perform such other functions as may be entrusted to it by the Government of India or as may be necessary to carry out the provisions of the Telecom Regulatory Authority of India Act.

The TRAI also has the authority to, from time to time, set the rates at which domestic and international telecommunications services are provided in India. The TRAI does not have authority to grant licenses to service providers or renew licenses, functions that remain with the DOT. The TRAI, however, has the following powers:

to call on service providers to furnish information relating to their operations;

to appoint persons to make official inquiries;

to inspect the books of service providers; and

to issue directives to service providers to ensure their proper functioning.

Failure to follow TRAI directives may lead to the imposition of fines. Decisions of the TRAI may be appealed to the Telecom Disputes Settlement and Appellate Tribunal.

In November 1998, the Government of India opened the Internet service provider market to private competition, and the DOT instituted a mandatory license requirement for the provision of Internet services. We entered into a license agreement with the DOT on November 12, 1998 with effect on the same day, under which we were granted a license to provide national Internet services on a non-exclusive basis. The terms and conditions of our license are generally consistent with the policy for licensing Internet service providers. The term of our license is 15 years. Our license can be revoked by the DOT if we breach the terms and conditions of the license. The DOT retains the right to take over our network and to modify, revoke, terminate or suspend the terms and conditions of the license at any time if, in its opinion, it is necessary or expedient to do so in the interest of general public, or for the proper operation of the telecommunications sector or for security considerations. The DOT also retains the right to review the terms of our license based on changes in national telecommunications policy. We are not allowed to assign or transfer our rights under our license without the prior written consent of the DOT.

The Government of India has revised foreign investment policies permitting up to 74% foreign equity in an Internet service provider that operates its own international gateways. We currently do not operate any international gateways and are technically allowed to have 100% foreign equity in our company, subject to all clearances and approvals.

Our license also requires us to ensure that objectionable, obscene and unauthorized content, or any other content, messages or communications infringing copyrights, intellectual property rights and domestic and international cyber laws or which is inconsistent with the laws of India, is not carried on our network.

Although under the terms of our license we are free to fix the prices we charge our subscribers, the TRAI may set prices for the provision of Internet access services generally. We are permitted to use encryption to safeguard information transmitted over our network. However, if we use a higher level of encryption than that specified by the Government of India, our license requires us to deposit a set of keys with the Government of India. License fees are waived through October 31, 2003 and a nominal license fees of Rs. 1per annum is payable from November 1, 2003. Our obligations under the license are secured by a performance bank guarantee in the amount of Rs.10.0 million (\$0.2 million).

We may be required to import into India network equipment, computer hardware and Internet related software purchased from foreign manufacturers for business purposes. These imports will be subject to the Export and Import Policy as declared by the Ministry of Commerce. At the time of import, we will be required to pay a customs duty pursuant to the Customs Tariff Act, 1975.

In December 2004, as per the Government of India ( GOI ) guidelines regarding Virtual Private Network ( IP-VPN ) services by Internet Service Providers ( ISPs ), the Company paid Rs.100,000 as an entry fee for a 15 year license and submitted a financial bank guarantee of Rs.10,000. In addition, the ISP licensees were required to pay an annual fee at a prescribed rate of the adjusted gross revenues generated under the ISP license for IP-VPN services.

On November 10, 2005, the GOI issued guidelines for obtaining National Long Distance ( NLD ) and International Long Distance ( ILD ) licenses including the terms and conditions for the licenses. These guidelines eliminated the IP-VPN license, entitling the Company to a full refund of the Rs.100,000 entry fee, and permitting existing IP-VPN license holders to migrate to the NLD and ILD service licenses effective January 1, 2006. The Company discontinued amortization of the IP-VPN license effective November 10, 2005 and reversed the amortization of the license fee.

As the NLD and ILD licenses were under the regime of Department of Telecommunications, the notification of the GOI dated 7 November 2005 was required to be complied with to receive NLD and ILD licenses. The primary condition set out in the notification among other conditions was that, the total composite foreign holding by the applicant should not exceed 74 per cent. Given that the foreign shareholding in Sify was higher than the aforesaid threshold limit, Sify Communications Limited (Sify Comm), a wholly-owned subsidiary of the Company decided to obtain the NLD and ILD licenses in its name and made necessary applications in this regard. To facilitate this, Sify divested its stake in Sify Comm to the extent of 26% of its holding in Sify Comm, or 4,680 shares, to M/s Infinity Satcom Universal (P) Ltd (Infinity Satcom), a related party, for a sale consideration of Rs.139,810 during the quarter ended December 31, 2005. M/s Infinity Satcom a company incorporated under the laws of India, is owned by Anand Raju, who is the brother of Raju Vegesna, Chairman of Sify's Board of Directors and the principal of Infinity Capital Ventures, LP ( Infinity Capital ). Infinity Capital owns approximately 41.83 % of Sify's outstanding equity shares.

On November 21, 2006, Sify Comm executed two License Agreements with GOI, for NLD and ILD licenses respectively (Rs. 25,000 paid for each license), which enabled Sify Comm to provide IP-VPN services. Accordingly, the Company has transferred its IP VPN business to Sify Comm effective November 22, 2006 and the latter commenced the said services on the same day. Sify Comm has also furnished bank guarantees for Rs.200,000 each for NLD and ILD licenses to GOI. These licenses are valid for an initial period of 20 years and can be renewed for another 10 years at one time, upon request of the licensee made during the 19<sup>th</sup> year of license.

We incurred Rs.74.77 million for the period from April 1, 2006 to March 31, 2007 towards the 6% annual fee on VPN revenue as per the IP VPN license. The government has also revised guidelines, defining Adjusted Gross Revenues ( AGR ) for the purpose of levying annual license fee on VoIP services. As per these guidelines we incurred Rs.14.74 million for the period from April 1, 2006 to March 31, 2007, towards the annual license fee.

#### **Organization Structure**

We are not part of any group. A list of subsidiaries and relevant information about them is provided in Exhibit 8.1.

#### **Property, Plant and Equipment**

We own our approximately 100,000 square foot corporate headquarters located in Chennai (Madras), India and an approximately 20,000 square foot regional office in Mumbai (Bombay). We lease an approximately 3,500 square foot network operations center in Chennai, a 20,000 square feet data center in Vashi, Mumbai and a 6,000 square foot office space in Prabhadevi, Mumbai. Our Chennai facility houses our central network servers as well as our network staff which monitors network traffic, service quality and equipment at all our points of presence, or POPs, to ensure a reliable Internet service. We have POPs in 188 towns/cities across India. Most of our POPs are staffed 24-hours-a-day, seven-days-a-week. Our POPs average approximately 750 square feet at each location. We have backup power generators and software and hardware systems designed to prevent network downtime in the event of system failures. In the future, we may add additional facilities to supplement or add redundancy to our current network monitoring capability.

#### **Item 4A. Unresolved Staff Comments**

**None.**

## **Item 5. Operating and Financial Review and Prospects**

*The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this Annual Report. See Risk Factors regarding certain factors known to Sify that could cause reported financial information not to be necessarily indicative of future results, including discussions of the risks related to the development of new products and services, our intellectual property, investments in Indian companies, the Internet and the Internet market in India.*

### **Overview**

Please see the section entitled Item 4. Information on the Company Business Overview in this annual report.

### **Operating Results**

The primary operating segments of our company are:

corporate network/data services, which include private network services, messaging services, security services, remote management services and web hosting for businesses;

Internet access services;

online portal services and content offerings; and

other services, such as development of content for e-learning.

### **Revenues**

#### *Corporate network/data services*

Our corporate network/data services revenues primarily include connectivity services revenue and, to a lesser extent, revenues from the sale of hardware and software purchased from third party vendors, installation of the link and other ancillary services, such as e-mail, document management and domain registration. Generally, these elements are sold as a package consisting of all or some of the elements. Our connectivity services include IPVPN services, Internet connectivity, last mile connectivity (predominantly through wireless), messaging services, security services and web hosting for businesses. We provide these services for a fixed period of time at a fixed rate regardless of usage, with the rate for the services determined based on the type of service provided, scope of the engagement and the Service Level Agreement, or SLA. Our web hosting service revenues are primarily generated from co-location services and connectivity services. Our security services revenues include revenue from consulting services, vulnerability assessment and penetration testing.

#### *Internet access services*

Internet access services revenues are generated from the Internet connectivity we provide to our retail customers through public access and home access services. Home access services are provided through dial-up packs and broadband connectivity, which is provided through arrangements with CTOs. Our public access services are provided through franchised and company-owned cybercafés. Additionally, we generate revenue by providing Internet Telephony services, allowing customers to make international telephone calls over the Internet.



*Online portal services and content offerings*

Online portal services revenues include advertising revenues from the various channels of our Internet portal, www.sify.com. We enter into contracts with customers to serve advertisements in the portal, and we are paid on the basis of impressions, click-throughs or leads. Revenues also accrue from commissions earned on products and services rendered through www.sifymall.com, and also from value-added services that are rendered using our mobile telephone short code, 4545.

*Other services*

Other services include revenue from e-learning. We develop and upload content for e-learning to facilitate web-based learning in various organizations. We provide e-learning services on a time-and-materials or on a fixed-price basis.

In Note 28 to our consolidated financial statements, we provide supplemental segment data, which provides separate revenue and operating income (loss) information for each of these business segments. This information is available in Item 18 Financial Statements of this annual report and is incorporated herein by reference.

**Expenses**

**Cost of revenues**

*Corporate network/data services*

Cost of revenues for the corporate network/data services division consists of telecommunications costs necessary to provide services, customer support costs, cost of goods in respect of communication hardware and security services sold and the cost of providing network operations. Telecommunications costs include the costs of international bandwidth procured from VSNL and satellite gateway providers and are required for access to the Internet, providing local telephone lines to our points of presence, the costs of using third-party networks pursuant to service agreements, leased line costs and costs towards spectrum fees payable to Wireless Planning Commission, or WPC, for provision of spectrum in the 5.7 GHz range to enable connectivity to be provided on the wireless mode for the last mile. In addition, the Government of India has recently imposed an annual license fee of 8% of the adjusted gross revenue generated from the provision of IPVPN services under our ISP license for the period January 11, 2005 to December 31, 2005 and 6% of the adjusted gross revenue for the period from January 1, 2006 for incomes generated from VPN business.

*Internet access services*

Cost of revenues for the Internet access services division consists primarily of recurring telecommunications costs necessary to provide service to subscribers, direct costs paid to franchisees for running the *iways* and to cable television operators for providing Internet services through cable to customers as well as voice termination charges for VoIP services. The Government of India also has imposed an annual license fee of 6% of the adjusted gross revenue of the VoIP from January 1, 2006 onwards. Another recurring cost included in cost of revenues is the personnel and related operating expenses associated with customer support and network operations.

*Online portal services and content offerings*

Cost of revenues for the online portal services and content offerings division includes the cost of procuring and managing content for the websites and cost of ringtones downloaded by using our mobile telephone short code 4545.

*Selling, general and administrative expenses*

Selling, general and administrative expenses consists of salaries and commissions for sales and marketing personnel, salaries and related costs for executive, financial and administrative personnel, sales, marketing, advertising and other brand building costs, travel costs, and occupancy and overhead costs.

*Depreciation and amortization*

We depreciate our tangible assets on a straight-line basis over the useful life of assets, ranging from two to five years and, in the case of buildings, 28 years. We do not amortize goodwill or indefinitely lived intangible assets recognized in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. We assess for impairment of long-lived assets under SFAS No. 144. The carrying value of long-lived assets are compared with the adjusted estimated future cash flows at the identifiable business segment level. If the sum of such undiscounted cash flows is less than the aggregate carrying amount, the asset is not recoverable and the impairment loss is recognized.

*Amortization of deferred stock compensation expense*

A total of 3.2 million equity shares are reserved for issuance under our Associate Stock Option Plan (ASOP). As of March 31, 2007, we had outstanding an aggregate of 874,445 options (net of 1,317,701 options that have been forfeited by employees or expired) under our ASOP with a weighted average exercise price equal to approximately Rs.390.42 (\$9.05) per equity share. The unamortized deferred compensation expense related to these grants amounted to Rs.69 million as of March 31, 2007.

**Results of Operations***Year ended March 31, 2007 compared to year ended March 31, 2006*

*Revenues.* We recognized Rs.5,447.34 million (\$126.3 million) in revenues for the year ended March 31, 2007, as compared to Rs.4,681.8 million for the year ended March 31, 2006, representing an increase of Rs.765.54 million, or 16.35%.

The revenues generated by our corporate network/data services businesses increased by Rs.616 million, or 24.34%, over the previous year. The increase is attributable to increases in connectivity revenues of Rs.505.8 million, Hardware and software sales of Rs.57.60 million, and security consultancy revenues of Rs.57.7 million, offset by a decrease in revenues from installation of Rs.5.1 million. The corporate network/data services businesses successfully obtained a significant number of new orders and a large number of incremental orders from customers with operations throughout India for providing IPVPN and Internet connectivity. We currently have more than 1,575 corporate customers of our connectivity services.

The increase in consumer Internet access revenues was Rs.48.8 million, or 2.69%, over the previous year. The increase was as a result of an increase in revenues from home based broadband subscribers of Rs.183.7 million or 40.9% and Rs.16.1 million or 130% increase from Others. These increases were partially offset by a decrease of Rs.42.8 million or 34.1% in the revenues from the dial-up business. and Rs.4.6 million, or 0.71% from public Internet access revenues and Rs.67.9 million, or 21.81%, from voice-over-IP services The franchise fees recognized were lower at Rs.67.3 million for the year ended March 31, 2007, compared with Rs.103 million for the year ended March 31, 2006. During the course of the year, the number of cybercafés increased from 3,307 to 3,638 as of March 31, 2007. The subscribers of the high speed Internet access to homes increased by more than 18% during the year, from approximately 183,000 as of March 31, 2006 to more than 215,000 as of March 31, 2007. The average revenue per user or ARPU, per month (Revenue from internet access services to home divided by monthly average of the number of users) fell by about 4% during the year. We experienced a 26% decrease in the volume of VoIP calls made from our cybercafés and VoIP booths during the year, which we believe was due to reduction in the prices. During the year in spite of decrease in volume of VoIP calls from our cybercafés and VoIP booths, our overall voice minutes grew by 14% . The average realisation per minute or ARPM (Revenues from VoIP services divided by total minutes of usage during the year) dropped by about 30% during the year, part of which is attributable to the lower price range of the service offered to the IT/ ITES segment. Our dial-up business continued to decline with a decrease in the number of subscribers as well as the usage minutes.

Our online portal and content offerings division accounted for Rs.262.9 million of revenues for the year ended March 31, 2007, as compared to Rs.179 million for the year ended March 31, 2006, representing an increase of Rs.83.91 million, or 46.88%. This increase was on account of revenues from advertising increasing by 10.13%, and on account of increase in revenues from e-commerce and in value-added services short code services.

Revenues from our other businesses increased from Rs 157.6 million to Rs 174.13 million, or 10.48%. The increase is due to new projects and increase is also due to high volume of the business from the existing customers.



*Cost of Revenues.* Cost of revenues was Rs.2,908.26 million (\$67.47 million) for the year ended March 31, 2007, compared to Rs. 2,534.72 million for the year ended March 31, 2006, representing an increase of Rs.373.54 million, or 14.74%. This increase was due to a Rs.182.55 million increase in cost of goods sold, a Rs.66.71 million increase in direct expenses paid to franchisees and CTOs, a Rs.33.17 million increase in directly billable manpower and the technology department, a Rs.99.81 million increase in other expenses and Rs.8.73 million decrease in bandwidth and voice termination cost. Cost of goods sold includes Rs.89.51 million towards an annual license fee on the revenues earned from VPN and VOIP services we provided for the year ended March 31, 2007, compared to Rs.42.56 million for the year ended March 31, 2006.

*Selling, general and administrative expenses.* Selling, general and administrative expenses were Rs.1,921.7 million (\$44.58 million) for the year ended March 31, 2007, compared to Rs. 1,852.29 million for the year ended March 31, 2006, representing an increase of Rs.69.47, million or 3.75%. This increase was due to an increase of Rs.32.61 million increase in marketing and promotion expenses and Rs 62.32 Million in Administration and other expenses which mainly includes traveling and rental expenses

*Provision for doubtful receivables and advances.* Provision for doubtful receivables and advances was Rs.153.63 million (\$3.56 million) for the year ended March 31, 2007, compared to Rs.90.67 million for the year ended March 31, 2006, representing an increase of Rs.62.96 million. The provision for doubtful debts for the year was at 2.82% of revenues, as compared to 1.9% during the year ended March 31, 2006. The increase was primarily in the corporate network / data services and portals business. These are primarily on account of disputes with the customers which have arisen in the current year and where the management believes that the recovery of such dues is doubtful.

*Depreciation.* Depreciation for the year ended March 31, 2007 was Rs.410.32 million (\$9.5 million), as compared to Rs.395 million for the year ended March 31, 2006, representing an increase of Rs.15.32 million, or 3.88%. The increase in depreciation is mainly due to increase in asset base on commissioning of the new data center in Bangalore, India and also on account of expansion to new locations.

*Amortization of intangible assets.* Amortization of intangible assets was Rs.50.48 million (\$1.17 million) for the year ended March 31, 2007, compared to Rs 68.75 million for the year ended March 31, 2006, representing a decrease of Rs.18.27 million, or 26.57%. The decrease is as a result of certain intangible assets being fully written off in the previous year.

*Amortization of deferred stock compensation expenses.* Amortization of deferred stock compensation expenses was Rs.60.93 million (\$1.41 million) for the year ended March 31, 2007, compared to Rs.12.75 million for the year ended March 31, 2006, representing an increase of Rs.48.18 million, or 377.8%. The increase was due to new stock options granted during the year ended March 31, 2007 and on account of adoption of SFAS 123R, where the cost is accounted based on the grant date fair value, unlike previous year, where the cost is based on intrinsic value as per APB 25.

*Foreign exchange (gain)/loss.* Foreign exchange gain for the year ended March 31, 2007 was Rs.8.33 million (\$0.19 million), compared to Rs.23.22 million for the year ended March 31, 2006, representing a decrease of Rs.14.89 million, or 64%. This is as a result of the depreciation of U.S. Dollar against the Indian Rupee as compared to March 31, 2007, which impacted the value of our U.S. Dollar denominated cash deposits.

*Other income (net).* Other income was Rs.128.64 million (\$2.98 million) for the year ended March 31, 2007, compared to Rs.59.2 million for the year ended March 31, 2006, representing an increase of Rs.69.44 million, or 117.23%. This is mainly due to an increase in Interest Income (net) of Rs.86.3 million and partially offset by increase in other finance charges and others by Rs. 16.91 million.

*Equity in profit of affiliates.* Equity in the profit of affiliates was Rs.70.22 million (\$1.63 million) for the year ended March 31, 2007, compared to Rs.40.7 million for the year ended March 31, 2006, representing an increase of Rs.29.52 million, or 72.53 %. This is due to increase in the profit of Man Financial-Sify for the year ended March 31 2007.

*Net Profit.* Our net profit was Rs.187.76 million (\$4.4 million) for the year ended March 31, 2007, compared to a net loss of Rs149.2 million for the year ended March 31, 2006 due to increase in revenue and operational efficiency.

*Year ended March 31, 2006 compared to year ended March 31, 2005*

*Revenues.* We recognized Rs.4,681.8 million (\$105.3 million) in revenues for the year ended March 31, 2006, as compared to Rs.3,613.5 million for the year ended March 31, 2005, representing an increase of Rs.1,068.3 million, or 29.6%.

The revenues generated by our corporate network/data services businesses increased by Rs.507.7 million, or 25.1%, over the previous year. The increase is attributable to increases in connectivity revenues of Rs.499.4 million, installation revenues of Rs.12.8 million and security consultancy revenues of Rs.28.9 million, offset by a decrease in hardware and software sales of Rs.33.4 million. The corporate network/data services businesses successfully obtained a significant number of new orders and a large number of incremental orders from customers with operations throughout India for providing IPVPN and Internet connectivity. We currently have more than 1,200 corporate customers of our connectivity services. Sale of hardware includes Rs.0.7 million revenue recognized against sales-type leases. These sales-type lease transactions represent the sale of certain network equipment to corporate customers and franchisees.

The increase in consumer Internet access revenues was Rs.409.2 million, or 29.1%, over the previous year. The increase was as a result of an increase in public Internet access revenues by Rs.82.6 million, or 14.5%, increased revenues of Rs.90.7 million, or 41.1%, from voice-over-IP services, increased revenues from home based broadband subscribers of Rs.274.5 million or 95% and Rs.26.5 million or 93.5% increase from sale of hardware. These increases were partially offset by a decrease of Rs.62.6 million or 33% in the revenues from the dial-up business. The franchise fees recognized were marginally lower at Rs.104.1 million for the year ended March 31, 2006, compared with Rs.108.0 million for the year ended March 31, 2005. During the course of the year, the number of cybercafés increased from 2,471 to 3,307 whereas the number of *iways* in operation was only 1,725 as of March 31, 2004. The subscribers of the high speed Internet access to homes increased by more than 100% during the year, from around 89,000 as of March 31, 2005 to more than 183,000 as of March 31, 2006. The average revenue per user, or ARPU, per month fell by about 24% during the year. We experienced a 65% increase in the volume of VoIP calls made from our cybercafés and VoIP booths during the year, which we believe was due in part to our competitive pricing. We also started offering VoIP services to enterprises in the IT/ ITES segment during the year. Our overall voice minutes grew by 107% during the year. The average realisation per minute dropped by about 30% during the year, part of which is attributable to the lower price range of the service offered to the IT/ ITES segment. Our dial-up business continued to decline with a decrease in the number of subscribers as well as the usage minutes. Bundling of services offered by the public sector telephone companies resulted in a marked decline in the market share of private ISPs in the dial-up market segment.

Our online portal and content offerings division accounted for Rs.179.0 million of revenues for the year ended March 31, 2006, as compared to Rs.103.1 million for the year ended March 31, 2005, representing an increase of Rs.75.9 million, or 73.7%. This increase was on account of revenues from advertising increasing by 60%, revenue from commissions earned from e-commerce increasing by 86%, and in value-added services such as downloadable ring tones and mobile content increasing by more than 250%.

Revenues from our other businesses increased from Rs 82.12 million to Rs 157.61 million, or 91.9%. A number of our existing customers increased the size of their engagements with this division, and this combined with the addition of new customers, contributed to the increase in revenues.

*Cost of Revenues.* Cost of revenues was Rs.2,534.7 million (\$57.0 million) for the year ended March 31, 2006, compared to Rs. 2,023.9 million for the year ended March 31, 2005, representing an increase of Rs.510.8 million, or 25.2%. This increase was due to a Rs.194.7 million increase in bandwidth and voice termination costs, a Rs.141.0 million increase in direct expenses paid to franchisees and CTOs, for providing broadband delivery through cable, a Rs.121.1 million increase in personnel expenses of our directly billable manpower and the technology department, a Rs.18.4 million increase in cost of goods sold and Rs.35.6 million increase in other expenses. Cost of goods sold includes Rs.37.3 million towards an annual license fee on the revenue earned for VPN Services we provided for the year ended March 31, 2006, compared to Rs.5.6 million for the year ended March 31, 2005. For the year ended March 31, 2006, the cost of goods sold also includes an amount of Rs 5.28 million towards license fees on VoIP revenues earned for the quarter ended March 31, 2006.

*Selling, general and administrative expenses.* Selling, general and administrative expenses were Rs.1,852.3 million (\$41.6 million) for the year ended March 31, 2006, compared to Rs. 1,418.8 million for the year ended March 31, 2005, representing an increase of Rs.433.5, million or 30.6%. This increase was due to an increase of Rs. 99.5 million in personnel expenses due to increased staffing and salary increases, Rs.104.6 million increase in the cost of outsourced contract personnel salaries, Rs.73.0 million increase in marketing and promotion expenses, Rs.47.1 million increase in traveling expenses, Rs.47.9 million increase in rental costs for our office premises and nodes, Rs.31.7 million increase in repairs and maintenance expenses and Rs.29.7 million increase in other expenses.

*Provision for doubtful receivables and advances.* Provision for doubtful receivables and advances was Rs.90.7 million (\$2.0 million) for the year ended March 31, 2006, compared to Rs.57.6 million for the year ended March 31, 2005, representing an increase of Rs.33.1 million, or 57.5%. The increase was primarily in the corporate network / data services business. The provision for doubtful debts for the year was at 1.9% of revenues, as compared to 1.6% during the year ended March 31, 2005.

*Depreciation.* Depreciation for the year ended March 31, 2006 was Rs.395.0 million (\$8.9 million), as compared to Rs.472.4 million for the year ended March 31, 2005, representing a decrease of Rs.77.4 million, or 16.4%. There was a significant purchase of assets during the period March to September 2000. Since most of the assets are depreciated over a 5-year period on the straight line method, these assets would have been fully depreciated by September 2005, and have not contributed to the depreciation charge during the other quarters of the fiscal year ended March 31, 2006. As the purchase of new assets during the last few quarters is significantly lower than the purchase during the 2000 period as mentioned above, the depreciation charge is lower. The decrease is also due to the change in the estimated life of certain computers and servers from 2 years to 5 years effected during the quarter ended June 30, 2005. This resulted in a decrease of Rs.32.7 million in the depreciation charge for the year ended March 31, 2006.

*Amortization of intangible assets.* Amortization of intangible assets was Rs.68.8 million (\$1.5 million) for the year ended March 31, 2006, compared to Rs.84.4 million for the year ended March 31, 2005, representing a decrease of Rs.15.6 million, or 18.5%. The decrease is as a result of certain intangible assets being fully written off in the previous year.

*Amortization of deferred stock compensation expenses.* Amortization of deferred stock compensation expenses was Rs.12.7 million (\$0.3 million) for the year ended March 31, 2006, compared to Rs.10.6 million for the year ended March 31, 2005, representing an increase of Rs.2.1 million, or 19.8%. The increase was due to new stock options granted during the year ended March 31, 2006.

*Foreign exchange (gain)/loss.* Foreign exchange gain for the year ended March 31, 2006 was Rs.23.2 million (\$0.5 million), compared to Rs.2.6 million for the year ended March 31, 2005, representing an increase of Rs.20.6 million, or 796.1%. This is as a result of the appreciation of U.S. Dollar against the Indian Rupee as compared to March 31, 2005, which impacted the value of our U.S. Dollar denominated cash deposits. It may be noted that there were wide fluctuations in the value of the Rupee against the dollar during the fiscal year ended March 31, 2005, ranging from 43.4 to 45.99 on account of which we had converted \$ 5 million during January 2005. The proceeds of the fresh issuance of ADRs to Infinity Capital in January 2006, amounting to \$ 37.5 million were held as U.S. Dollar deposits as of March 31, 2006. The forex translation gain that was recorded on this amount represents a significant part of the gain that was recorded for the fiscal year ended March 31, 2006. To reduce the impact of forex fluctuations on our financial results and to benefit out of the higher interest levels on Indian deposits, we have since converted \$ 10 million into Indian Rupees in April 2006.

*Other income (net).* Other income was Rs.59.2 million (\$1.3 million) for the year ended March 31, 2006, compared to Rs.93.3 million for the year ended March 31, 2005, representing a decrease of Rs.34.1 million, or 36.5%. During the fiscal year ended March 31, 2006, Other Income included a reversal of liabilities that were no longer required amounting to Rs.24.2 million, and an amount of Rs.15.7 million that was recognized as gain on sale of our investment in Dr. Reddy's Biosciences Limited (formerly Satyam Institute of E- Business Limited). This was partially offset by an increase in Interest Income (net) of Rs.5.8 million.

*Equity in profit of affiliates.* Equity in the profit of affiliates was Rs.40.7 million (\$0.9 million) for the year ended March 31, 2006, compared to Rs.50.8 million for the year ended March 31, 2005, representing a decrease of Rs.10.1 million, or 19.8%. During the quarter ended March 31, 2005, Man Financial-Sify completed a rights issue, in which we chose not to participate. As a result, our equity ownership in Man Financial-Sify has been reduced from 40% to 29.85%, as of March 15, 2005. Due to additional issuance of shares, we recorded Rs.1.1 million as gain on dilution through Shareholders' equity as per Staff Accounting Bulletin 51, Accounting For Sales of Stocks by a Subsidiary for the year ended March 31, 2005. The increase in net worth of Man Financial-Sify during the year ended March 31, 2005 was higher than the increase during the year ended March 31, 2006 by Rs.11.1 million which has contributed to the decrease in our share of equity in the profits of affiliates for the year ended March 31, 2006.

*Net Loss.* Our net loss was Rs.149.2 million (\$3.4 million) for the year ended March 31, 2006, compared to a net loss of Rs.307.6 million for the year ended March 31, 2005.



### Liquidity and Capital Resources

During fiscal year 2005, we received Rs.78.8 million in net cash proceeds from the issuance of shares to employees upon exercise of their stock options. During fiscal year 2006, we received Rs. 1,643.0 million in net cash proceeds towards issuance of shares to Infinity Capital Ventures and Rs. 49.4 million from issuance of shares to employees upon exercise of their stock options.

The following table summarizes our statements of cash flows for the periods presented:

	Fiscal year ended, and as of March 31,			
	2005	2006 Indian Rupees (in thousands)	2007	2007 U.S. Dollars
Net (loss)/Profit	(307,576)	(149,245)	187,760	4,357
Net decrease (increase) in working capital	227,872	(135,666)	(582,917)	(13,525)
Other adjustments for non-cash items	559,821	505,293	573,676	13,309
Net cash provided by (used in) operating activities	480,117	220,382	178,519	4,142
Net cash provided by (used in) investing activities	(552,669)	(426,406)	(788,692)	(18,299)
Net cash provided by (used in) financing activities	69,182	1,684,055	866,060	20,094
Effect of exchange rate changes on cash and cash equivalents	1,479	20,558	(8,231)	(191)
Net increase (decrease) in cash and cash equivalents	(1,891)	1,498,589	247,656	5,746

Our principal capital and liquidity needs historically have related to developing our network infrastructure and our corporate network and electronic commerce services, establishing our customer service and support operations, developing our sales and marketing activities and for general working capital needs. We have also expended significant funds on acquisitions and investments.

We incurred Rs.592.3 million and Rs. 628.61 million for capital expenditures during fiscal 2006 and 2007 respectively to further develop our points of presence in India and our network infrastructure.

Although we have 188 points of presence in India, a need for expansion into smaller towns would arise as our corporate and data network services grow, especially as we increase the connectivity for some of our existing clients.. There are many ISP s and data/network service providers exiting the business and, depending on pricing and other terms, we may acquire one or more of these third parties. In that event, we will need to invest in technologies to increase the speed of the backbone and edge networks. We will also have to invest in wireless and wire line methods of last mile Internet access delivery.

During fiscal years 2003 through 2007, our highest operational priority was to reduce cash use incurred to build our organization and infrastructure to support our rapid growth, which has now stabilized. We pursued several initiatives to reduce our cash burn. The first focus was toward reducing the working capital required by our business. This was done by enhanced focus on collecting receivables and advancing the billing for the customers of our corporate data/network services division to the beginning of the quarter from the end of the quarter. Our improved collection efforts and change in policy to collect fees for certain services in advance resulted in a decrease in net receivables in recent periods. The second focus was toward reducing bandwidth costs. This was achieved by leveraging on the demonopolization of VSNL, negotiation with a range of suppliers, including VSNL, availability of national bandwidth (both intercity and intracity) from private telecom providers at lower rates and increasing the role of fixed wireless mode of delivery in the last mile. As a result of these initiatives, we have significantly reduced our cash use over the last three years. We believe that the reductions achieved on account of the above are permanent reductions.

We intend to continue to focus on generation of cash surpluses in fiscal year 2007. Based upon our present business and funding plans, we believe that our cash and cash equivalents of Rs.3,070.15 million (\$71.23 million) as of March 31, 2007, excluding restricted cash included in current assets of Rs.1.0 million (\$0.02 million), is sufficient to meet our currently known requirements for at least the next 18 months beginning April, 2007. In light of the highly dynamic nature of our business, however, we cannot assure you that our capital requirements and sources will not change significantly in the future.

Cash balances held in foreign currency were Rs.293.2 million, Rs.1,956.39 million and Rs 389.47 Million as of March 31, 2005 ,2006 and 2007 respectively. Cash balances held in Indian currency were Rs.1,030.7 million ,Rs.866.1 million and Rs 2680.68 as of March 31, 2005 2006 and 2007, respectively. These amounts include cash and cash equivalents and restricted cash. Foreign exchange gain during fiscal 2005,2006 and 2007 were Rs.2.6 million ,Rs.23.2 million and Rs 8.3 million, respectively. This foreign exchange gain or loss is on account of cash held in foreign currency impacted by appreciation or depreciation of the U.S. Dollar against the Indian Rupee.

Cash provided by operating activities during fiscal year 2007 was Rs.178.52 million. This is mainly attributable to non-cash depreciation charge of Rs.521.73 million, provision for doubtful receivables of Rs.153.63 million, increase in trade accounts payable by Rs.29.11 million, decrease in advances received from customers by Rs.23.9 million, increase in deferred revenues by Rs5.6 million, and net profit from operations of Rs.170.46 million, increase in accounts receivable by Rs.503 million, increase in other assets by Rs.110.37 million, increase in prepaid expenses by Rs.27.04 million, decrease in inventories by Rs.1.7 million, translation loss on cash and cash equivalents of Rs.8.2 million and increase in other liabilities by Rs 28.49 million. Cash provided by operating activities during fiscal year 2006 was Rs.220.3 million. This is mainly attributable to non-cash depreciation charge of Rs.476.52 million, provision for doubtful receivables of Rs.90.7 million, increase in trade accounts payable by Rs.177.2 million, increase in advances received from customers by Rs.43.1 million, increase in deferred revenues by Rs.35.1 million, offset by net loss from operations of Rs.149.2 million, increase in accounts receivable by Rs.279.9 million, increase in other assets by Rs.69.3 million, increase in prepaid expenses by Rs.4.0 million, increase in inventories by Rs.1.3 million, translation gain on cash and cash equivalents of Rs.20.6 million and decrease in other liabilities by 12.6 million. Cash provided by operating activities during fiscal year 2005 was Rs.480.1 million. This is mainly attributable to non-cash depreciation charge of Rs.567.4 million, provision for doubtful receivables of Rs.57.6 million, increase in trade accounts payable by Rs.310.6 million, increase in other liabilities by Rs.74.2 million, decrease in prepaid expenses by Rs.19.8 million and loss on sale of plant and equipment of Rs.2.8 million, offset by net loss from operations of Rs.307.6 million, increase in accounts receivable by Rs.178.9 million, increase in inventories by Rs.8.4 million, decrease in advances received from customers by Rs.14.2 million, increase in other assets by Rs.26.2 million and gain on sale of investments of Rs.15.7 million.

Cash used in investing activities during fiscal year 2007 was Rs.788.7 million, principally as a result of expenditure on purchase of routers, modems, ports, servers and other capital equipment in connection with the expansion of our network of Rs.628.61 million and purchase of intangible assets of software licenses of Rs.64.22 million, and acquisition of business Rs 93 million Cash used in investing activities during fiscal year 2006 was Rs.426.4 million, principally as a result of expenditure on purchase of routers, modems, ports, servers and other capital equipment in connection with the expansion of our network of Rs.592.3 million and purchase of intangible assets of software licenses of Rs.17.6 million, partially offset by proceeds from advances received towards sale of investments of Rs.139.8 million, movement in restricted cash by Rs.31.2 million and proceeds from sale of plant and equipment for Rs.4.9 million. Cash used in investing activities during fiscal year 2005 was Rs.552.7 million, principally as a result of expenditure on purchase of routers, modems, ports, servers and other capital equipment in connection with the expansion of our network of Rs.533.2 million and purchase of intangible assets of IPVPN License fee of Rs.100.0 million, partially offset by proceeds from sale of investments of Rs.15.0 million, movement in restricted cash by Rs.79.5 million and proceeds from sale of plant and equipment for Rs.15.2 million.

Cash provided by financing activities for fiscal year 2007 was Rs.866.06 million, which consisted of net proceeds from issuance of common stock of Rs.72.6 million, and borrowings from bank Rs 800 millions partly offset by repayment of principal under capital lease obligations of Rs.6.5 million. Cash provided by financing activities for fiscal year 2006 was Rs.1,684.1 million, which consisted of net proceeds from issuance of common stock of Rs.1,692.4 million, partly offset by repayment of principal under capital lease obligations of Rs.8.3 million. Cash provided by financing activities for fiscal year 2005 was Rs.69.2 million, which consisted of net proceeds from issuance of common stock to employees on exercise of stock options of Rs.78.8 million, partly offset by repayment of principal under capital lease obligations of Rs.9.6 million.

In the ordinary course of our business we regularly engage in discussions and negotiations relating to potential investments, strategic partnerships and acquisitions. We will continue to be aggressive in our efforts to identify one or more investment or acquisition opportunities. However, we cannot assure you that we will be able to identify or complete any such transaction on favorable terms, or at all.

Government of India policies previously limited the total foreign equity in an Internet service provider to 49%. In May 2001, the Department of Commerce and Industry increased the limit on foreign direct investment for Internet companies from 49% to 74%. Our license was reissued in April 2002, increasing the maximum permitted level of foreign equity investment in our company to 74% and also permitting us to provide VoIP, subject to the terms of

operation as detailed in the license. This limit of 74% is the maximum foreign equity investment that was permitted for ISPs that operate their own international gateways. Since we do not operate our own international gateways we were allowed to increase our foreign equity participation to 100%. If additional funds are raised through the issuance of equity or convertible debt securities, the percentage ownership of our shareholders and the holders of our ADSs will be reduced and these securities may have rights, preferences or privileges senior to those of our shareholders and the holders of our ADSs. We cannot assure you that additional financing will be available on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms, our ability to fund and expand our operations, take advantage of unanticipated opportunities, develop or enhance Internet content, features or services, or otherwise respond to competitive pressures will be significantly limited. Our business, results of operations and financial condition could be materially adversely affected by any such limitation. Please see Item 3. Key Information Risk Factors Forward-looking statements contained in this annual report may not be realized.

As of March 31, 2007, we had spent approximately Rs.3,003.25 million (\$69.7 million) to develop and deploy our network infrastructure. As of March 31, 2007, our future contractual obligations and commercial commitments were as follows:

	Payments Due by Period			Rs.Million	
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
<b>Contractual Obligations</b>					
Capital Lease Obligations	6.9	2.9	4.0		
Total Contractual Obligations	6.9	2.9	4.0		

	Amount of Commitment Expiration Per Period			Rs.million	
	Total Amounts Committed	Less than 1 year	1-3 years	4-5 years	Over 5 years
<b>Other Commercial Commitments</b>					
Standby Letters of Credit	42.42	0.89	41.53		
Guarantees	598.69	4.54	590.84	3.31	
Total Commercial Commitments	641.11	5.43	632.37	3.31	

Recent Accounting Pronouncements

#### **FIN 48**

In July 2006, the FASB issued Interpretation ( FIN ) No. 48, Uncertainty in Income Taxes. FIN 48 applies to all tax positions within the scope of Statement 109 and clarifies when and how to recognize tax benefits in the financial statements with a two-step approach of recognition and measurement. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. FIN No. 48 also requires the enterprise to make explicit disclosures about uncertainties in their income tax positions, including a detailed roll forward of tax benefits taken that do not qualify for financial statement recognition. The company is currently evaluating the impact of this pronouncement and will adopt the guidelines stated FIN No. 48 from fiscal year beginning April 1, 2007.

#### **Critical Accounting Policies**

We consider the policies discussed below to be critical to an understanding of our financial statements as their application places the most significant demands on management's judgment, with financial reporting results relying on estimation about the effect of matters that are inherently uncertain. Specific risks for these critical accounting policies are described in the following paragraphs. For all of these policies, future events rarely develop exactly as forecast, and the best estimates routinely require adjustment.

#### *Revenue Recognition*

The operating segments of the Company are:

Corporate network/data services, which provides Internet, connectivity, security and consulting, hosting and managed service solutions;

Internet access services, from homes and through cybercafes;

Online portal services and content offerings; and

We derive our significant part of the revenues primarily from Corporate network/data services Corporate network service revenues primarily include connectivity services and, to a lesser extent, the revenues from the sale of hardware and software purchased from third party vendors, installation of the link, and other ancillary services such as e-mail and domain registration. Generally, these elements are sold as a package consisting of all or some of the elements.



*Revenue Arrangements with Multiple Deliverables*

Based on the guidance in EITF Issue No. 00-21, we recognize revenues on the delivered items only if  
The revenue recognition criteria applicable to the unit of accounting is met;

The delivered element has value to the customer on a standalone basis. The delivered unit will have value on a standalone basis if it is being sold separately by other vendors or the customer could resell the deliverable on a standalone basis;

There is objective and reliable evidence of the fair value of the undelivered item(s); and

If the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in our control.

The arrangement consideration is allocated to the units of accounting based on their fair values. The revenue recognized for the delivered items is limited to the amount that is not contingent upon the delivery or performance of the undelivered items. In certain cases, the application of the contingent revenue provisions of EITF Issue No. 00-21 could result in recognizing a loss on the delivered element. In such cases, the cost recognized is limited to the amount of non-contingent revenues recognized and the balance of costs are recorded as an asset and are reviewed for impairment based on the estimated net cash flows to be received for future deliverables under the contract. These costs are subsequently recognized on recognition of the revenue allocable to the balance of deliverables.

Assessments about whether the delivered units have a value to the customer on a standalone basis, impact of forfeiture and similar contractual provisions, and determination of fair value of each unit would affect the timing of revenue recognition and would impact our results of operations

*Accounting Estimates*

While preparing financial statements we make estimates and assumptions that affect the reported amount of assets, liabilities, disclosure of contingent liabilities at the date of financial statements and the reported amount of revenues and expenses for the reporting period.

Our estimate of liability relating to pending litigation is based on currently available facts and our assessment of the probability of an unfavorable outcome. Considering the uncertainties about the ultimate outcome and the amount of losses, we re-assess our estimates as additional information becomes available. Such revisions in our estimates could materially impact our results of operations and our financial position.

Management believes that the estimates used in the preparation of the consolidated financial statements are prudent and reasonable. The actual results could differ from these estimates.

*Allowance for accounts receivable*

The receivables primarily constitute dues from corporate connectivity and portals related customers. We maintain allowances for doubtful accounts receivable for estimated losses resulting from the inability of our customers to make contractually agreed payments. We also make allowances for a specific account receivables if the facts and circumstances indicate that such account receivable is unlikely to be collected.

We estimate the amount of uncollectible receivables each period and establish an allowance for uncollectible amounts. The amount of the allowance is based on the age of unpaid amounts, information about the creditworthiness of customers, historical payment patterns, customer concentrations, current economic trends and other relevant information. The assessments reflect management's best assumptions and estimates. Significant management judgment is involved in estimating these factors, and they include inherent uncertainties. Management periodically evaluates and updates the estimates based on the conditions that influence these factors. The variability of these factors depends on a number of conditions, including uncertainty about future events, and thus our accounting estimates may change from period to period. Estimates of uncollectible amounts are revised each period, and changes are recorded in the period they become known.

*Business Combinations, Goodwill and Intangible Assets*

We account for business combinations in accordance with SFAS No. 141, Business Combinations. Cash and amounts of consideration that are determinable at the date of acquisition are included in determining the cost of the acquired business. The accounting for contingent consideration based on earnings or other performance measures is a matter of judgment that depends on the relevant facts and circumstances. If the substance of the contingent consideration is to provide compensation for services, use of property, or profit sharing, we account for the additional consideration as an expense of the appropriate period. Otherwise, the additional consideration paid is recorded as an additional cost of the acquired business.

Goodwill represents the cost of the acquired businesses in excess of the fair value of identifiable tangible and intangible net assets purchased. We generally seek the assistance of independent valuation experts in determining the fair value of the identifiable tangible and intangible net assets of the acquired business.

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, we have assigned all the assets and liabilities, including goodwill, to the reporting units. We review goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. The provisions of SFAS No. 142 require that a two-step impairment test be performed on goodwill. In the first step, we compare the fair value of the reporting unit to its carrying value. We determine the fair value of our reporting units using the income approach. Under the income approach, we calculate the fair value of a reporting unit based on measurement techniques such as discounted cash flow analyses. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step in order to determine the implied fair value of the reporting unit's goodwill and compare it to the carrying value of the reporting unit's goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we must record an impairment loss equal to the difference.

We amortize intangible assets on straight line basis over their respective individual estimated useful lives. Our estimates of the useful lives of identified intangible assets are based on a number of factors including the effects of obsolescence, demand, competition, and other economic factors (such as the stability of the industry, and known technological advances), and the level of maintenance expenditures required to obtain the expected future cash flows from the asset.

We evaluate intangible assets for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of the assets.

In evaluating goodwill and intangible assets for impairment, we may seek the assistance of independent valuation experts, perform internal valuation analyses and consider other information that is publicly available. The results of our evaluation may be dependent on a number of factors including estimates of future market growth and trends, forecasted revenue and costs, discount rates and other variables. While we use assumptions which we believe are fair and reasonable, future results may differ from the estimates arrived at using the assumptions.

Estimated Useful Lives of Property And Equipment.

We estimate the useful lives of plant and equipment in order to determine the amount of depreciation expense to be recorded during any reporting period. If technological changes were to occur more rapidly than anticipated or in a different form than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the recognition of increased depreciation expense in future periods. Likewise, if the anticipated technological or other changes occur more slowly than expected, the useful lives could be extended. This could result in a reduction of depreciation expense in future periods.





### Impairment of long-lived assets

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we review these types of assets for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable over the remaining life of the asset or asset group. In order to determine if the asset or asset group is recoverable, we determine if the expected future undiscounted cash flows directly related to the asset or asset group are less than the carrying amount of the asset or asset group. If so, we then determine if the carrying amount of the asset or asset group exceeds its fair value. We determine fair value using estimated discounted cash flows. If impairment is indicated, the asset or asset group is written down to its fair value. The discounted cash flows calculation uses various assumptions and estimates regarding future revenue including estimates of future market growth and trends, forecasted revenue and costs, appropriate discount rates and other variables. We base our fair value estimates on assumptions we believe to be reasonable, but which are unpredictable and inherently uncertain. Actual future results may differ from those estimates.

### Income taxes

We are required to estimate our liability for income taxes in each of the tax jurisdictions in which we operate. This process requires us to estimate our actual current tax exposure together with an assessment of temporary differences resulting from differing treatment of items, such as depreciation on property, plant and equipment, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our balance sheet.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of changes in tax rates is recognized in results of operations in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance if it is more likely than not that some portion or all of the assets will not be realized.

## Item 6. Directors, Senior Management and Employees

### Board of Directors and Senior Management Executives

The following table sets forth the name, age and position of each director and senior management executive of our company as of March 31, 2007:

Name	Age	Designation
Raju Vegesna	47	Chief Executive Officer and Managing Director
C.B.Mouli (1)	60	Director, Chairman & Financial Expert of Audit Committee
S.K.Rao (1) (2) (3)	63	Director
T.H. Chowdary (2) (3)	75	Director & Chairman of Compensation & Nominating Committees
P.S.Raju (2)	54	Director
S R Sukumara (1) (2) (3)	62	Director
Ananda Raju Vegesna	48	Director
R.D.Thulasiraj (1) (2) (3)	55	Director
C V S Suri	47	Chief Operating Officer
Pijush Kanti Das	53	Chief Financial Officer & President Access Media
P J Nath	45	Executive President Enterprise Solutions
Baskar R Sayyaparaju	40	Chief Technology Officer
Aravind Mathur	43	Chief Architect Global Services
V Sivaramkrishnan	42	President Interactive Services
David Appasamy	50	Chief Communications Officer
Venkata Rao Mallineni	40	Head HR
Ajith K N	38	Head HR

Mr S Gopalakrishnan

40 President Government Initiatives

- (1) Member of the Audit Committee.
- (2) Member of the Compensation Committee.
- (3) Member of the Nominating Committee.

Raju Vegesna has served as a Director of our company since November 2005. He was appointed as the Chief Executive Officer and Managing Director of the company effective July 18, 2006. Mr. Vegesna is a Silicon Valley entrepreneur who founded several leading edge technology companies, including ServerWorks Corporation, acquired by Broadcom in 2001. After that acquisition, and post a brief stint with Broadcom, Mr. Vegesna founded and currently serves as CEO and Chairman of ServerEngines, LLC, a rapidly growing Silicon Valley-based company engaged in the development of innovative enterprise computing products. He holds a BS in Electrical Engineering from the University of Bangalore and holds an MS in Computer Engineering from Wayne State University, USA, and holds several patents in Microprocessor and Multiprocessor technology. He is also a Director of Server Engines LLC, Nulife Corp, USA., Raju Vegesna Infotech & Industries Private Limited and Server Engines (India) Private Limited.

C.B. Mouli has served as a Director of our company since July 2005. Mr. Mouli is a member of the Institute of Chartered Accountants of India and also holds a Bachelor of Law Degree. Mr Mouli, a partner of C.B. Mouli & Associates, a Chartered Accountants firm and he is currently, the Chairman of the Audit Committee of GVK Jaipur Kishangarh Expressway Limited, a major infrastructure company. He is a Director of Taj GVK Hotels & Resorts Limited, GVK Jaipur Kishangarh Expressway Limited, Ammana Bio Pharma Limited, Ammana Equity Fund Private Limited and ATC Beverages Private Limited.

S.K. Rao has served as a Director of our company since July 2005. Mr Rao, currently is the Director General, Administrative Staff College of India, Hyderabad. Mr Rao previously worked at the Commonwealth Secretariat in London in various diplomatic capacities. He also acted as the Consultant for the United Nations and represented the Commonwealth Secretariat as an Observer at the meetings of the UN General Assembly. Mr. Rao holds a MA and a Ph.D in Economics from Trinity College, Cambridge, U.K.

T.H. Chowdary has served as a Director of our company since February 1996. Dr. Chowdary retired as the Chief Executive Officer of VSNL. He has held key positions in the ITU, Intelsat and other international telecommunications organizations during the course of his career. He has since pioneered the cause of telecommunications education in India by setting up the Centre for Telecommunications Management Studies (CTMS) at Hyderabad. He has published several papers and is highly regarded in telecommunications circles in India and abroad for his command over technology and policy issues. Dr. Chowdary is also a director in Softsol India Limited and Tera Software Limited.

P. S. Raju has served as a Director of our company since February 2006. Mr P S Raju is a member of the Institute of Chartered Accountants of India. Mr Raju is an independent practicing accountant. He has been the financial advisor to several ventures and knows the Indian business culture and accounting. He is also a Director of Server Engines (India) Private Limited, Surya Shakti Agro Tech Private Limited and Moven Minerals & Metals Private Limited.

Mr S R Sukumara has served as a Director of our company since January 2007. Mr Sukumara retired as a Director General of Police after a long service of 36 years with Indian Police Service. During his service, he has handled many important assignments. Presently, he is practicing as a Consultant.

Mr Ananda Raju Vegesna, brother of Mr Raju Vegesna, Managing Director, has served as an Executive Director of our company since June 2007. Mr Ananda Raju Vegesna, a Graduate in Science, brings with him a rich experience in providing infrastructural facilities to the Information Technology, manufacturing and service industries, setting up units in Software Technology Parks for domestic as well as export markets. He is well known for his expertise in the field of real estate, administration and public relations. He is the Managing Director of M/s Infinity Satcom Universal Private Limited and a Director of M/s Raju Vegesna Infotech & Industries Limited and Server Engines India (Private) Limited.

R. D. Thulasiraj has served as a Director of our company since July 2005. Mr Thulasiraj serves as the Executive Director of the Lions Aravind Institute of Community Ophthalmology (LAICO), which runs one of the world's biggest rural eye care programs, and is one of the large public health institutions in India. Mr Thulasiraj is also the Chairman of International Agency for Prevention of Blindness South East Asia Region (IAPB SEAR) and is a third world authority on hospital management for eye care. Mr. Thulasiraj received a MBA in Management from Indian Institute of Management, Kolkata(Calcutta).

C V S Suri is serving Sify from August 2006 as Chief Operating Officer with over 23 years of experience. His experience includes business leadership positions overseeing marketing, operations, commercial & regulatory matters, and driving innovations for business competitiveness. Suri is a graduate of Delhi University with an Honors Degree in Economics, and has a Masters in Human Resource Management from XLRI, Jamshedpur- one of India's leading business schools.

Pijush Kanti Das is serving as a Chief Financial Officer. He joined Sify in May 2006. He comes to us from the I&M Bank, Nairobi where he was responsible for Corporate Banking. Pijush started his career with the State Bank of India, rising to hold various senior level positions before leaving them to work as Head of Treasury with Fina Bank, Nairobi, between 2003 and 2005.

P J Nath is serving Sify as Executive President Enterprise Solutions since April 2007. He has over 22 years of experience in Information Technology, ISP and Telecommunications Services. His experience includes roles in Sales, Product and Project Management, Customer Support. He holds a Masters in Management Studies degree from BITS Pilani.

Baskar is serving Sify as a Chief Technology Officer since from August 2006. Mr. Bhaskar is an M.S in Computer Science with a successful track record of IT leadership in the United States. He handles broad experience across infrastructure operations, network management, process development, application development/deployment, database management, website operations, desktop support operations and data center management.

Aravind Mathur joined Sify in April 2007 as Chief Architect-Global Services. He holds with 17 years of experience which includes international experience in the telecommunications and networking. He is a Masters Degree in Electrical Communication Engineering from the Indian Institute of Science, Bangalore and a Masters Degree in Physics from the Indian Institute of Technology, Delhi specializing in Optical Communication and Optoelectronics.

V Sivaramakrishnan is serving Sify from April 2006 as President Interactive solutions He joined Sify, as Vice President, iways with over 18 years of experience in marketing consumer brands and building their businesses. He is a management graduate from the Indian Institute of Foreign Trade (IIFT), New Delhi, with a successful track record of managing brands, sales, and customer service for global market.

David Appasamy is the Chief Communications Officer of Sify Limited, and is responsible for the all aspects of Corporate Communications of the company, as well as the Sify brand in terms of identity and image. He has done the MEP at the IIM Ahmedabad, India's premier Business Management School. He brings over 20 years of experience in business management and service & consumer brand marketing

Ajith K N is serving Sify from February 2001 as Head HR and has over 14 years of experience across various functions in Human Resources, Industrial Relations and Total Quality Management. Mr. Ajith has a Masters degree in Personnel Management and Industrial Relations, and a diploma in Training & Development.

Mr S Gopalakrishnan, is serving Sify as President Government Initiatives since November 2006. Mr Gopalakrishnan is a B.E. Mechanical Engineering and has more than 22 years of experience in several manufacturing / service industries.

**Director Compensation**

Our Articles of Association provide that each of our directors may receive a sitting fee not exceeding the maximum limits prescribed under the provisions of the Indian Companies Act, 1956. Accordingly, our Directors, other than the Chairman and the Managing Director have been receiving Rs.20,000 for each Board and Committee meeting attended by them, effective October 2005. Mr Raju Vegesna, who is employed as our Chief Executive Officer, does not receive any compensation for his service on our Board of Directors. Directors are reimbursed for travel and out-of-pocket expenses in connection with their attendance at Board and Committee meetings. T. H. Chowdary, a Director of our company, has been receiving Rs.20,000 per month effective February 1, 2004 for the technical services rendered by him to us, after obtaining requisite Governmental permission for the same.

**Officer Compensation**

The following table sets forth all compensation paid by us during the fiscal year ended March 31, 2007 to our executive officers.

Name	Summary Compensation Table (Rs. Million)		
	Salary	Bonus	Stock Compensation
V Sivaramakrishnan	4.03		1.19
V M Kumar	2.38	0.15	
David Appasamy	2.49	0.17	0.11
<b>Part of the year</b>			
R Ramaraj	3.02		
Rahul Swarup	3.56	3.13	
Rustom Irani	2.41	3.00	
Shrikant P Joshi	0.49		
Ajit Abraham	2.07	2.88	
Surya Mantha	2.04		
Durgesh Mehta	4.92		
C V S Suri	3.11		3.74
Pijush Kanti Das	2.50		1.41
Bhaskar R Sayyaparaju	3.01		1.87
Venkata Rao Mallineni	1.42		0.94
S Gopalakrishnan	1.70		0.34

The following table sets forth all stock options granted by us during the fiscal year ended March 31, 2007 to our executive officers.

Name	Equity Shares Underlying	Exercise Price (Rs.)	Expiration Date
	Option Grant		
V Sivaramakrishnan	35,000	578.47	August 19, 2009
Pijush Kanti Das	25,000	390.38	November 17, 2009
C V S Suri	100,000	425.70	February 16, 2010

Bhaskar R Sayyaparaju	50,000	425.70	February 16, 2010
Venkata Rao Mallineni	25,000	425.70	February 16, 2010
P S Raju	15,000	425.70	February 16, 2010
S Gopalakrishnan	25,000	361.19	May 21, 2010

The following table sets forth all stock options exercised by our executive officers during the fiscal year ended March 31, 2007.

<b>Name</b>	<b>No. of shares</b>	<b>Exercise Price Rs.</b>
R. Ramaraj	140,625	163.40
Rahul Swarup	30,875	163.40
Ajit Abraham	22,500	163.40
Shrikant P Joshi	27,500	163.40
J. Avinash	1,562	163.40
Rustom Irani	21,500	163.40
David Appasamy	833	163.40

We paid retention bonuses amounting to Rs.40 million during the year ended March 31, 2007 to our key employees. The amount is being amortized over the retention period of 24 months and will be recovered from the employees in the event of termination of service before the end of the retention period.

### **Board Composition**

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

at least two-thirds of our directors shall be subject to re-election by our shareholders; and

at least one-third of our directors who are subject to re-election shall be up for re-election at each annual meeting of our shareholders.

On July 15, 2005, we appointed Messrs. S.K. Rao, C.B. Mouli and R.D. Thulasiraj as independent Directors of the Board to comply with the requirements of NASDAQ Rule 4350(c).

Mr S R Sukumara was appointed as an independent Director effective January 22, 2007.

Consequent to the divestment of their entire holding by Venture Tech and Satyam Computer Services during 2005-06, Messrs. Sandeep Reddy, Srinivasa C. Raju, B. Rama Raju and V. Srinivas, their nominees resigned from the Board of Sify Limited.

Infinity Capital Ventures, LP, acquired the entire holding from Satyam Computer Services. In addition, in terms of the Subscription Agreement dated November 10, 2005 executed by the company with them, they have acquired an additional 6,720,260 shares of the company on a private transaction. At the conclusion of this transaction, their ownership in the company was at 42%. Messrs. Raju Vegesna and P.S. Raju are the nominees of Infinity Capital Ventures, LP.

The terms of Messrs. C.B. Mouli and P S Raju expired at our Annual General Meeting held on September 24, 2007 and being eligible, they themselves offered for reelection and were re-appointed. The terms of Messrs. Raju Vegesna and S K Rao will expire at our Annual General Meeting to be held in 2008 and they are eligible for reelection. The terms of Messrs. T H Chowdary and S R Sukumara will expire at our Annual General Meeting to be held in 2009 and they are eligible for reelection.

Mr Ananda Raju Vegesna, brother of Mr Raju Vegesna, Managing Director and CEO of the company, was appointed as the Executive Director of the company effective June 22, 2007.

Mr R D Thulasiraj resigned from the board effective April 7, 2007.

### **Board Committees**

The primary objective of the audit committee is to monitor and provide effective supervision of our financial reporting process with a view towards ensuring accurate, timely and proper disclosures and the transparency, integrity and quality of financial reporting. Our audit committee oversees the work carried out in the financial reporting process by our management, including the internal auditors and the independent auditor and reviews the processes and safeguards employed by each. In addition our audit committee has the responsibility of oversight and supervision over our system of internal control over financial reporting, audit process, and process for monitoring the compliance with related laws and regulations. The audit committee recommends to our shareholders the appointment of our independent auditors and approves the scope of both audit and non-audit services. The members of our Audit Committee were Messrs. S.K. Rao, C.B. Mouli, R Sukumar and R.D. Thulasiraj. Mr S R Sukumara was nominated as a member of the Audit Committee effective February 21, 2007. Consequent to the resignation of Mr. R.D Thulasiraj from board, he ceases to be member of Audit Committee effective April 7, 2007. All members of the Audit Committee meet the independence and financial literacy requirements as defined by applicable NASDAQ and SEC rules.



The Compensation Committee of the Board of Directors determines the salaries, benefits and stock option grants for our employees, consultants, directors and other individuals compensated by our company. The Compensation Committee also administers our compensation plans. Effective July 15, 2005, the members of our Compensation Committee were Messrs. T.H. Chowdary, S.K. Rao and R.D. Thulasiraj (upto April 7, 2007). Consequent to the resignation of Mr R.D. Thulasiraj from the Board, Mr S R Sukumara was nominated as a member of the Compensation Committee effective April 23, 2007. The constitution of the Compensation Committee is in accordance with the NASDAQ regulations on corporate governance.

The Nominating Committee of the Board of Directors evaluates and recommends the appointment of Directors to Board Committees, determines Board qualifications, evaluate their performance and determines the future requirements. The Committee was constituted on July 15, 2005 and the members of the Committee were Messrs. T.H. Chowdary, S.K. Rao and R.D. Thulasiraj (upto April 7, 2007). Consequent to the resignation of Mr R.D. Thulasiraj from the Board, Mr S R Sukumara was nominated as a member of the Nominating Committee effective April 23, 2007. The constitution of the Nominating Committee is in accordance with the NASDAQ regulations on corporate governance

### **Employees**

As of March 31, 2007, we had 1,967 employees, compared with 1,910 and 1,663 employees as of March 31, 2006 and March 31, 2005, respectively. Of our current employees, 80 are administrative, 641 form our sales and marketing staffs, 103 are in product and content development, 1079 are dedicated to technology and technical support, and 64 are in business process and customer care. None of our employees are represented by a union. We believe that our relationship with our employees is good.

### **Stock Ownership**

The following table sets forth information with respect to the beneficial ownership of our equity shares as of June 1, 2007 by each director and our senior management executives. The table gives effect to equity shares issuable within 60 days of June 1, 2007 upon the exercise of all options and other rights beneficially owned by the indicated shareholders on that date. Beneficial ownership is determined in accordance with the rules of the SEC and includes voting and investment power with respect to equity shares. Unless otherwise indicated, the persons named in the table have sole voting and sole investment control with respect to all equity shares beneficially owned.

<b>Beneficial Owner</b>	<b>Equity Shares Beneficially Owned</b>	
	<b>Number</b>	<b>Percent</b>
Raju Vegesna	17,902,860	41.83
T. H. Chowdary		
C B Mouli		
P S Raju		
S K Rao		
S R Sukumara		
Anand Raju Vagesna		
R. D. Thulasiraj		

### **Employee Stock Option Plan**

We have an Associate Stock Option Plan, or ASOP, which provides for the grant of options to employees of our company. The ASOP 2005 was approved by our Board of Directors and our shareholders in October 2005. This is in addition to the earlier Plans of 2000 and 2002. A total of 3.2 million equity shares are reserved for issuance under our ASOP. As of March 31, 2007, we had outstanding an aggregate of 874,445 options (net of 1,317,701 options that have been forfeited by employees or expired) under our ASOP with a weighted average exercise price equal to approximately Rs.390.42 (\$9.05) per equity share.

The ASOP is administered by the Compensation Committee of our Board of Directors. On the recommendation of the Compensation Committee, we will issue option letters to identified employees, with the right to convert the issued options into our equity shares at the rates indicated in the options. The consideration for transfer of the options will be

Rs.1 per option to be paid by the employee before transfer of the options.

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An employee holding options may apply for exercise of the options on a date specified therein which is referred to as the conversion date. The options are not transferable by an employee. The options lapse in the event of cessation of employment due to reasons of non-performance or otherwise. The equity shares transferred to the employee after conversion from options is the absolute property of the employee and will be held by the employee. A registration statement on Form S-8 covering the shares to be issued under the ASOP has been filed and the participants in the ASOP will be able to receive ADSs upon exercise of their options.

## Item 7. Major Shareholders and Related Party Transactions

### Principal Shareholders

The following table sets forth information with respect to the beneficial ownership of our equity shares as of July 1, 2007 by each person or group of affiliated persons who is known by us based on our review of public filings to beneficially own 5% or more of our equity shares. The table gives effect to equity shares issuable within 60 days of July 1, 2007 upon the exercise of all options and other rights beneficially owned by the indicated shareholders on that date. Beneficial ownership is determined in accordance with the rules of the SEC and includes voting and investment power with respect to equity shares. Unless otherwise indicated, the persons named in the table have sole voting and sole investment control with respect to all equity shares beneficially owned. The information below is based on a review of filings made by such persons with the SEC.

Mr Raju Vegesna, the Co-Trustee of the Vegesna Family Trust, which is the owner of Infinity Capital Management LLC, which is the general partner of Infinity Capital Ventures, LP, exercise voting control and dispositive power over the equity shares owned by Infinity Capital Ventures, LP. Mr Raju Vegesna, Director of our company, is affiliated with Infinity Capital Ventures, LP.

Beneficial Owner	Equity Shares Beneficially owned	
	Number	Percent
Infinity Capital Ventures, LP, 11601 Wilshire Boulevard, Suite 1900, Los Angeles, CA 90025	17,902,860	41.83

### Details of significant change in the percentage ownership held by the major shareholders:

Name of the shareholder	2004-05		2005-06		2006-07	
	No. of shares	%	No. of shares	%	No. of shares	%
Satyam Computer Services Ltd.	11,182,600	31.61				
Venture Tech Solutions Pvt. Ltd.	2,750,000	7.77				
SAIF Investment Company Ltd.	2,808,140	5.68				
Infinity Capital Ventures, LP			17,902,860	42.23	17,902,860	41.83
The company has not issued any shares having differential voting rights and hence the company's major shareholders do not have differential voting rights.						

### United States Shareholders

As of March 31, 2007, 42,799,613 of our ADSs were held in the United States and we had approximately 26,673 shareholders in the United States. Each ADS represents one equity share.

### Host country Shareholders

As on March 31, 2007, 652 of our equity shares were held in India and we had 16 shareholders of record in India. Each equity share has a par value of Rs.10/- each.

### **Control of Registrant**

Based on our review of filings made with the SEC, we believe Infinity Capital Ventures, LP beneficially owned 41.83% of our equity shares as of March 31, 2007. This shareholder is a party to the Subscription Agreement dated November 10, 2005 with our company. The Subscription Agreement provides that, among other things, the company shall appoint Mr Raju Vegesna as the Chairman of the Board of Directors, Infinity Capital shall also nominate another person to the Board of Directors and for so long as Infinity Capital continues to own at least 10% of the Company's outstanding Equity Shares, the Company shall not enter into any agreement pursuant to which it would provide a third party with registration rights for Company securities, without the consent of Infinity Capital. In November 2005, Mr Raju Vegesna, a nominee of Infinity Capital Ventures, LP, was appointed as Chairman of our Board of Directors. In February 2006, the company also appointed Mr.P.S.Raju as the second nominee of Infinity Capital to the Board of Directors.

These shareholders are presently able to exercise significant influence over many matters requiring approval by our shareholders, including the election of directors and approval of significant corporate transactions. Under Indian law, a simple majority is sufficient to control all shareholder action except for those items, which require approval by a special resolution. If a special resolution is required, the number of votes cast in favor of the resolution must be not less than three times the number of votes cast against it. Examples of actions that require a special resolution include:

- altering our Articles of Association;

- issuing additional shares of capital stock, except for *pro rata* issuances to existing shareholders;

- commencing any new line of business; and

- commencing a liquidation.

Circumstances may arise in which the interests of Infinity Capital Ventures, LP or a subsequent purchaser of their shares could conflict with the interest of our other shareholders or holders of our ADSs. These shareholders could prevent or delay a change in control of our company even if a transaction of that sort would be beneficial to our other shareholders, including the holders of our ADSs.

### **Related Party Transactions**

Our company has a stated policy on related party transactions, which states whenever Sify enters into any transaction with a related party the Company shall perform these transactions on terms no less favorable to the Company than could have been obtained from independent third parties. Whenever, there is a related party transaction with Sify, the same is placed before the Audit Committee as well as the Board of Directors and obtain their approval within three months from the date of transaction.

Until December 2002, Satyam Computer Services was our parent company. In fiscal year 2007, we billed an aggregate of Rs.Nil million in services to Satyam Computer Services and its affiliates. For fiscal years 2006 and 2005 the corresponding figures were Rs.121.1million and Rs.48.7 million, respectively. We believe that these transactions with Satyam Computer Services and its affiliates were on terms no less favorable to our company than could have been obtained from independent third parties.

On December 20, 2005, the Company divested 26% of its holding in Sify Communications Limited, or 4,680,000 shares, to M/s Infinity Satcom Universal (P) Ltd for a sale consideration of Rs.139,810. This was a related party transaction because Mr. Raju Vegesna, a member of Our Board of Directors, is the brother of Mr Ananda Raju, the owner of Infinity Satcom Universal (P) Ltd. We have transferred our IP-VPN business from Sify Limited to Sify Communications Limited on November 22, 2006, when we received the ILD/NLD license. We have recognized a gain of Rs.226 on the divestment of 26% holding in Sify Communication.

T. H. Chowdary, a Director of our company, has been receiving Rs.20,000 per month effective February 1, 2004 for the technical services rendered by him to the company, after obtaining requisite Governmental permission for the same.

## **Item 8. Financial Information**

### **Financial Statements**

We have elected to provide financial statements pursuant to Item 18 of Form 20-F. No significant change has occurred since the date of our annual financial statements for fiscal 2007.

### **Legal Proceedings**

Our company and certain of our officers and directors are named as defendants in a securities class action lawsuit filed in the United States District Court for the Southern District of New York. This action, which is captioned *In re Satyam Infoway Ltd. Initial Public Offering Securities Litigation*, also names several of the underwriters involved in our initial public offering of American Depositary Shares as defendants. This class action is brought on behalf of a purported class of purchasers of our ADSs from the time of our Initial Public Offering ( IPO ) in October 1999 through December 2000. The central allegation in this action is that the underwriters in our IPO solicited and received undisclosed commissions from, and entered into undisclosed arrangements with, certain investors who purchased our ADSs in the IPO and the aftermarket. The complaint also alleges that we 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. More than 300 issuers have been named in similar lawsuits. On June 26, 2003, the plaintiffs in the consolidated IPO class action lawsuits currently pending against us and over 300 other issuers who went public between 1998 and 2000, announced a proposed settlement with us and the other issuer defendants. In July 2002, an omnibus motion to dismiss all complaints against issuers and individual defendants affiliated with issuers was filed by the entire group of issuer defendants in these similar actions. In October 2002, the cases against the Company's executive officers who were named as defendants in this action were dismissed without prejudice. In February 2003, the court in this action issued its decision on defendants' omnibus motion to dismiss. This decision denied the motion to dismiss the Section 11 claim as to the Company and virtually all of the other issuer defendants. The decision also denied the motion to dismiss the Section 10(b) claim as to numerous issuer defendants, including the Company.

The proposed settlement provides that the insurers of all settling issuers will guarantee that the plaintiffs recover \$1 billion from non-settling defendants, including the investment banks who acted as underwriters in those offerings. In the event that the plaintiffs do not recover \$1 billion, the insurers for the settling issuers will make up the difference. We believe that we have sufficient insurance coverage to cover the maximum amount that it may be responsible for under the proposed settlement. Although the Federal District Court has preliminarily approved the settlement, it is possible that the Court may not finally approve the settlement in whole or part. We believe the maximum financial exposure under this settlement, in the event that the plaintiffs recover nothing from the non-settling defendants, is approximately U.S. \$3.9 million, an amount we believe is fully recoverable from our insurer.

We are party to additional legal actions arising in the ordinary course of business. Based on the available information, as at March 31, 2007, we believe that we have adequate legal defenses for these actions and that the ultimate outcome of these actions will not have a material adverse effect on our company.

### **Dividends**

We have not declared or paid any cash dividends on our equity shares since inception and do not expect to pay any cash dividends for the foreseeable future. We currently intend to retain future earnings, if any, to finance the expansion of our business. Investors seeking cash dividends should not purchase our ADSs.

Under Indian law, a corporation may pay dividends upon a recommendation by its Board of Directors and approval by a majority of its shareholders. Any future cash dividends on our equity shares represented by ADSs will be paid to the depositary in rupees and will generally be converted into dollars by the depositary and distributed to holders of ADSs, net of the depositary's fees and expenses.

**Item 9. The Offer and Listing****Trading Markets**

There is no public market for our equity shares in India, the United States or any other market. Our ADSs evidenced by American Depositary Receipts, or ADRs, are traded in the United States only on the Nasdaq National Market. Each ADS represents one equity share. The ADRs evidencing ADSs were issued by our depository, Citibank, N.A., pursuant to a Deposit Agreement.

**Price History**

Our ADSs commenced trading on the Nasdaq National Market on October 19, 1999. The tables below set forth, for the periods indicated, high and low trading prices for our ADSs:

***Prior Fiscal Years***

	<b>Fiscal year ended</b>	<b>High</b> \$	<b>Low</b> \$
March 31, 2007		14.78	7.43
March 31, 2006		14.58	3.81
March 31, 2005		8.62	3.82
March 31, 2004		9.25	3.75
March 31, 2003		6.44	0.88

***Quarters of Prior Fiscal Years***

	<b>Fiscal year ended March 31, 2006</b>	<b>High</b> \$	<b>Low</b> \$
First Quarter		5.78	3.81
Second Quarter		5.95	4.35
Third Quarter		11.85	4.75
Fourth Quarter		14.58	8.77

	<b>Fiscal year ended March 31, 2007</b>	<b>High</b> \$	<b>Low</b> \$
First Quarter		14.78	8.21
Second Quarter		10.33	7.43
Third Quarter		10.59	8.68
Fourth Quarter		9.49	7.61

***Prior Six months***

	<b>Month</b>	<b>Price range</b>	
		<b>High</b> \$	<b>Low</b> \$
December 2006		10.59	9.09
January 2007		9.49	7.63
February 2007		9.41	7.61
March 2007		8.89	7.95
April 2007		9.50	8.30
May 2007		9.00	8.33
June 2007		8.63	8.06

The initial public offering of our ADSs was priced on October 18, 1999 at a price of \$18.00 per ADS.

## **Item 10. Additional Information**

We were organized as a limited liability company under the laws of the Republic of India pursuant to the provisions of the Indian Companies Act on December 12, 1995. Our authorized share capital is 50,000,000 shares, par value Rs.10 per share. The number of equity shares outstanding as of March 31, 2006 and March 31, 2007 were 42,389,514 and 42,800,265 respectively. During the fiscal year ended March 31, 2007, the company had issued 410,751 equity shares, par value Rs.10 per share to the employees in respect of the exercise of the grants under Associate Stock Option Plan 2002.

The equity shares are our only class of share capital. Some of the share capital is represented by American Depository Receipts issued by our company in accordance with applicable laws and regulations. Our Articles of Association and the Indian Companies Act permit us to issue classes of securities in addition to the equity shares. For the purposes of this annual report, shareholder means a shareholder who is registered as a member in the register of members of our company. The term shareholders and shareholders have the same meaning in this annual report since the Indian Companies Act only defines a shareholder.

A total of 3.2 million equity shares are reserved for issuance under our Associate Stock Option Plan, or ASOP. As of March 31, 2007, we had outstanding an aggregate of 874,445 options (net of 1,317,701 options that have been forfeited by employees or expired) under our ASOP with a weighted average exercise price equal to approximately Rs.390.42 (\$9.05) per equity share. The unamortized deferred compensation expense related to these grants amounted to Rs. 69 Million as of March 31, 2007.

During the fiscal year ended March 31, 2004, Venture Tech, who had subscribed for the shares of our company in terms of an Investor Rights Agreement, sold 2,017,641 shares reducing their holding from 15.9% to 10.1% and SAIF sold 4,750,000 shares reducing their holding from 21.6% to 8%.

During the fiscal year ended March 31, 2005, Venture Tech sold an additional 783,326 shares reducing their holding from 10.1% to 7.7% and SAIF sold an additional 800,000 shares reducing their holding from 8% to 5.68%.

During the fiscal year ended March 31, 2006, Venture Tech sold the remaining 2,750,000 shares of our company and SAIF sold the remaining 2,008,140 shares of our company. Satyam Computer Services had divested their entire holding of 11,182,600 shares in the company to Infinity Capital Ventures, LP through a sponsored ADR programme arranged by us. Further, Infinity Capital, pursuant to the Subscription Agreement dated November 10, 2005 acquired another 6,720,260 shares of the company in a private transaction. On conclusion of this transaction, the issued and outstanding share capital of our company was 42,389,514 equity shares, with a par value of Rs.10/- per share.

Our company has not issued any other class of shares or having different voting rights. The company had also not issued any shares for consideration other than cash. There is also no reduction of issued share capital of the company.

At the Extraordinary General Meeting of our shareholders held on December 23, 2005, the shareholders had approved by a Special Resolution the issue and allotment of 4.97 million equity shares of the par value of Rs.10/- per share at such price as may be determined to the public in India as the initial public offer to comply with the statutory requirement of domestic listing of the shares of our company, as and when announced by the Government of India.

### **Memorandum and Articles of Association**

A copy of the revised Memorandum and Articles of Association is annexed as Exhibit No. 1.1

Under our Memorandum of Association, the main objectives of our company include:

developing, servicing and selling or leasing data through direct or electronic media, developing a wide area of communications network and providing value-added services on the network for the development, service, purchase or sale of computers, software and related products in order to provide marketing services; and

designing and developing systems and application software for sale in and outside of India, and designing and developing systems and applications software for or on behalf of manufacturers, owners and users of computer systems and digital or electronic equipment.

*Board of Directors*

In terms of the provisions of the Articles of Association of the Company and the Indian Companies Act, 1956:

- (a) no director of the company can vote on a proposal, arrangement or contract in which he is materially interested;
- (b) the directors of the company can not vote on a proposal in the absence of an independent quorum for compensation to themselves or their body;
- (c) each of our directors is entitled to receive a sitting fee not exceeding Rs.20,000 for every meeting of the Board of Directors and each meeting of a Committee of the Board of Directors, as well as all traveling and out-of-pocket expenses incurred in attending such meetings;
- (d) the directors are empowered to borrow moneys through board meetings up to the prescribed limit and beyond that with the approval of the shareholders through a General Meeting;
- (e) retirement of directors are determined by rotation and not based on age limit; and
- (f) no director is required to hold any qualification shares.

**For additional information, please see Item 6. Director, Senior Management and Employees Board Composition, -Board Committees and -Director Compensation, and -Officer Compensation.**

*Dividends*

Under the Indian Companies Act, unless our Board of Directors recommends the payment of a dividend, we may not declare a dividend. Similarly, under our Articles, although the shareholders may, at the annual general meeting, approve a dividend in an amount less than that recommended by the Board of Directors, they cannot increase the amount of the dividend. In India, dividends generally are declared as a percentage of the par value of a company's equity shares. The dividend recommended by the Board of Directors, and thereafter approved by the shareholders in general meeting, if any, and subject to the limitations described above, is distributed and paid to shareholders in proportion to the paid up value of their shares within 30 days of the approval by the shareholders at the annual general meeting. Pursuant to our Articles, our Board of Directors has discretion to declare and pay interim dividends without shareholder approval. With respect to equity shares issued during a particular fiscal year (including any equity shares underlying ADSs issued to the depository), cash dividends declared and paid for such fiscal year generally will be prorated from the date of issuance to the end of such fiscal year.

Under the Indian Companies Act, dividends may be paid out of profits of a company in the year in which the dividend is declared or out of the undistributed profits of previous fiscal years. Before declaring a dividend greater than 10% of the par value of its equity shares, a company is required under the Indian Companies Act to transfer to its reserves a minimum percentage of its profits for that year, ranging from 2.5% to 10% depending upon the dividend percentage to be declared in such year. The Indian Companies Act further provides that, in the event of an inadequacy or absence of profits in any year, a dividend may be declared for such year out of the company's accumulated profits, subject to the following conditions:

the rate of dividend to be declared may not exceed 10% of its paid up capital or the average of the rate at which dividends were declared by the company in the prior five years, whichever is less;

the total amount to be drawn from the accumulated profits earned in the previous years and transferred to the reserves may not exceed an amount equivalent to 10% of its paid up capital and free reserves, and the amount so drawn is to be used first to set off the losses incurred in the fiscal year before any dividends in respect of preference or equity shares are declared; and

the balance of reserves after withdrawals shall not fall below 15% of its paid up capital.



**For additional information, please see Item 8. Financial Information Dividends.**

*Voting Rights*

At any general meeting, voting is by show of hands unless a poll is demanded by a shareholder or shareholders present in person or by proxy holding at least 10% of the total shares entitled to vote on the resolution or by those holding shares with an aggregate paid up capital of at least Rs.50,000. Upon a show of hands, every shareholder entitled to vote and present in person has one vote and, on a poll, every shareholder entitled to vote and present in person or by proxy has voting rights in proportion to the paid up capital held by such shareholders.

Any shareholder may appoint a proxy. The instrument appointing a proxy must be delivered to us at least 48 hours prior to the meeting. A proxy does not participate at the time of show of hands but the proxy is entitled to vote on a poll being taken. A corporate shareholder may appoint an authorized representative who can vote on behalf of the shareholder, both upon a show of hands and upon a poll.

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

*Bonus Shares*

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

*Preemptive Rights and Issue of Additional Shares*

The Indian Companies Act gives shareholders the right to subscribe for new shares in proportion to their respective existing shareholdings unless otherwise determined by a special resolution passed by a general meeting of the shareholders. For approval, a special resolution must be approved by a number of votes, which is not less than three times the number of votes against the special resolution. At our 2000 Annual General Meeting, our shareholders approved a special resolution pursuant to which we may issue up to one million equity shares (equivalent to one million ADSs) in connection with acquisitions, 268,500 of which we issued in connection with our acquisition of IndiaWorld Communications, 551,180 of which we issued in connection with our acquisition of a 25% stake in CricInfo Limited and 113,798 of which we issued in connection with our acquisition of IndiaPlaza.com. At our 2001 Annual General Meeting, our shareholders approved a special resolution permitting us to issue up to four million additional equity shares in connection with acquisitions or capital raising transactions, and ADS holders are deemed to have waived their preemptive rights with respect to these shares. At our December 2002 Extraordinary General Meeting, our shareholders approved a special resolution permitting us to issue up to 12.5 million additional equity shares (equivalent to 12.5 million ADSs) in connection with the sale of equity shares to SAIF and VentureTech, and our ADS holders are deemed to have waived their preemptive rights with respect to these shares and our Board of Directors may approve the issuance of these shares without further action of our shareholders. At our Extraordinary General Meeting held in December 2005, our shareholders approved a special resolution permitting us to issue up to 6,720,260 additional equity shares (equivalent to 6.72 million ADSs) in connection with the acquisition of additional shares by Infinity Capital, as per the Subscription Agreement dated November 10, 2005 executed by the company with them.

*Annual General Meetings of Shareholders*

We must convene an annual general meeting of shareholders within six months after the end of each fiscal year and may convene an extraordinary general meeting of shareholders when necessary or at the request of a shareholder or shareholders holding at least 10% of our paid up capital carrying voting rights. The annual general meeting of the shareholders is generally convened by our Company Secretary pursuant to a resolution of the Board. Written notice setting out the agenda of the meeting must be given at least 21 days (excluding the days of mailing and receipt) prior

to the date of the general meeting to the shareholders on record. Shareholders who are registered as shareholders in the company's register on the record date are entitled to attend or vote at such meeting.

The annual general meeting of shareholders must be held at our registered office or at such other place within the city in which the registered office is located. Meetings other than the annual general meeting may be held at any other place if so determined by the Board. Our registered office is located at 2nd Floor, Tidel Park, 4, Canal Bank Road, Taramani, Chennai 600 113, India.

Our Articles provide that a quorum for a general meeting is the presence of at least five shareholders in person.

*2007 Annual General Meeting*

Our Annual General Meeting for the fiscal year 2007 was held on September 24, 2007 at the registered office of our company, 2nd Floor, Tidel Park, 4 Canal Bank Road, Taramani, Chennai 600 113, India.

At the above Annual General Meeting, the shareholders of our company have approved the proposal for setting off the carry forward loss (accumulated deficit) of Sify Limited to the extent of Rs.11,627 million against the credit of balance of the Securities Premium Account (Additional paid up capital), in the Company's standalone financial statements prepared under the local statutory requirements. The proposal is subject to the approval of the High Court of Madras and other statutory authorities.

At the above Annual General Meeting, the shareholders of our company have also approved the Associate Stock Option Plan 2007 allocating 1,400,000 equity shares of Rs.10/- each in the share capital of the company to be granted to the employees of the company.

*Limitations on the Rights to Own Securities*

The limitations on the rights to own securities of Indian companies, including the rights of non-resident or foreign shareholders to hold securities, are discussed in the section entitled "Risk Factors - Risks Related to the ADSs and Our Trading Market" in this Annual Report.

*Register of Shareholders; Record Dates; Transfer of Shares*

We maintain a register of shareholders as required under the Indian Companies Act, 1956. For the purpose of determining the shares entitled to annual dividends, the register is closed for a specified period prior to the annual general meeting. The date on which this period begins is the record date.

To determine which shareholders are entitled to specified shareholder rights, we may close the register of shareholders. The Indian Companies Act requires us to give at least seven days' prior notice to the public before such closure. We may not close the register of shareholders for more than thirty consecutive days, and in no event for more than forty-five days in a year.

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

Under the Indian Companies Act, unless the shares of a company are held in a dematerialized form, a transfer of shares is effected by an instrument of transfer in the form prescribed by the Indian Companies Act and the rules thereunder together with delivery of the share certificates. Our transfer agent is Citibank, N.A. - Mumbai branch.



*Audit and Annual Report*

At least 21 days before the annual general meeting of shareholders excluding the days of mailing and receipt, we must distribute to our shareholders a detailed version of our audited balance sheet and profit and loss account and the related reports of the Board and the auditors, together with a notice convening the annual general meeting. These materials are also generally made available at our corporate website, *www.sifycorp.com*. Under the Indian Companies Act, we must file the balance sheet and annual profit and loss account presented to the shareholders within 30 days of the conclusion of the annual general meeting with the Registrar of Companies in Tamil Nadu, India, which is the state in which our registered office is located. We must also file an annual return containing a list of our shareholders and other information within 60 days of the conclusion of the meeting.

*Company Acquisition of Equity Shares*

Under the Indian Companies Act, approval of at least 75% votes in favor, of a company's shareholders present in person or by proxy as the case may be, voting on the matter and approval of the High Court of the State in which the registered office of the company is situated is required to reduce a company's share capital. A company may, under some circumstances, acquire its own equity shares without seeking the approval of the High Court. However, a company would have to extinguish the shares it has so acquired within the prescribed time period. Generally, a company is not permitted to acquire its own shares for treasury operations. An acquisition by a company of its own shares (without having to obtain the approval of the High Court) must comply with prescribed rules, regulations and conditions as laid down in the Indian Companies Act and the Securities and Exchange Board of India (Buy-back of Securities) Regulations, 1998, or Buy-back Regulations.

*Liquidation Rights*

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

*Redemption of Equity Shares*

Under the Indian Companies Act, equity shares are not redeemable.

**Material Contracts**

*Internet Service Provider License.*

We entered into a license agreement with the DOT on November 12, 1998 with effect on the same day, under which we were granted a license to provide national Internet services on a non-exclusive basis. The terms and conditions of our license are generally consistent with the policy for licensing Internet service providers. The term of our license is 15 years. Our license can be revoked by the DOT if we breach the terms and conditions of the license. The DOT retains the right to take over our network and to modify, revoke, terminate or suspend the terms and conditions of the license at any time if, in its opinion, it is necessary or expedient to do so in the interest of general public, or for the proper operation of the telecommunications sector or for security considerations. The DOT also retains the right to review the terms of our license based on changes in national telecommunications policy. We are not allowed to assign or transfer our rights under our license without the prior written consent of the DOT.

Government of India policies permit a maximum level of foreign equity investment of 74% in Internet service providers having their own gateways. Our license was reissued in April 2002, allowing us a maximum level of foreign equity investment of 74% and also permitting us to provide VoIP, subject to the terms of operation as detailed in the license. We currently do not own any international gateways and are technically permitted to have a 100% foreign holding in our company, subject to government regulations.

Our license also requires us to ensure that objectionable, obscene and unauthorized content, or any other content, messages or communications infringing copyrights, intellectual property rights and domestic and international cyber laws or which is inconsistent with the laws of India, is not carried on our network. Although under the terms of our license we are free to fix the prices we charge our subscribers, the TRAI may set prices for the provision of Internet access services generally. We are permitted to use encryption to safeguard information transmitted over our network. However, if we use a higher level of encryption than that specified by the Government of India, our license requires us

to deposit a set of keys with the Government of India. License fees were waived through

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October 31, 2003, and a nominal license fee of Re.1 per annum is payable from November 1, 2003. Our obligations under the license are secured by a performance bank guarantee in the amount of Rs.10 million (\$0.2 million) as of March 31, 2007.

In December 2004, the Government of India through DOT imposed new requirements on Internet Service Providers wishing to offer Virtual Private Network services. Consequently, we applied for permission to offer VPN services, and the DOT, Government of India issued a letter of intent to us on December 30, 2004 regarding amendment of our existing ISP license to include provision of VPN services. In January 2005, we paid a Rs.100 million one time entry fee and submitted a financial bank guarantee of Rs.10 million as required by the letter of intent.

On January 11, 2005, we received provisional permission from the DOT, Government of India to offer VPN service in accordance with the new requirements. Final permission to offer VPN service shall be effective only after we sign the amendment to the license agreement. However the provisional permission does not carry any terms and conditions relating to the license.

The Indian Department of Telecommunications, or DOT, also requires ISP licensees to pay an annual fee of 8% of the adjusted gross revenues generated under the ISP license for revenue generated through VoIP services. The Internet Service Provider Association of India, or ISP AI, had filed an appeal against this license with the Telecom Disputes Settlement and Arbitration Tribunal, or TDSAT. TDSAT directed GOI to consult with TRAI before finalizing the license conditions.

We have incurred Rs.28.6 million for the period April 1, 2005 to December 31, 2005 towards the 8% annual fee on VPN revenue as per the provisional IP-VPN licence and Rs.12.7 million for the period January 1, 2006 to March 31, 2006 and Rs.38.3 million for the period from April 1, 2006 to November 21, 2006 towards the 6% annual fees on AGR as per the ILD/ NLD license requirement. Additionally, Sify Communications has incurred Rs. 22.7 million for the period from November 22, 2006 to March 31, 2007 towards the 6% annual fees on AGR as per the ILD/ NLD license requirement.

On November 10, 2005, the GOI issued guidelines for obtaining National Long Distance ( NLD ) and International Long Distance ( ILD ) licenses including the terms and conditions for the licenses. These guidelines eliminated the IP-VPN license, entitling the Company to a full refund of the Rs.100,000 entry fee, and permitting existing IP-VPN license holders to migrate to the NLD and ILD service licenses effective January 1, 2006. The Company discontinued amortization of the IP-VPN license effective November 10, 2005 and reversed the amortization of the license fee.

As the NLD and ILD licenses were under the regime of Department of Telecommunications, the notification of the GOI dated 7 November 2005 was required to be complied with to receive NLD and ILD licenses. The primary condition set out in the notification among other conditions was that, the total composite foreign holding by the applicant should not exceed 74 per cent. Given that the foreign shareholding in Sify was higher than the aforesaid threshold limit, Sify Communications Limited (Sify Comm), a wholly-owned subsidiary of the Company decided to obtain the NLD and ILD licenses in its name and made necessary applications in this regard. To facilitate this, Sify divested its stake in Sify Comm to the extent of 26% of its holding in Sify Comm, or 4,680 shares, to M/s Infinity Satcom Universal (P) Ltd (Infinity Satcom), a related party, for a sale consideration of Rs.139,810 during the quarter ended December 31, 2005. M/s Infinity Satcom a company incorporated under the laws of India, is owned by Anand Raju, who is the brother of Raju Vegesna, Chairman of Sify's Board of Directors and the principal of Infinity Capital Ventures, LP ( Infinity Capital ). Infinity Capital owns approximately 41.83 % of Sify's outstanding equity shares.

On November 21, 2006, Sify Comm executed two License Agreements with GOI, for NLD and ILD services respectively, which enabled Sify Comm to provide IP-VPN services. Accordingly, the Company has transferred its IP VPN business to Sify Comm effective November 22, 2006 and the latter commenced the said services on the same day. Sify Comm has also furnished bank guarantees for Rs.200,000 each for NLD and ILD licenses to GOI. These licenses are valid for an initial period of 20 years and can be renewed for another 10 years at one time, upon request of the licensee made during the 19<sup>th</sup> year of license.

Pursuant to its arrangements with Sify Comm and GOI notification dated 7 November 2005, allowing adjustment of the one time entry fee of Rs. 100,000 paid by Sify towards the entry fee payable by Sify Comm, during

the year ended December 31, 2006, the Company has adjusted Rs 75,000 towards the annual recurring fees and the balance Rs. 25,000 towards the entry fee payable by Sify Comm. Sify Comm paid the balance Rs. 25,000 towards entry fee for NLD and ILD Licenses.

*Sponsored ADR Program*

On November 10, 2004, we entered into an agreement with Satyam Computer Services, SAIF and Venture Tech in which we agreed, in part, to facilitate the conversion of our outstanding Indian equity shares into ADSs and to register the ADSs for resale under the U.S. federal securities laws. Pursuant to this agreement, Satyam Computer Services, SAIF, Venture Tech and other holders of our equity shares may dispose of some or all of their equity shares in one or more transactions. A registration statement in Form F-3 had been filed by us on December 7, 2004 which covered 4,538,200 ADSs. The company may file such additional registration statements in the future.



Based on the above, the company had completed four tranches of Sponsored ADR Program and converted 1,130,526, 2,750,000 and 657,121 shares aggregating to 4,537,647 shares into unrestricted shares and 11,182,600 shares into restricted shares, aggregating to 15,720,247 shares into ADS.

*Subscription Agreement*

Infinity Capital Ventures, LP beneficially owned 41.83% of our equity shares as of March 31, 2007. This shareholder is a party to the Subscription Agreement with our company dated November 10, 2005. The Subscription Agreement provides for, among other things, the company shall appoint Mr Raju Vegesna as the Chairman of the Board of Directors, Infinity Capital shall also nominate another person in the Board of Sify Limited and so long as Infinity Capital continues to own at least 10% of the Company's outstanding Equity Shares, the Company shall not enter into any agreement pursuant to which it would provide a third party with registration rights for Company securities, without the consent of Infinity Capital.

*Standstill Agreement*

On November 10, 2005, Infinity Capital and Raju Vagesna entered into a Standstill Agreement with us, pursuant to which, upon the terms and subject to the conditions set forth therein, Infinity Capital agreed not to purchase more than 45% of our outstanding fully diluted equity.

*Shareholders Agreement*

On December 20, 2005, Infinity Satcom Universal (P) Limited, or Universal Satcom and Sify Communications Limited, or Sify Communications, the company's subsidiary, entered into an agreement with the company. The agreement provides for, among other things, the company shall transfer 26% of its holding in Sify Communications to Universal Satcom in order to facilitate Sify Communications to comply with the Government of India regulations of having not more than 74% non-resident holding to apply for the licence and provide for the National Long Distance, or NLD and International Long Distance, or ILD services in Telecom sector and also to comply with other regulations.

**Exchange Controls**

*General*

Prior to June 1, 2000, investment in Indian securities was regulated by the Indian Foreign Exchange Regulation Act, 1973. Under Section 29(1)(b) of the Indian Foreign Exchange Regulation Act, 1973, no person or company resident outside India that is not incorporated in India (other than a banking company) could purchase the shares of any company carrying on any trading, commercial or industrial activity in India without the permission of the Reserve Bank of India. Also, under Section 19(1)(d) of the Indian Foreign Exchange Regulation Act, 1973, the transfer and issuance of any security of any Indian company to a person resident outside India required the permission of the Reserve Bank of India. Under Section 19(5) of the Indian Foreign Exchange Regulation Act, 1973, no transfer of shares in a company registered in India by a non-resident to a resident of India was valid unless the transfer was confirmed by the Reserve Bank of India upon application filed by the transferor or the transferee. Furthermore, the issuance of rights and other distributions of securities to a non-resident also requires the prior consent of the Reserve Bank of India. However, the Reserve Bank of India has issued notifications over the past few years relaxing the restrictions on foreign investment in Indian companies.

As of June 1, 2000, the Indian Foreign Exchange Regulation Act, 1973 was replaced by the Indian Foreign Exchange Management Act, 1999, or FEMA. The Indian Foreign Exchange Management Act, 1999 contains provisions regarding current account convertibility and amendments to the definition of a resident of India. However, some of the preexisting controls and restrictions on capital account transactions remain in force. While many of the restrictions imposed by the Indian Foreign Exchange Regulation Act, 1973 have been relaxed under this new legislation, the RBI continues to exercise control over capital account transactions, which alter the assets or liabilities, including contingent liabilities, of persons. The RBI has issued regulations under FEMA to regulate various kinds of capital account transactions, including aspects of the purchase and issuance of shares of Indian companies. Therefore, transaction involving foreign investment in Indian securities is regulated by the provisions of the Indian Foreign Exchange Management Act, 1999 and continues to be regulated by the Reserve Bank of India.

### *ADR Guidelines*

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

Further, pending utilization of foreign exchange resources raised by issue of ADRs, Indian companies may invest the proceeds in foreign exchange in:

- (a) deposits with or certificates of deposit or other instruments of banks who have been rated not less than A1+ by Standard and Poor or B1 by Moody's for short term obligations;
- (b) deposits with branches outside India of an authorized dealer in India; and
- (c) treasury bill and other monetary instruments with a maturity or unexpired maturity of the instrument of one year or less.

The Issue of Foreign Currency Convertible Bonds and Ordinary Shares Scheme is distinct from other policies or facilities, as described below, relating to investments in Indian companies by foreign investors. The issuance of ADSs pursuant to the Issue of Foreign Currency Convertible Bonds and Ordinary Shares Scheme also affords to owners of ADSs the benefits of Section 115AC of the Indian Income-tax Act, 1961 for purposes of the application of Indian tax law. For additional information, please see *Taxation* Indian Taxation.

### *Foreign Direct Investment*

Currently, subject to certain exceptions, foreign direct investment and investment by individuals of Indian nationality or origin residing outside India, or non-resident Indians, and overseas corporate bodies at least 60% owned by such persons, or overseas corporate bodies, in Indian companies do not require the specific prior approval of the Foreign Investment Promotion Board, or FIPB, a body formed by the Government of India to negotiate with large foreign companies interested in making long-term investments in India. Furthermore, henceforth no prior approval of the Reserve Bank of India is required although a post-investment declaration in giving details of the foreign investment in the company pursuant to the ADR issue must be filed with the Reserve Bank of India within thirty days of our ADR offering. However, the waiver of approval by the FIPB and the RBI is unavailable in certain industries, which have been identified by the Government of India. The waiver of approval would not apply in the following cases:

foreign investment in industries that require an industrial license;

foreign investment being more than 24% in the equity capital of manufacturing items reserved for small scale industries;

all proposals in which the foreign collaboration has a previous venture/tie-up in India in the relevant sector;

all proposals relating to acquisition of shares in an existing company by a foreign investor;

all proposals for investment in the industries specified by the Government of India; and

all proposals for investment in specified industries where the proposed investment is in excess of the sectoral caps specified therein.

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

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

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

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

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

Notwithstanding the foregoing, Government of India policies permit a maximum level of foreign equity investment of 74% in Internet service providers having their own international gateways. Our license was reissued in April 2002, allowing us a maximum level of foreign equity investment of 74% and also permitting us to provide VoIP, subject to the terms of operation as detailed in the license. We currently do not own any international gateways and are technically permitted to have 100% foreign holding in our company, subject to government regulations.

#### *Investment by Non-Resident Indians and Overseas Corporate Bodies*

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

Apart from portfolio investments in Indian companies, non-resident Indians and overseas corporate bodies may also invest in Indian companies through foreign direct investments. For additional information, please see

Foreign Direct Investment. Under the foreign direct investment rules, non-resident Indians and overseas corporate bodies may invest up to 100% in high-priority industries in which other foreign investors are permitted to invest only up to 50%, 51%, 74% or 100%, depending on the industry category.

#### *Investment by Foreign Institutional Investors*

In September 1992, the Government of India issued guidelines which enable foreign institutional investors, including institutions such as pension funds, investment trusts, asset management companies, nominee companies and incorporated/institutional portfolio managers, to make portfolio investments in the securities of listed and unlisted companies in India. Under the guidelines, foreign institutional investors must obtain an initial registration from the Securities and Exchange Board of India to make these investments. Foreign institutional investors must also comply with the provisions of the Securities Exchange Board of India Foreign Institutional Investors Regulations, 1995. When it receives the initial registration, the foreign institutional investor also obtains general permission from the Reserve Bank of India to engage in transactions regulated under the Indian Foreign Exchange Regulation Act. Together, the initial registration and the Reserve Bank of India's general permission enable the registered foreign institutional investor to buy, subject to the ownership restrictions discussed below, and freely sell securities issued by Indian companies whether or not they are listed, to realize capital gains on investments made through the initial amount invested in India, to subscribe or renounce rights offerings for shares, to appoint a domestic custodian for custody of investments held and to repatriate the capital, capital gains, dividends, income received by way of interest and any compensation received towards sale or renunciation of rights offerings of shares. The foreign institutional investor regulations also set out the general obligations and responsibilities and investment conditions and restrictions applicable to foreign institutional investors. One such restriction is that unless the foreign Institutional Investor is registered as a debt fund with the Securities Exchange Board of India, the total investment in equity and equity-related instruments should not be less than 70% of the aggregate of all investments of a foreign institutional investor in India.

Apart from making portfolio investments in Indian companies as described above, foreign institutional investors may direct foreign investments in Indian companies. For additional information, please see *Foreign Direct Investment. Ownership Restrictions*

The Securities and Exchange Board of India and Reserve Bank of India regulations restrict portfolio investments in Indian companies by foreign institutional investors, non-resident Indians and overseas corporate bodies, all of which we refer to as foreign portfolio investors. The Reserve Bank of India issued a circular in August 1998 stating that foreign institutional investors in aggregate may hold no more than 30% of the equity shares of an Indian company and non-resident Indians and overseas corporate bodies in aggregate may hold no more than 10% of the shares of an Indian company through portfolio investments. Under current Indian law, foreign institutional investors in the aggregate may hold no more than 24% of the equity shares of an Indian company, and non-resident Indians and overseas corporate bodies in aggregate may hold no more than 10% of the shares of an Indian company through portfolio investments. The 24% limit referred to above may be increased to 49% if the shareholders of the company pass a special resolution to that effect. The Reserve Bank of India circular also states that no single foreign institutional investor may hold more than 10% of the shares of an Indian company and no single non-resident Indian or overseas corporate body may hold more than 5% of the shares of an Indian company.

Foreign institutional investors are urged to consult with their Indian legal and tax advisers about the relationship between the foreign institutional investor regulations and the ADSs and any equity shares withdrawn upon surrender of ADSs.

Under the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 approved by the Securities and Exchange Board of India in January 1997 and notified by the Government of India in February 1997, which replaced the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Resolutions, upon the acquisition (directly or indirectly) of more than 5% of the outstanding shares (the aggregate of the existing shares and the newly acquired shares) of a listed public Indian company, a purchaser is required to notify the company, and the company is required to notify all the stock exchanges on which the shares of the company are listed, of the purchaser's shareholdings or voting rights in that company within four working days of (a) the receipt of allotment information or (b) the acquisition of shares or voting rights, as the case may be. Before the acquisition of 15% or more of such shares or a change in control of the company, either by himself or with others acting in concert the purchaser is required to make annual disclosures of the purchaser's holdings in the company and to make an open offer to the other shareholders offering to purchase at least 20% of all the outstanding shares of the company at a minimum offer price as determined pursuant to the new regulations. A purchaser who holds between 15.0% and 75.0% of a company's shares cannot acquire additional shares or voting rights that would entitle the purchaser to exercise an additional 5.0% of the voting rights in any 12 month period unless such purchaser makes a public announcement offering to acquire an additional 20% of the company's shares. Upon conversion of ADSs into equity shares, an ADS holder will be subject to the Takeover Code. The Takeover Code does not apply to purchases involving the acquisition of shares (i) by allotment in a public, rights and preferential issue, (ii) pursuant to an underwriting agreement, (iii) by registered stockbrokers in the ordinary course of business on behalf of customers, (iv) in unlisted companies, (v) pursuant to a scheme of reconstruction or amalgamation or (vi) pursuant to a scheme under Section 18 of the Sick Industrial Companies (Special Provisions) Act, 1985. The Takeover Code does not apply to purchases in the ordinary course of business by public financial institutions either on their own account or as a pledgee. In addition, the Takeover Code does not apply to the purchase of ADSs so long as they are not converted into equity shares. However, since we are an unlisted company, the provisions of the new regulations will not apply to us. If our shares are listed on an Indian stock exchange in the future, the new regulations will apply to the holders of our ADSs.

Open market purchases of securities of Indian companies in India by foreign direct investors or investments by non-resident Indians, overseas corporate bodies and foreign institutional investors above the ownership levels set forth above require Government of India approval on a case-by-case basis.

#### *Voting Rights of Deposited Equity Shares Represented by ADSs*

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

to the holders of ADSs any notice of shareholders meeting received from us together with information explaining how to instruct the depositary bank to exercise the voting rights of the securities represented by ADSs.

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

Please note that the ability of the depository bank to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities on deposit. We cannot assure you that ADS holders will receive voting materials in time to enable them to return voting instructions to the depository bank in a timely manner. Securities for which no voting instructions have been received will not be voted except as discussed above.

Under Indian law, subject to the presence in person at a shareholder meeting of persons holding equity shares representing a quorum, all resolutions proposed to be approved at that meeting are voted on by a show of hands unless a shareholder present in person at the meeting demands that a poll be taken. Equity shares not represented in person at the meeting, including equity shares underlying ADSs for which a holder has provided voting instructions to the depository bank, are not counted in a vote by show of hands. As a result, only in the event that a shareholder present at the meeting demands that a poll be taken will the votes of ADSs holders be counted. Securities for which no voting instructions have been received will not be voted on a poll.

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

## **Taxation**

### *Indian Taxation*

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

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

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

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

a period or periods amounting in all to 60 days or more and within the four years preceding that year has been in India for a period or periods amounting to 365 days or more.

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

*Fringe Benefit Tax:* The Finance Minister of India has introduced the income tax on fringe benefit (FBT) in Finance Act 2005 which will be levied on employers. Under the FBT, employers will be required to pay a tax of 30% exclusive of applicable surcharge and cess on the taxable value of the fringe benefits or privileges that are provided or deemed to be provided to employees on a collective, rather than individual, basis. The impact of FBT for the fiscal year ended March 31, 2007 was Rs 17.5 million.

*Taxation of Distributions.* The Finance Act, 2003 has inserted with effect from April 1, 2004, dividend income from domestic company will be exempt from tax in the hands of shareholders as the domestic companies will be liable to pay a dividend distribution tax at the rate of 15% plus a surcharge and additional surcharge at the time of the distribution. Any distributions of additional ADSs, equity shares or rights to subscribe for equity shares made to non-resident holders with respect to ADSs or equity shares will not be subject to Indian tax. Similarly, the acquisition by a non-resident holder of equity shares upon redemption of ADSs will not constitute a taxable event for Indian income tax purposes. Such acquisition will, however, give rise to a stamp duty as described below under Stamp Duty and Transfer Tax.

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

Since our ADS offerings were approved by the Government of India under the Issue of Foreign Currency Convertible Bonds and Ordinary Shares Scheme, non-resident holders of the ADSs have the benefit of tax concessions available under Section 115AC. As a result, gains realized on the sale of ADSs will not be subject to Indian taxation. The effect of the Scheme in the context of Section 115AC is unclear as to whether such tax treatment is available to a non-resident who acquires equity shares outside India from a non-resident holder of equity shares after receipt of the equity shares upon surrender of the ADSs. If concessional tax treatment is not available, gains realized on the sale of such equity shares will be subject to customary Indian taxation on capital gains as discussed below. The Issue of Foreign Currency Convertible Bonds and Ordinary Shares Scheme provides that if the equity shares are sold on a recognized stock exchange in India against payment in Indian rupees, they will no longer be eligible for such concessional tax treatment.

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

Under Section 115AC, taxable gain realized in respect of equity shares held for more than 12 months, or long-term gain, is subject to tax at the rate of 10%. Taxable gain realized in respect of equity shares held for 12 months or less, or short-term gain, is subject to tax at variable rates with a maximum rate of 48%. In addition, non-corporate foreign assesses are subject to a surcharge of 5.0%. The actual rate of tax on short-term gain depends on a number of factors, including the residential status of the non-resident holder and the type of income chargeable in India.

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

*Stamp Duty and Transfer Tax.* Upon issuance of the equity shares underlying our ADSs, we are required to pay a stamp duty of 0.1% of the aggregate value of the shares issued, provided that the issue of dematerialized shares is not



subject to Indian stamp duty. A transfer of ADSs is not subject to Indian stamp duty. However, upon the acquisition of equity shares from the depository in exchange for ADSs, the non-resident holder will be liable for Indian stamp duty at the rate of 0.25% of the market value of the equity shares on the redemption date. Similarly upon a sale of shares in physical form, stamp duty at the rate of 0.25% of the market value of the equity shares on the trade date is payable, although customarily such duty is borne by the purchaser. Our equity shares, if and when issued and traded in dematerialized form, are not subject to Indian stamp duty.

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

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

*Service Tax.* Brokerage or commissions paid to stockbrokers in connection with the sale or purchase of shares is subject to a service tax of 12.36%.

### **Income Tax Matters**

As of March 31, 2007, we had a business loss carry forward of approximately Rs.1151.5 million (\$26.7 million) for financial reporting purposes. Under Indian law, loss carry forwards from a particular year may be used to offset taxable income over the next eight years.

The statutory corporate income tax rate and the surcharge thereon are subject to change in line with the changes announced in the Union Budget each year. For fiscal year 2007, the corporate income tax rate was 30%, subject to a surcharge of 10% and education cess of 2%, resulting in an effective tax rate of 33.66%. For fiscal year 2008, the corporate income tax rate is 30%, subject to a surcharge of 10% and education cess of 3%, resulting in an effective tax rate of 33.99%. We cannot assure you that the current income tax rate will remain unchanged in the future. We also cannot assure you that the surcharge will be in effect for a limited period of time or that additional surcharges will not be levied by the Government of India. Until April 1, 2002, dividends declared, distributed or paid by an Indian corporation were subject to a dividend tax of 10.2%, including the applicable surcharge for fiscal 2002, of the total amount of the dividend declared, distributed or paid. This tax is not paid by shareholders nor is it a withholding requirement, but rather it is a direct tax payable by the corporation before distribution of a dividend. Effective April 1, 2002, Indian companies were no longer to be taxed on declared dividends. The Finance Act, 2003 proposed that after April 1, 2003, dividend income will be exempt from tax for shareholders and that domestic companies will be liable to pay a dividend distribution tax at the rate of 15% plus a surcharge and additional surcharge at the time of the distribution.

### *United States Federal Taxation*

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

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

*Ownership of ADSs.* For U.S. federal income tax purposes, holders of ADSs should be treated as the owners of equity shares represented by such ADSs. However, the United States Treasury had expressed concerns that parties to whom ADSs are pre-released may be taking actions inconsistent with the claiming of the reduced rate of tax

applicable to dividends received by certain non-corporate holders, as described below. Accordingly, the availability of the lower rate of tax applicable to dividends could be affected by actions that may be taken by the United States Treasury.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **Item 11. Quantitative and Qualitative Disclosures About Market Risk**

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

We also face market risk relating to foreign exchange rate fluctuations, principally relating to the fluctuation of U.S. dollar to Indian rupee exchange rate. Our foreign exchange risk principally arises from accounts payable to overseas vendors. This risk is partially mitigated as we hold balances in foreign currency with overseas banks. Our foreign exchange gain/(loss) was Rs.2.6 million Rs.23.2 million and 8.33 million for fiscal years 2005, 2006 and 2007, respectively.

#### **Item 12. Description of Securities Other Than Equity Securities**

Not applicable.

### **PART II**

#### **Item 13. Defaults, Dividend Arrearages and Delinquencies**

Not applicable.

#### **Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

Under the Indian Companies Act, 1956 of India, or Indian Companies Act, a company incorporated in India must offer its holders of equity shares preemptive rights to subscribe and pay for a proportionate number of shares to maintain their existing ownership percentages prior to the issuance of any new equity shares, unless the preemptive rights have been waived by adopting a special resolution by holders of three-fourths of the company's shares which are voted on the resolution. At our 2000 Annual General Meeting, our shareholders approved a special resolution permitting us to issue up to one million equity shares in connection with acquisitions. We issued virtually all of these equity shares in connection with our acquisitions of IndiaWorld Communications and Indiaplaza.com and our investment in CricInfo Limited. At our 2001 Annual General Meeting, our shareholders approved a special resolution permitting us to issue up to four million additional equity shares in connection with acquisitions or capital raising transactions, and ADS holders are deemed to have waived their preemptive rights with respect to these shares. At our December 2002 Extraordinary General Meeting, our shareholders approved a special resolution permitting us to issue up to 12.5 million additional equity shares in connection with the sale of equity shares to SAIF and VentureTech, and our ADS holders are deemed to have waived their preemptive rights with respect to these shares. Our Board approved the issue of 11.6 million shares out of the 12.5 million approved by the shareholders. Out of this, 8.6 million was issued as ADSs and 3.0 million as Indian equity shares. We raised \$14.7 million and Rs.253.4 million through the ADS issue and Indian equity share issue respectively. Of the \$14.7 million in proceeds from the ADS issue, \$12.3 million is available as cash, \$1.2 million was used for investments in affiliates, \$0.5 million was expended on U.S. branch operations and \$0.7 million was expended on other operating expenses. The total amount of Rs.253.4 million raised by way of issue of Indian equity shares is available as cash. At our Extraordinary General Meeting held in December 2005, our shareholders approved a special resolution permitting us to issue up to 6,720,260 additional equity shares (equivalent to 6.72 million ADSs) in connection with the acquisition of additional shares by

Infinity Capital, as per the Subscription Agreement dated November 10, 2005 executed by the company with them.  
We raised \$37.20 million from the ADS issue.

## **Item 15. Controls and procedures**

### *Evaluation of disclosure controls and procedures*

Based on their evaluation as of March 31, 2007, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities Exchange Commission rules and forms and that material information related to us and our consolidated subsidiaries is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions about required disclosures. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and, in reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Also, we have investments in certain unconsolidated entities. As we do not control or manage these entities, our disclosure controls and procedures with respect to such entities are necessarily substantially more limited than those we maintain with respect to our consolidated subsidiaries.

### *Management's annual report on internal control over financial reporting*

Our Management, led by the Chairman and Chief Executive Officer, Mr. Raju Vegesna and the Chief Financial Officer, Mr. Pijush Kanti Das, has the responsibility for establishing and maintaining adequate internal controls and procedures for financial reporting as defined in rules 13(a)-15(f) and 15(d)-15(f) under the Securities Exchange Act of 1934.

Management is responsible for establishing and maintaining adequate internal control over financial reporting of the company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management adopted the integrated internal control framework criteria described in the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). to evaluate the effectiveness of the company's internal control over financial reporting as of March 31, 2007.

Based on our evaluation of internal controls over financial reporting under the COSO framework, management has concluded that controls were effective as of March 31, 2007.

Pursuant to the rules of the US Securities Exchange Commission, our Independent Registered Public Accounting Firm is not required to attest to the effectiveness of the company's internal control over financial reporting for the year ended March 31, 2007. Accordingly, no such attestation report is included in this annual report.



**Changes in internal control over financial reporting**

During the period covered by this Annual Report, there were no material changes in our internal control over financial reporting. However, we have incorporated some process changes to strengthen the controls that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

**Item 16A. Audit Committee financial expert**

Mr. C. B. Mouli, a member of our audit committee, is independent as per the SEC and NASDAQ rules, conforms to the requirements to be an audit committee financial expert under the SEC's definition and he was appointed by the Board as the Audit Committee Financial Expert effective July 15, 2005.

**Item 16B. Code of Ethics**

The Company has adopted a Code of Conduct and Conflict of Interest Policy that is applicable to all officers, directors and employees. The text of the policy was filed as an Exhibit under Item 19 to the Annual Report for the year ended March 31, 2005. This policy is available on our website, *www.sifycorp.com*.

**Item 16C. Principal Accountant Fees and Services**

The following table sets forth for the fiscal years indicated the fees paid to our principal accountant and its associated entities for various services provided us in these periods.

Type of Service	Fiscal year ended	
	march 31, 2006	march 31, 2007
(a) Audit Fees	Rs.7.8 million	Rs.6.2 million
(b) Audit Related Fees	Nil	Nil
(c) Tax Fees	Nil	Nil
(d) All Other Fees	Nil	Nil

Fees include out of pocket expenses and applicable taxes.

Our Audit Committee requires pre-approval of all audit and permissible non-audit services to be performed for the company by its independent auditors, subject to the de-minimis exception for non-audit services described in Section 10A(i)(1)(B) of the Securities Exchange act of 1934.

**Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not applicable.

**Item 16E. Purchase of Equity Securities by the Issuer and Affiliated Purchasers**

None.

**PART III****Item 17. Financial Statements**

Not applicable.

**Item 18. Financial Statements**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

Sify Limited

We have audited the accompanying consolidated balance sheets of Sify Limited and subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows, for each of the years in the three-year period ended March 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sify Limited and subsidiaries as of March 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2007, in conformity with U.S. generally accepted accounting principles.

KPMG

Chennai, India

October 12, 2007

**SIFY LIMITED and Subsidiaries**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share data and as otherwise stated)

	As at March 31, 2006	As at March 31, 2007	As at March 31, 2007 Convenience translation into US\$ Unaudited (Note 2) \$
	Rs.	Rs.	
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	Rs. 2,822,501	Rs. 3,070,157	\$ 71,233
Accounts receivable	838,433	1,188,406	27,573
Due from employees	23,818	7,726	179
Inventories	30,462	28,686	666
Prepaid expenses	91,158	118,207	2,743
Net investment in leases	10,776	16,560	384
Other current assets	165,767	289,673	6,721
<b>Total current assets</b>	<b>3,982,915</b>	<b>4,719,415</b>	<b>109,499</b>
Cash restricted	1,000	1,000	23
Deferred income taxes		66,104	1,534
Net investment in leases	10,842	12,032	279
Property, plant and equipment-net	1,423,246	1,644,564	38,157
Goodwill and other intangible assets	62,436	192,390	4,464
Investments in affiliated companies	233,060	302,956	7,029
Other assets	238,272	224,491	5,209
<b>Total assets</b>	<b>Rs. 5,951,771</b>	<b>Rs. 7,162,952</b>	<b>\$ 166,194</b>

**LIABILITIES AND STOCKHOLDERS  
EQUITY****Current liabilities:**

Borrowings from banks		800,000	18,561
Current installments of capital lease obligations	2,759	2,476	57
Trade accounts payable	440,841	316,935	7,353
Accrued liabilities	556,972	737,284	17,107
Deferred revenue	444,333	450,030	10,443
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**SIFY LIMITED and Subsidiaries**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share data and as otherwise stated)

	As at March 31, 2006	As at March 31, 2007	As at March 31, 2007 Convenience translation into US\$ Unaudited (Note 2) \$
	Rs.	Rs.	
Due to employees	1,300		
Advances from customers	112,512	89,908	2,086
Other current liabilities	74,174	89,855	2,085
<b>Total current liabilities</b>	<b>1,632,891</b>	<b>2,486,488</b>	<b>57,692</b>
Capital lease obligations, excluding current installments	2,546	3,671	85
Other liabilities	261,825	121,938	2,829
<b>Total liabilities</b>	<b>1,897,262</b>	<b>2,612,097</b>	<b>60,606</b>
<b>Minority interest</b>		169,765	3,939
<b>Stockholders equity</b>			
Common stock, Rs 10 par value; 50,000,000 equity shares authorized (as of March 31, 2006 : 50,000,000); Issued and outstanding: 42,800,265 shares as of March 31,2007 and 42,389,514 shares as of March 31, 2006	423,895	428,003	9,930
Additional paid-in capital	16,238,413	16,325,960	378,793
Deferred compensation - employee stock option plan	(41,925)		
Accumulated deficit	(12,565,874)	(12,378,114)	(287,195)
Accumulated other comprehensive income		5,241	121
<b>Total stockholders equity</b>	<b>4,054,509</b>	<b>4,381,090</b>	<b>101,649</b>

<b>Total liabilities and stockholders equity</b>	<b>Rs. 5,951,771</b>	<b>Rs. 7,162,952</b>	<b>\$ 166,194</b>
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See accompanying notes to consolidated financial statements

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**SIFY LIMITED and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except share data and as otherwise stated)

	<b>2005</b>	<b>Year ended March 31,</b>		<b>2007</b>	<b>2007</b>
		<b>2006</b>		<b>2007</b>	<b>Convenience</b>
					<b>translation</b>
					<b>into</b>
					<b>US\$</b>
					<b>Unaudited</b>
					<b>(Note 2)</b>
	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>		<b>\$</b>
Revenue					
Products	Rs. 402,391	Rs. 343,712	Rs. 536,165	\$ 12,440	
Services	3,151,846	4,262,697	4,911,182	113,949	
	Rs. 3,554,237	Rs. 4,606,409	Rs. 5,447,347	\$ 126,389	
Revenue from related parties					
Products	8,532	43,879			
Services	50,688	31,519			
	59,220	75,398			
<b>Total Revenue</b>	<b>3,613,457</b>	<b>4,681,807</b>	<b>5,447,347</b>	<b>126,389</b>	
Cost of revenue					
Products	357,753	324,411	461,284	10,703	
Services	1,666,189	2,210,312	2,446,972	56,774	
	2,023,942	2,534,723	2,908,256	67,477	
Selling, general and administrative expenses	1,418,757	1,852,296	1,921,771	44,589	
Provision for doubtful receivables and advances	57,579	90,670	153,638	3,564	
Depreciation	472,400	395,018	410,321	9,520	
Amortisation of intangible assets	84,387	68,759	50,486	1,171	
Employee stock compensation expense	10,639	12,749	60,933	1,414	
Foreign exchange (gain) / loss, net	(2,595)	(23,221)	(8,332)	(193)	
<b>Total operating expenses</b>	<b>4,065,109</b>	<b>4,930,994</b>	<b>5,497,073</b>	<b>127,542</b>	
Operating loss	(451,652)	(249,187)	(49,726)	(1,153)	
Other income, net	77,614	59,239	128,642	2,985	
Equity in net profit of affiliate	50,752	40,703	70,221	1,629	
Gain on sale of investments	15,710		226	5	
Net Profit / (Loss) before income taxes and minority interest	(307,576)	(149,245)	149,363	3,466	
Income tax benefit			68,928	1,599	



<b>Net Profit / (Loss) before minority interest</b>		<b>(307,576)</b>	<b>(149,245)</b>	<b>218,291</b>	<b>5,065</b>			
Minority interest				(30,531)	(708)			
<b>Net Profit / (loss)</b>	<b>Rs.</b>	<b>(307,576)</b>	<b>Rs.</b>	<b>(149,245)</b>	<b>Rs.</b>	<b>187,760</b>	<b>\$</b>	<b>4,357</b>
<b>Net Profit/(loss) per share (basic)</b>		(8.75)	(4.05)	4.40	0.10			
<b>Net Profit/(loss) per share ( diluted)</b>		(8.75)	(4.05)	4.39	0.10			
<b>Weighted average number of equity shares used in computing earnings per equity share</b>								
<b>Basic</b>		35,156,120	36,811,476	42,704,619	42,704,619			
<b>Diluted</b>		35,156,120	36,811,476	42,792,514	42,792,514			

See accompanying notes to consolidated financial statements

**SIFY LIMITED and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME**  
(in thousands, except share data and as stated otherwise)

	Common Stock Shares Nos.	Par Value Rs.	Additional Paid In Capital Rs.	Comprehensive Income Rs.	Comprehensive Income Rs.	Accumulated Other Employee Stock Option Plan Rs.	Deferred Compensation - Accumulated Deficit Rs.	Total Stockhold ers' Equity Rs.
<b>Balance as of March 31, 2004</b>	34,900,993	349,010	14,490,037			(14,326)	(12,109,053)	2,715,668
Issue of common stock	479,285	4,793	73,968					78,761
Compensation related to stock option grants			2,287			(2,287)		
Amortization of compensation related to stock option grants			(2,558)			13,197		10,639
SAB 51 gain			1,097					1,097
Comprehensive income								
Net loss				(307,576)			(307,576)	(307,576)
Comprehensive income				(307,576)				
<b>Balance as of March 31, 2005</b>	<b>35,380,278</b>	<b>353,803</b>	<b>14,564,831</b>			<b>(3,416)</b>	<b>(12,416,629)</b>	<b>2,498,589</b>
Issue of common stock	7,009,236	70,092	1,622,324					1,692,416
Compensation related to stock option grants			55,143			(55,143)		
Amortization of compensation related to stock option grants			(3,885)			16,634		12,749
Comprehensive income								
Net loss				(149,245)			(149,245)	(149,245)
Comprehensive income				(149,245)				

<b>Balance as of March 31, 2006</b>	<b>42,389,514</b>	<b>423,895</b>	<b>16,238,413</b>		<b>(41,925)</b>	<b>(12,565,874)</b>	<b>4,054,509</b>
Issue of common stock	410,751	4,108	68,539				72,647
Compensation related to stock option grants			60,933				60,933
Reversal of unamortized compensation cost pursuant to adoption of SFAS 123R			(41,925)		41,925		
Comprehensive income							
Net Profit / (Loss)				187,760		187,760	187,760
<b>Other comprehensive income / (loss) of affiliate</b>							
Translation adjustments				(316)	316		(316)
Comprehensive income				187,444			
Adjustment pursuant to adoption of SFAS 158, net of tax					5,566		5,566
<b>Other comprehensive income / (loss) of affiliate</b>							
Adjustment pursuant to adoption of SFAS 158, net of tax					(9)		(9)
<b>Balance as of March 31, 2007</b>	<b>42,800,265</b>	<b>428,003</b>	<b>16,325,960</b>		<b>5,241</b>	<b>(12,378,114)</b>	<b>4,381,090</b>
Balance as of March 31, 2007 (Convenience translation into		9,930	378,793		121	(287,195)	101,649

US\$- Unaudited  
Note 2)

See accompanying notes to consolidated financial statements

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**SIFY LIMITED and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands, except share data and as otherwise stated)

	Year ended March 31,			2007 Convenience translation into US\$ Unaudited (Note 2) \$
	2005	2006	2007	
	Rs. Rs. (307,576)	Rs. Rs. (149,245)	Rs. 187,760	\$ 4,357
<b>Net profit / (loss)</b>				
Adjustments to reconcile net loss to net cash provided by / (used in) operating activities:				
Income taxes			(68,928)	(1,599)
Depreciation	472,400	395,018	410,321	9,520
Amortization of intangible assets	84,387	68,759	50,486	1,171
Deferred stock compensation	10,639	12,749	60,933	1,413
Equity in profit of affiliate	(50,752)	(40,703)	(70,221)	(1,629)
Gain on sale of investment	(15,710)		(226)	55
(Gain) / Loss on sale of property, plant and equipment	2,757	1,662	(487)	(11)
Provision for doubtful receivables and advances	57,579	90,670	153,638	3,564
Minority interest			30,531	708
Unrealized (gain) / loss on account of exchange differences	(1,479)	(21,267)	7,629	(177)
Gain on disposal of subsidiary		(1,595)	(226)	(5)
<i>Changes in assets and liabilities:</i>				
Accounts receivable	(178,885)	(279,853)	(503,009)	(11,671)
Due from employees	4,250	(23,952)	16,340	379
Dues from related parties	(20,494)			
Inventories	(8,435)	(1,268)	1,776	41
Prepaid expenses	19,795	(3,996)	(27,049)	(628)
Other assets	(26,246)	(69,335)	(110,373)	(2,561)

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Trade accounts payable and accrued liabilities	310,643	177,185	29,114	675
Deferred revenue	67,291	35,089	5,697	132
Advances from customers	(14,241)	43,070	(23,904)	(555)
Other liabilities	74,194	(12,606)	28,717	661
<b>Net cash provided/(used) by operating activities</b>	<b>Rs. 480,117</b>	<b>Rs. 220,382</b>	<b>Rs. 178,519</b>	<b>\$ 4,142</b>

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**SIFY LIMITED and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands, except share data and as otherwise stated)

	Year ended March 31,			2007 Convenience translation into US\$ Unaudited (Note 2) \$
	2005	2006	2007	
	Rs.	Rs.	Rs.	
<b>Cash flows from investing activities:</b>				
Expenditure on property, plant and equipment	(533,197)	(592,270)	(628,614)	(14,585)
Proceeds from sale of property, plant and equipment	15,200	4,922	4,893	114
Expenditure on intangible assets	(100,000)	(17,655)	(64,222)	(1,490)
Business acquisition (net of cash)			(93,775)	(2,176)
Net investment in leases	(29,165)	7,547	(6,974)	(162)
Net movement in cash restricted	79,493	31,240		
Proceeds from sale of investments	15,000	139,810		
<b>Net cash used in investing activities</b>	<b>Rs. (552,669)</b>	<b>Rs. (426,406)</b>	<b>Rs. (788,692)</b>	<b>\$ (18,299)</b>
<b>Cash flows from financing activities:</b>				
Borrowings from Banks			800,000	18,561
Principal payments under capital lease obligations	(9,579)	(8,361)	(6,587)	(153)
Net proceeds from issuance of common stock	78,761	1,692,416	72,647	1,686
<b>Net cash provided by financing activities</b>	<b>Rs. 69,182</b>	<b>Rs. 1,684,055</b>	<b>Rs. 866,060</b>	<b>\$ 20,094</b>
Effect of exchange rate changes on cash and cash equivalents	1,479	20,558	(8,231)	(191)

<b>Net increase / (decrease) in cash and cash equivalents</b>	(1,891)	1,498,589	247,656	5,746
<b>Cash and cash equivalents at the beginning of the period</b>	1,325,803	1,323,912	2,822,501	65,487
<b>Cash and cash equivalents at the end of the period</b>	<b>Rs. 1,323,912</b>	<b>Rs. 2,822,501</b>	<b>Rs. 3,070,157</b>	<b>\$ 71,233</b>
<b>Supplementary Information</b>				
Cash paid towards interest	832	11,090	5,618	130
Cash paid / (refund received) towards income taxes	12,698	(11,643)		
Additions to property, plant and equipment represented by capital lease obligations	7,272	3,637	8,570	199
Reversal of minority interest pursuant to disposal of subsidiary		1,595		
	See accompanying notes to consolidated financial statements			
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**SIFY LIMITED and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(In thousands, except share data and as stated otherwise)**

**1. Description of business**

Sify Limited (Sify) together with its subsidiaries (India World Communications Limited, Sify Communications Limited, Sify Networks Private Limited and Sify International Inc.) (collectively referred to as the Company ) and its affiliates is engaged in providing various services, such as Corporate Network and Data Services, Internet Access Services, Online Portal and Content Offerings and selling products related to such services.

**2. Summary of significant accounting policies**

*Basis of preparation of financials statements*

The accompanying financial statements have been prepared in accordance with U.S. GAAP in Indian Rupees (Rs.), the national currency of India. Solely for the convenience of the reader, the financial statements as of and for the year ended March 31, 2007 have been translated into United States dollars at the noon buying rate in New York City on March 31, 2007 for cable transfers in Indian rupees, as certified for customs purposes by the Federal Reserve Bank of New York of U.S. \$1 = Rs. 43.10. No representation is made that the Indian rupee amounts have been, could have been or could be converted into United States dollars at such a rate or at any other rate on March 31, 2007 or at any other date.

*Use of estimates*

In conformity with U.S. GAAP, management of the Company has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements. Some of the more significant estimates include allowances for doubtful accounts, depreciation and amortization of long-lived assets and the valuation allowance for deferred tax assets. Actual results could differ from those estimates.

*Business combinations*

Business combinations have been accounted using the purchase method under the provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standard (SFAS) No.141, *Business Combinations*. Cash and amounts of consideration that are determinable at the date of acquisition are included in determining the cost of the acquired business.

*Principles of consolidation*

The consolidated financial statements of Sify include financial statements of its majority-owned subsidiaries, which are more than 50% owned and where Sify is able to exercise control over the operating and financial policies of the investees. All material inter-company accounts and transactions are eliminated on consolidation.

*Investments in affiliates*

The Company accounts for investments between 20% and 50% or where it would be otherwise able to exercise significant influence over the operating and financial policies of the investees, under the equity method. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142), the excess of cost of the stock of those affiliates over the Company's share of their net

assets at the acquisition date is recognized as goodwill, which is tested for impairment periodically and diminution in value, if any, is provided for through a charge in the statement of operations. In accordance with Accounting Principles Board (APB) Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock, the Company recognizes a loss when there is a loss in value in the equity method investment, which represents other than a temporary decline.

*Cash and cash equivalents*

Cash and cash equivalents currently consist of cash and cash on deposit with banks, which are unrestricted as to its use.

*Revenue recognition*

The operating segments of the Company are:

Corporate network/data services, which provides Internet, connectivity, security and consulting, hosting and managed service solutions;

Internet access services, from homes and through cybercafes;

Online portal services and content offerings; and

Other services such as development of e-learning software.

These segments recognize revenues on the following basis:

*Corporate network/data services*

Corporate network service revenues primarily include connectivity services and, to a lesser extent, the revenues from the sale of hardware and software purchased from third party vendors, installation of the link, and other ancillary services such as e-mail and domain registration. Generally, these elements are sold as a package consisting of all or some of the elements. These multiple element arrangements are recognized as separable elements because each element constitutes a separate earnings process, each element has a fair value that is reliable, verifiable and objectively determinable, and the undelivered element is not essential to functionality of the delivered elements. In this arrangement involving delivery of multiple elements, in accordance with EITF Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*, the units of accounting are determined based on whether the delivered items have a value to the customer on a stand alone basis, whether there is objective and reliable evidence of fair value of the undelivered elements and if the arrangement includes a general right of return relative to the delivered item, whether delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Company. The arrangement consideration is allocated to the units of accounting based on their fair values. Revenue on delivered items is recognized when the revenue recognition criteria applicable to that unit of accounting are met.

The Company provides connectivity for a fixed period of time at a fixed rate regardless of usage. Connectivity is the last element that is provided in the case of a bundled contract. The connectivity charges are the same when sold alone or as part of a package. The revenue attributable to connectivity services is recognized ratably over the period of the contract. The hardware and software are standard products that are being freely traded in and purchased from the market, have standard specifications and are not otherwise customized for the specific needs of a customer. The software sold by the Company is off-the-shelf software, such as antivirus utilities and firewalls. The fair value for the hardware and software is available from the market. The revenue attributable to hardware/software is recognized on delivery. Installation consists of commissioning of the last mile connectivity to the customer premises either through the Company's wireless mode of broadband delivery or through the carrier exchange (primarily Bharat Sanchar Nigam Limited, or BSNL, a Government of India entity). However, once commissioned this last mile connectivity can be used by the customer to access any other service provider. The installation normally takes 4-6 weeks. When the customer has such last mile connectivity, the Company does not charge any installation fee. The revenue attributable to the installation of the link is recognized on completion of the installation work. Revenue from ancillary services such as e-mail and domain registration are recognized over the period such facilities are provided. All revenues are shown exclusive of sales tax and service tax and net of applicable discounts and allowances.

Web hosting service revenues primarily include co-location services and connectivity services. On occasions, the Company also sells related hardware/software to its web hosting customers. At all times, such hardware and software belongs to the customer. This hardware and software is purchased from outside vendors and is freely traded in the market. The Company treats each element of the arrangement as a separate earnings process. The value of the hosting service is determined based on vendor specific objective evidence from similar services sold separately by the Company. When hardware and/or software is also included with hosting services and sold as a package the vendor specific objective evidence of the undelivered element is considered to arrive at the residual value of the delivered element. Revenue from hosting services is recognized over the period during which the service is provided.

The Company remotely manages the Information Technology infrastructure of global enterprises from India. The contracts are on time and material basis and revenues are recognized accordingly.

Internet access services

Internet access services include Internet access at homes and businesses through dial-up or cable operator and internet access through a network of cybercafés. It also includes revenues from Voice over Internet Protocol ( VoIP ) or Internet telephony.

Dial-up Internet access is sold to customers either for a specified number of hours or for an unlimited usage within a specified period of time. Customers purchase user accounts or top-ups that enable them to access the Internet for a specified quantum of usage or for a specified period of time all within a contracted period. The amounts received from customers on the sale of these user accounts or top-ups are not refundable. The revenue from sale of user accounts or top-ups is recognized based on usage (where access is for a specified quantum of usage) and based on time (where access is for a specified period of time) by the customer. Any unused hours at the end of the contracted period are recognized as revenue.

VoIP services are mainly provided through Internet Telephony Booths at *ipay* cybercafés and to a smaller extent through Cable TV operators, or CTOs, and through multi-dwelling units, or MDUs. The user purchases the packs that enable them to use the Internet telephone facility through CTO and MDUs. Revenue is recognized on the basis of usage by the customer. The customer uses Internet telephony facilities at the *ipay* cybercafés and makes the payment to the extent of usage of the facility. Revenue is recognized on the basis of usage.

Internet access at homes and businesses through cable networks is provided through a franchised network of cable operators in India. Customers buy user accounts for a specified usage or volume of data transfer or for a specified period of time all within a contracted period. Revenues are recognized on actual usage by customer (where access is for a specified quantum of usage) and based on time (where access is for a specified period of time). Any unused hours at the end of the contracted period are recognized as revenue.

In the case of franchised cybercafé operators, the Company enters into an agreement with the franchisee that establishes the rights and obligations of each party and grants each franchisee a non-exclusive license to operate the cybercafés using the Company's logo, brand and trade names. The cybercafés are owned and operated by the franchisees. The franchisee procures the retail space, invests in furniture, interior decor, PCs, and point of sale signage and employs and trains the franchisee staff. The franchisee is responsible for the maintenance of the premises and interface with customers. The Company provides the complete backend support, including bandwidth, the authentication/usage engine and the billing and collection system.

In the case of franchised cable network operators and franchised cybercafé operators, the Company enters into a standard arrangement with franchisees that provides for the payment of an initial non-refundable franchisee fee in consideration for establishing the franchisee relationship and providing certain initial services. The fee covers the following upfront services rendered by the Company:

- o conducting a market survey and deciding on the best location for the cybercafé or cable head end;
- o installing the broadband receiver equipment on the roof top of the cybercafé or the cable head end and connecting it to one of Sify's broadcasting towers;
- o obtaining the regulatory approvals for clearance of the site for wireless transmission at the allotted frequency range;
- o installing the wiring from the receiver unit to the individual PCs in the cybercafé or the transmitting equipment in the cable head end;
- o assisting in obtaining facilities, including computers and interiors for the cybercafés; and
- o providing the operations manual with instructions and guidelines for running the cybercafé or distributing Internet access through cable network.

The initial franchisee fee revenue is recognized at the time of commencement of operations by the franchisee, in accordance with SFAS 45, *Accounting for Franchisee Fee Revenue*. Internet access revenue and Internet telephony revenues are recognized based on usage by the customer.

#### Online portal services

The Company enters into contracts with customers to serve advertisements in its portal and the Company is paid on the basis of impressions, click-throughs or leads and in each case the revenue is recognized based on actual impressions/click-throughs/leads delivered.

There are no performance obligations or minimum guarantees. Revenues from commissions earned on electronic commerce transactions are recognized when the transactions are completed. Revenues from value-added services that are rendered using Sify's mobile telephone short code, 4545 are recognized upon delivery of the content/ring tones to the end subscriber and confirmation by the mobile phone service provider.

#### Other services

The Company provides e-learning software development services to facilitate web-based learning in various organizations. These customized services vary in size from customer to customer and relate to computer based and web based training in accordance with the customer specification. These services include information presentation, structured content delivery, content digitization and simulation based training. These services are generally provided on a fixed price basis. The company believes that the deliverables provided by the Company to its customers in connection with e-learning software development services are of the same nature as the services provided in an arrangement to deliver software that entails significant production, modification or customization of software. The Company's fixed price contracts to provide these services are also similar to contracts for services performed by architects, engineers or architectural engineering design firms as stated in paragraph 13 of SOP 81-1, *Accounting for Performance of Construction Type and Certain Production-Type Contracts*. Accordingly, the Company recognizes revenue based on the percentage of completion method from fixed price contracts relating to e-learning software development services.

*Cost of revenues*

Cost of revenues represents direct operating expenses incurred in earning the revenues consisting of bandwidth cost, salaries, and other direct expenses but excludes depreciation and amortization.

*Inventories*

Inventories, which comprise of communication hardware, application software and others, are generally stated at the lower of cost as determined using the first-in-first-out method (FIFO), and net realisable value. The Company makes a provision for the slow moving inventory on the basis of age of inventory.

*Sales-type leases*

From time to time, the Company leases certain products sold by the Company to its customers under sales-type lease arrangements. Revenue from sales-type leases is recognized at the inception of the lease. At the time a sales-type lease is consummated, the Company records the gross finance receivable, unearned finance income and the estimated residual value of the leased equipment. Unearned finance income represents the excess of the gross minimum lease payments receivable plus the estimated residual value over the fair value of the equipment. Unearned finance income is recognized as financing income using the interest method over the term of the transaction.

*Property, plant and equipment*

Property, plant and equipment are stated at cost. Plant and equipment under capital leases are stated at the present value of minimum lease payments. In respect of imported capital goods, duty credits receivable from the Government of India ( GOI ) under the Served From India Scheme can be utilized to decrease the Customs duty payable upon import of Capital goods acquired for own use. Such credits are not eligible for refund, transfer or sale to third parties. Accordingly, the fixed assets when imported are capitalized net of such duty credits. The Company computes depreciation for all plant and equipment using the straight-line method. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset. Routine repairs and maintenance costs are expensed as incurred. The estimated useful lives of assets are as follows:

Buildings	28 years
Plant and machinery	5 years
Computer equipment	5 years
Office equipment	5 years
Furniture and fixtures	5 years
Vehicles	5 years

Software for internal use is acquired primarily from third-party vendors and is in ready-to-use condition. Costs for acquiring such software are capitalized. Capitalized software costs are amortized on a straight-line basis over the estimated useful life of the software. Software acquired for internal use with estimated useful life of less than one year is expensed upon acquisition. Deposits paid towards the acquisition of plant and equipment outstanding at each balance sheet date and the cost of property, plant and equipment not ready to be put to use are disclosed under Construction-in-progress.

*Goodwill and intangible assets*

Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS Statement No.144, *Accounting for Impairment or Disposal of Long-Lived Assets*.

In accordance with SFAS No.142, *Goodwill and Other Intangible Assets*, all assets and liabilities of the acquired business including goodwill are assigned to the reporting units. The Company does not amortize goodwill but instead tests goodwill for impairment at least annually, using a two step impairment process. The fair value of the reporting unit is first compared to its carrying value. The fair value of reporting units is determined using the income approach based on measurement techniques such as discounted cash flow analyses. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired. If the carrying value of the net

assets assigned to the reporting unit exceeds the fair value of the reporting unit, then the implied fair value of the reporting unit's goodwill is compared with the carrying value of the reporting unit's goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then an impairment loss equal to the difference is recorded.

*Foreign currency translations*

The functional and reporting currency of the Company is the Indian Rupee, except that of the United States subsidiary and branch whose functional currency is the U.S. Dollar. The translation of the U.S. Dollar into Indian Rupee is performed for balance sheet accounts using the exchange rate in effect at the balance sheet date and for revenue and expense accounts using monthly average exchange rates for the respective periods. The gains or losses resulting from such translation are reported in other comprehensive income, a separate component of shareholders' equity.

*Foreign currency transactions*

Assets and liabilities denominated in foreign currencies are expressed in the functional currency at the rates of exchange as of the balance sheet date. The unrealized gain or loss resulting from this translation is reflected in the statements of operations. Income and expenses in foreign currencies are expressed in the functional currency at exchange rates prevailing when income is earned or expenses are incurred.



#### *Forward Contracts*

The Company enters into forward foreign exchange contracts and options where the counterparty is generally a bank. The Company purchases forward foreign exchange contracts and options to mitigate the risk of changes in foreign exchange rates on accounts receivable and deposits. Although the Company believes these contracts are effective as hedges from an economic perspective, they do not qualify for hedge accounting under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* as amended. Any derivative that is either not designated as a hedge, or is so designated but is ineffective as per SFAS No. 133, is marked to market and recognized in the statement of operations immediately.

#### *Earnings per share*

In accordance with SFAS No. 128, *Earnings per Share*, basic earnings per share are computed using the weighted average number of common shares outstanding during the period. Diluted income / (loss) is computed by considering the impact of the potential issuance of ordinary shares on the weighted average number of shares outstanding. As the Company was in a loss position for the years ended March 31, 2005 and March 31, 2006, the potential ordinary shares were excluded from the calculation of diluted income/loss per share as the shares would have had an antidilutive effect. The Company's outstanding shares include shares held with a depository to represent equity shares underlying the Company's ADSs.

As the company was in a loss position for the years ended March 31, 2005 and 2006, 88,695 and 76,878 potential ordinary shares pertaining to employee stock options were excluded from the calculation of diluted earnings per share. For the year ended March 31, 2007, 164,091 potential ordinary shares pertaining to employee stock options were excluded from the calculation of diluted earnings per share as the exercise price of such options exceeded the average market price of the common stock during the period.

#### *Income taxes*

Income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amount considered more likely than not to be realized.

#### *Retirement benefits to employees*

##### *Provident fund*

In accordance with Indian law, all employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and employer make monthly contributions to the plan, each equal to a specified percentage of employee's basic salary. The Company has no further obligations under the plan beyond its monthly contributions.

##### *Gratuity*

The Company provides for gratuity, a defined benefit retirement plan (the Gratuity Plan) covering all employees. The Gratuity Plan commenced on April 1, 1997. The plan provides a lump sum payment to vested employees at retirement or termination of employment of an amount based on the respective employee's salary and the years of employment with the Company. The Company provides the gratuity benefit through annual contributions to a fund managed by the Life Insurance Corporation of India (LIC). Under this scheme, the settlement obligation remains with the Company, although the LIC administers the scheme and determines the contribution premium required to be paid by the Company.

Current services costs for the defined benefit Gratuity plan are accrued in the period to which they relate, based on actuarial valuation performed by an independent actuary in accordance with SFAS No. 87, *Employers Accounting for Pensions*, SFAS No. 132R *Employers Disclosures about Pensions and Other Postretirement Benefits*, both as amended by SFAS No. 158 *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans*, which the Company adopted as of March 31, 2007. SFAS No. 158 requires the net funded position of the plans to be recognized as an asset or liability in the employers' balance sheet. The adoption of SFAS No. 158 had no impact on the Company's consolidated statements of operations and was not material to the Company's consolidated balance sheets or

consolidated statements of stockholder s equity and comprehensive Income.

*Stock Based Compensation*

Prior to March 31, 2006, the Company applied the intrinsic value based method of accounting prescribed by the Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations including FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation an interpretation of APB Opinion No. 25*, issued in March 2000 to account for fixed Stock Option Plans. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price.

SFAS 123, *Accounting for Stock Based Compensation*, established accounting and disclosure requirements using a fair value based method of accounting for Stock based employee compensation plans. As allowed by SFAS 123, the Company elected to continue to apply the intrinsic value based method of accounting described above, and adopted the disclosure requirements of SFAS 148, *Accounting for Stock based Compensation Transition and Disclosure*, and amendment of FASB Statement 123. All Stock options issued to date have been accounted as fixed stock option plan. The following table illustrates the effect on net income and earnings per share if the Company has applied the fair value recognition provisions of SFAS No. 123, *Accounting for Stock Based Compensation*, to account for stock based employee compensation.

	<b>Year ended March 31, 2005</b>	<b>Year ended March 31, 2006</b>
Net loss as reported	Rs. (307,576)	Rs. (149,245)
Add: Stock based compensation expense included in reported net loss	10,639	12,749
Less: Stock based compensation expense determined under fair value method	55,025	66,538
Pro forma net loss	Rs. (351,962)	Rs. (203,034)
Loss per share:		
Basic and diluted as reported	Rs. (8.75)	Rs. (4.05)
Basic and diluted proforma	Rs. (10.01)	Rs. (5.52)

On April 01, 2006, the Company adopted FASB Statement No.123 (revised 2004), Share-Based Payments using the modified prospective approach. The Company recorded amortization of stock compensation expense of Rs.60,933 for the year ended March 31, 2007.

During the year ended March 31, 2007, the Company issued 547,600 options under Associate Stock Option Plan 2005 which have been accounted under SFAS 123R. The fair value of each option is estimated on the date of grant using the Black-Scholes model with the following assumptions:

**Year ended March 31,**

	2005	2006	2007
Dividend Yield	103.4%	58.13%	57.2%
	to	to	to
Assumed volatility	116.6%	116%	95.4%
Risk-free interest rate	4.5% to 7.50%	4.5% to 7.5%	4.5% to 4.75%
Expected Term	12-36 month	12 40 months	18 40 months

*Impairment of long-lived assets and long-lived assets to be disposed off*

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Asset to be disposed off would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

*Gain / Loss on sale of investments*

The gain or loss on sale / disposal of investments in equity for affiliates and subsidiaries are considered as capital in nature and therefore are included directly in the statement of shareholders' equity in accordance with SEC *Staff Accounting Bulletin 51*.

*Fair value of financial instruments*

The carrying amounts reflected in the balance sheets for cash, cash equivalents, accounts receivable and accounts payable approximate their respective fair values due to the short maturities of these instruments.

**Recent Accounting Pronouncements****FIN 48**

In July 2006, the FASB issued Interpretation ( FIN ) 48, *Uncertainty in Income Taxes*. FIN 48 applies to all tax positions within the scope of Statement 109 and clarifies when and how to recognize tax benefits in the financial statements with a two-step approach of recognition and measurement. FIN 48 is effective for fiscal years beginning after December 15, 2006. FIN 48 also requires the enterprise to make explicit disclosures about uncertainties in their income tax positions, including a detailed roll forward of tax benefits taken that do not qualify for financial statement recognition. The company is currently evaluating the impact of this pronouncement and will adopt FIN 48 from fiscal year beginning April 1, 2007.

*Reclassifications*

Certain prior-years' amounts as mentioned below have been reclassified to conform to the current year's presentation.

- Withholding taxes amounting to Rs. 46,929 has been regrouped from 'Other current assets' to 'Other Assets' in the balance sheet as of March 31, 2006.
- Deposits received from franchisees amounting to Rs. 27,292 has been regrouped from 'Other current liabilities' to 'Other liabilities' in the balance sheet as of March 31, 2006.

- c) Gain on sale of investments amounting to Rs. 15,710 has been regrouped from Other income, net to Gain on sale of investments in the statement of consolidated operations for the year ended March 31, 2005.

### 3. Acquisition of Globe Travel Business

During the year ended March 31, 2007, the Company acquired Globe Travels which operates an online travel agency. The management believes this acquisition marks Sify's entry into the fast growing online travel business, particularly e-ticketing, the category with highest revenues and fastest growth in online e-commerce today. The management also believes that the addition of a travel portal is in line with the Company's strategy of providing end-to-end services to Sify users. The results of Globe Travels operations have been consolidated in the financial statements effective May 10, 2006, the date of acquisition. The purchase price in respect of the business acquisition comprises the following:

	112,220
	(USD
Cash price	Rs. 2,500)
Stock options (No. of options)	140,000
Earn out payments	USD 500

The Cash price of USD 2,500 includes an amount of USD 500 as holdback amount payable upon the Airlines Reporting Corporation ( ARC ) approval of the Company's application for change of ownership of the travel portal. The Company has been advised by its legal counsel that the receipt of ARC approval is only a procedural formality and hence the resolution of the contingency is beyond reasonable doubt. Accordingly, the said holdback amount has been included and accounted as purchase consideration. Subsequent to the balance sheet date, the ARC approval was received in August 2007.

The Stock Options have been treated as compensation cost in accordance with the provisions of EITF 95-8 Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination. Further, as the Earn Out Payment is contingent upon continuing employment and achievement of specified earning levels the same will be treated as compensation cost in accordance with the provisions of EITF 95-8. As the cost of Stock Options and Contingency Earn out payments is treated as compensation cost, the cost of acquisition comprises of only cash price of Rs.112,220 and other incidental direct acquisition cost of Rs.3,999.

The purchase Price has been allocated to the estimated fair value of the assets, properties including rights at the date of purchase of business. The following table summarizes the preliminary allocation of estimated fair value of the assets, properties including rights at the date of purchase of the business. The allocation of the purchase price is subject to obtaining third party valuation of certain intangibles.

Property and Equipment	Rs. 1,246
Intangible Assets	88,052
Goodwill	26,921
<b>Total</b>	<b>116,219</b>

The acquired intangible assets, in the opinion of the management, have a weighted average useful life of five years. The intangible assets are as follows:

Customer and Contract related intangibles	Rs. 85,797
Software	2,255

The proforma information as required under SFAS 141 Business Combination has not been disclosed, since the business combination did not have any material impact on the consolidated statements of operations and consolidated balance sheets.

### 4. IP / VPN License

In December 2004, as per the Government of India ( GOI ) guidelines regarding Virtual Private Network ( IP-VPN ) services by Internet Service Providers ( ISPs ), the Company paid Rs.100,000 as an entry fee for a 15 year license and submitted a financial bank guarantee of Rs.10,000. In addition, the ISP licensees were required to pay an annual fee at a prescribed rate of the adjusted gross revenues generated under the ISP license for IP-VPN services.

On November 10, 2005, the GOI issued guidelines for obtaining National Long Distance ( NLD ) and International Long Distance ( ILD ) licenses including the terms and conditions for the licenses. These guidelines eliminated the IP-VPN license, entitling the Company to a full refund of the Rs.100,000 entry fee, and permitting existing IP-VPN license holders to migrate to the NLD and ILD service licenses effective January 1, 2006. The Company discontinued amortization of the IP-VPN license effective November 10, 2005 and reversed the amortization of the license fee.

As the NLD / ILD licenses were under the regime of Department of Telecommunications, the notification of the GOI dated 7 November 2005 was required to be complied with to receive NLD / ILD licenses. The primary condition set out in the notification among other conditions was that, the total composite foreign holding by the applicant should not exceed 74 per cent. Given that the foreign shareholding in Sify was higher than the aforesaid threshold limit, Sify Communications Limited (Sify Comm), a wholly-owned subsidiary of the Company proposed to obtain the NLD/ILD licenses in its name and made necessary applications in this regard. To facilitate this, Sify divested its stake in Sify Comm to the extent of 26% (refer to note 5 below) and the Company decided to transfer the IP-VPN business to Sify Comm effective from the date the NLD/ILD licenses are received.

On November 21, 2006, Sify Comm executed two License Agreements with GOI, for NLD / ILD licenses respectively, (Rs.25,000 paid for each license) which enabled Sify Comm to provide IP-VPN services. Accordingly, the Company has transferred its IP VPN business to Sify Comm effective November 22, 2006 and the latter commenced the said services on the same day. Sify Comm has also furnished bank guarantees for Rs.200,000 each for NLD and ILD licenses to GOI. These licenses are valid for an initial period of 20 years and can be renewed for another 10 years at one time, upon request of the licensee made during the 19<sup>th</sup> year of license.

#### **5. Sale of 26% holding in Sify Communications Limited**

The new guidelines issued by the GOI for NLD / ILD licenses limit foreign direct investment ( FDI ) for the telecommunication sector to 74% of the equity shares outstanding. As the foreign shareholding in Sify was more than the threshold limit, Sify would not be eligible for the NLD / ILD licenses. Accordingly, the Company determined to provide the IP-VPN services through Sify Comm, a subsidiary of Sify.

On December 19, 2005 Sify contributed Rs.700,000 as additional equity in Sify Comm to make the net worth of Sify Comm positive. Pursuant to the agreement entered with Infinity Satcom, Sify divested 26% of its holding in Sify Comm, or 4,680 shares, to M/s Infinity Satcom Universal (P) Ltd (Infinity Satcom), a related party, for a sale consideration of Rs.139,810 during the quarter ended December 31, 2005. M/s Infinity Satcom a company incorporated under the laws of India, is owned by Anand Raju, who is the brother of Raju Vegesna, Chairman of Sify s Board of Directors and the principal of Infinity Capital Ventures, LP ( Infinity Capital ). Infinity Capital owns approximately 41.83 % of Sify s outstanding equity shares.

Pending receipt of the ILD / NLD licenses by Sify Comm, based on legal advice, Sify continued to carry on IP VPN business and accordingly, the amount received as against the sale proceeds, was included under other liabilities and the corresponding gain on divestment of 26% was also not recognized at that stage.

As indicated in note 4 above, the ILD / NLD licenses were granted by GOI on November 21, 2006. Accordingly, during the year ended 31 March 2007, the Company has recognized a gain of Rs. 226 on the divestment of 26% holding in Sify Comm.



## 6. Cash and cash equivalents

Cash and cash equivalents as on March 31, 2007 amounted to Rs. 3,070,157 (Rs. 2,822,501 as on March 31, 2006). This excludes cash-restricted included in non-current assets of Rs.1,000 (Rs. 1,000 as on March 31, 2006), representing deposits held under lien against bank guarantees given by the Company towards future performance obligations.

*Cash Restricted Non current*

	<b>Years ended March 31,</b>	
	<b>2006</b>	<b>2007</b>
	Rs.	Rs.
Against future performance obligation	Rs.1,000	1,000
	Rs.1,000	Rs.1,000

The fair values of cash and cash equivalents approximate their carrying values.

## 7. Accounts receivable

Accounts receivable as of March 31, 2006 and 2007 are stated net of allowance for doubtful receivables. The Company maintains an allowance for doubtful receivables based on its age and collectability. Accounts receivable are not collateralised except to the extent of refundable deposits received from cybercafe s franchisees and from cable television operators.

Accounts receivables consist of:

	<b>Years ended March 31,</b>	
	<b>2006</b>	<b>2007</b>
	Rs.	Rs.
Due from customers	1,038,480	1,290,030
Less: Allowance for doubtful debts	200,047	101,624
Balance at the end of the year	838,433	1,188,406

The activity in the allowance for doubtful accounts receivable is given below:

	<b>Years ended March 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	Rs.	Rs.	Rs.
Balance at the beginning of the year	52,533	109,377	200,047
Add : Additional provision	57,579	90,670	153,638
Less : Bad debts written off	735		252,061
Balance at the end of the year	109,377	200,047	101,624



**8. Inventories**

Inventories consist of:

	<b>As at March 31,</b>	
	<b>2006</b>	<b>2007</b>
	Rs.	Rs.
Communication hardware	18,454	21,565
Application software	2,041	876
Others	9,967	6,245
	<b>30,462</b>	<b>28,686</b>

**9. Sales-Type Leases**

The Company's leasing arrangement consist of leasing various types of routers, modems and other equipment for establishing virtual private networks and providing bandwidth to its customers in its corporate connectivity business. The leases are classified as sales-type leases and expire after a period of three years. The following lists the components of the net investment in sales-type leases :

	<b>As at March 31,</b>	
	<b>2006</b>	<b>2007</b>
	Rs.	Rs.
Minimum lease payments receivable	22,987	30,493
Less: Unearned income	1,369	1,901
Net investment in sales-type leases	21,618	28,592

The minimum lease payments for each of the fiscal years are as follows:

For the year ending March 31,

2008	17,796
2009	7,275
2010	5,422
<b>Total</b>	<b>30,493</b>

**10. Other current assets**

Other current assets consist of:

	<b>As at March 31,</b>	
	<b>2006</b>	<b>2007</b>
	<b>Rs.</b>	<b>Rs.</b>
Vendor advances and deposits	98,008	159,785
Advances for expenses	2,744	5,025
Accrued income	29,284	73,702
Interest earned but not due	35,731	51,161
	<b>165,767</b>	<b>289,673</b>

**11. Investments in affiliates***Man Financial-Sify Securities India Private Limited(Formerly Refco-Sify Securities India Private Limited)*

Prior to the fiscal year ended March 31, 2004, the Company held 40% of the outstanding equity share capital of Refco-Sify Securities India Private Limited (Refco-Sify). During the year ended March 31, 2005, Refco-Sify completed a rights issue, in which the Company chose not to participate. As a result, the Company's equity ownership in Refco-Sify was reduced from 40% to 29.85%. In accordance with the Company's accounting policy, during the year ended March 31, 2005 the Company accounted for a gain on dilution through shareholders' equity amounting to Rs.1,097. The Company accounted its proportionate share of profit in accordance with its applicable equity ownership in Refco-Sify.

In October 2005, Refco Group US ( Refco ), the 70.15% stockholder of Refco-Sify Securities India Private Limited ( Refco-Sify ), sought bankruptcy protection through a Chapter 11 filing at the New York Courts. Consequent to this, the businesses of Refco were under auction process and the auction bid has been won by M/s Man Financial Inc. ( Man Financial ). Pursuant to such take over of Refco, the ownership of Refco-Sify has changed from Refco to Man Financial. Consequent to such change in the ownership of Refco-Sify, Man Financial and the Company executed a Shareholders' Agreement on November 25, 2005 (the Shareholders' Agreement ), pursuant to which, the name of Refco-Sify has changed to Man-Sify Securities India Private Limited ( Man-Sify )

The carrying value of the investment in Man-Sify as of March 31, 2006 and 2007 was Rs. 233,060 and Rs. 302,956 respectively. Sify's equity in the profit of Man-Sify for the years ended March 31, 2005, March 31, 2006 and March 31, 2007 is Rs 50,752, Rs. 40,703 and Rs. 70,221 respectively.

The summarised audited financial information as to assets, liabilities and results of operations of Man-Sify and its subsidiaries is presented below:

**Balance Sheet**

	<b>As at March 31,</b>	
	<b>2006</b>	<b>2007</b>
	Rs.	Rs.
Current assets	2,457,172	4,097,993
Non-current assets	150,359	280,079
<i>Total Assets</i>	<i>2,607,531</i>	<i>4,378,072</i>
Current liabilities	1,838,869	3,363,146
Shareholders' equity	768,662	1,014,926
<i>Total Liabilities and Shareholders' equity</i>	<i>2,607,531</i>	<i>4,378,072</i>

**Statement of Operations**

	<b>For the year ended March 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>(unaudited)</b>		
	Rs.	Rs.	Rs.

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Revenues	507,105	796,609	1,341,659
Net Profit	99,785	130,093	247,356

**12. Property, plant and equipment**

Property, plant and equipment consist of:

	<b>As at March 31,</b>	
	<b>2006</b>	<b>2007</b>
	Rs.	Rs.
Land	5,132	5,132
Building	485,156	634,230
Leasehold improvements	162,139	165,058
Plant and machinery	2,835,478	3,186,546
Computer equipment	286,170	424,329
Office equipment	95,104	103,934
Furniture and fixtures	152,059	182,198
Vehicles	14,214	8,766
Construction-in-progress	19,368	24,022
	4,054,820	4,734,215
Accumulated depreciation	(2,631,574)	(3,089,651)
	<b>1,423,246</b>	<b>1,644,564</b>

**13. Goodwill and other intangible assets, net**

Goodwill and other intangible assets consist of:

	<b>As at March 31,</b>	
	<b>2006</b>	<b>2007</b>
	Rs.	Rs.
Goodwill	14,596	41,517
<i>Other Intangible assets :</i>		
Technical know-how	82,753	82,753
Portals and web content	52,730	52,730
Customer contracts and others	56,084	141,881
Software	222,119	239,846
ILD / NLD License fee		50,000
Total	413,686	567,210
Less: Accumulated amortization	365,846	416,337
Other Intangible Assets, net	47,840	150,873
Total	<b>62,436</b>	<b>192,390</b>

Goodwill

In accordance with SFAS no.142, Goodwill and other Intangible assets the company tests goodwill for impairment, atleast annually. The following table presents the changes in goodwill during the years ending March 31 2006 and 2007.

<b>Year ended</b>	<b>March 31,2006</b>	<b>March 31,2007</b>
Balance at the beginning of the year	14,596	14,596
Acquired during the year		26,921
Balance at the end of the year	14,596	41,517

Goodwill acquired during the year ended March 31,2007 represents the excess of fair value over carrying value of acquired net assets in a purchase business combination. (Globe Travels).

Goodwill as of March 31, 2006 and 2007 has been allocated to the following reportable segments:

<b>Segment</b>	<b>March 31,2006</b>	<b>March 31,2007</b>
Online Portal Services	14,596	26,921
Total	<b>14,596</b>	<b>26,921</b>

Intangible Assets

The Company has adopted the provisions of SFAS No. 141, *Business Combinations* and 142, *Goodwill and Other Intangible Assets*, and has accordingly assessed the remaining useful lives of identified intangibles with definite useful lives and provides for amortization over the determined useful life of the asset. The Company does not have any intangible assets with indefinite useful life.

Acquired and amortized intangible assets consist of:

	<b>As at March 31, 2007</b>		
	<b>Weighted average life</b>	<b>Gross carrying amount</b>	<b>Accumulated amortization</b>
Technical know-how fees	5.00	82,753	82,753
Portals and web content	4.91	52,730	52,711
Customer contracts and others	4.04	141,881	60,252
Systems Software	2.87	239,846	219,714
ILD / NLD License fee	20.00	50,000	907
		<b>Rs. 567,210</b>	<b>Rs. 416,337</b>

**Estimated amortization expense in future years for the carrying value of other intangible assets as at March 31, 2007:**

For the year ended March 31,	
2008	28,598
2009	25,947
2010	25,442
2011	20,110
2012	20,110
2013 and onwards	30,666





**14. Other assets**

Other assets consist of:

	<b>As at March 31,</b>	
	<b>2006</b>	<b>2007</b>
	Rs.	Rs.
Deposits	89,768	105,653
Staff advances recoverable	1,575	150
Withholding Taxes	46,929	105,734
Deposit with Department of Income Tax		12,954
Deposit with Department of Telecommunication towards License Fees	100,000	
	<b>238,272</b>	<b>224,491</b>

Withholding taxes represent taxes deducted at source by the customer and paid to the Government, which is refundable to the Company. Deposit with Department of Income Tax represents tax demands paid to the authorities under protest. Refer to note 26 (a).

**15. Deferred revenue**

Deferred revenue includes the following amounts of unearned income:

For the Company's corporate network / data services division, revenue relating to the connectivity / hosting charges and from provision of digital certificates;

For the Company's Internet access services and online portal services divisions, revenue relating to the internet access charges and the advertisement charges respectively; and

For the Company's other service division, revenue relating to development of e-learning software.

The components of deferred revenue for these segments are:

	<b>As at March 31,</b>	
	<b>2006</b>	<b>2007</b>
	Rs.	Rs.
Corporate network/data services	305,028	351,933
Internet access services	133,613	61,459
Online portal services	623	21
Other services	5,069	36,617
	<b>444,333</b>	<b>450,030</b>

**16. Capital lease obligations**

The gross amounts and related accumulated depreciation recorded for assets acquired under capital leases are as follows:

	<b>As at March 31,</b>	
	<b>2006</b>	<b>2007</b>
	Rs.	
Vehicles	14,212	8,766
Less: Accumulated depreciation	8,168	2,128
	<b>6,044</b>	<b>6,638</b>

The following is a schedule of future minimum capital lease commitments as at March 31, 2007:

Due for the year ended March 31,	Rs.
2008	2,954
2009	2,587
2010	1,395
<b>Total minimum lease payments</b>	<b>6,936</b>
Less: Interest	(789)
<b>Present value of net minimum capital leases payments</b>	<b>6,147</b>
Less: Current installments of obligations under capital leases	2,476
<b>Obligations under capital leases, excluding current installments</b>	<b>3,671</b>

**17. Borrowings from banks**

The Company has short term borrowings of Rs. 800,000 as of March 31, 2007 (Nil as of March 31, 2006), from its bankers for working capital requirements. The borrowings are secured by fixed deposits held by the Company. The borrowings bear interest ranging from 8 to 9.75% and are repayable within one year from the balance sheet date.

**18. Accrued and Other liabilities**

Accrued liabilities principally comprise of provisions for expenses amounting to Rs. 507,006 and Rs. 670,754 as at March 31, 2006 and 2007, respectively. Other liabilities primarily comprise of deposits received from franchisees amounting to Rs. 94,822 and Rs. 109,938 as at March 31, 2006 and 2007, respectively.

**19. Income tax**

The provision for income taxes consists of:

	<b>Year ended March 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	Rs.	Rs.	Rs.
Current tax			
Deferred tax expense/ (benefit)			(68,928)
<b>Income tax expense / (benefit)</b>			<b>(68,928)</b>

All but an insignificant portion of profit/(loss) before income tax and the related income taxes are from Indian sources. The amount from foreign operations is insignificant. For the years ended March 31, 2005, 2006 and 2007, the reported income tax expense differed from amounts computed by applying the enacted tax rates to income from continuing operations before income taxes as set out below:

	<b>Year ended March 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	Rs.	Rs.	Rs.
Profit (Loss) from operations before taxes and minority interest	(307,576)	(149,245)	149,363
Enacted tax rates in India	36.59%	33.66%	33.66%
Computed expected tax expense/ (benefit)	(112,542)	(50,236)	50,276
Differences not deductible for tax purposes	15,349	55,519	69,809
Change in valuation allowance	142,777	(165,488)	(188,019)
Others	(5,440)	4,478	(994)
Effect of tax rate change	(40,144)	155,727	
<b>Total income tax expense/(benefit)</b>			<b>(68,928)</b>

Significant components of deferred tax assets and liabilities included in the balance sheet are as follows:

	<b>As at March 31,</b>	
	<b>2006</b>	<b>2007</b>
<b>Deferred tax assets:</b>		
Carry forward business loss	1,470,841	1,175,143
Property, plant and equipment	35,447	95,282
Accrual and expenses currently not allowed for tax purposes		10,603
Investment in affiliates	335,474	318,587
Carry forward capital loss	31,169	35
Provision for doubtful accounts receivables	30,416	43,913
Intangible Assets	5,126	2,975
<b>Total deferred tax assets</b>	<b>1,908,473</b>	<b>1,646,538</b>
Less: valuation allowance	(1,908,473)	(1,573,695)

Net deferred tax assets	<b>72,843</b>
<b>Deferred tax liabilities:</b>	
Intangible Assets	(3,915)
Retirement benefits	(2,824)
Total deferred tax liabilities	<b>(6,739)</b>
<b>Net Deferred Tax Asset</b>	<b>66,104</b>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Valuation allowances are established where necessary to reduce deferred tax assets to the amount considered more likely than not to be realized.

The carry forward business losses as of March 31, 2007 amounted to Rs. 3,491,217 of which Rs. 2,353,138 does not expire and the balance expires as follows:

<b>Year ending</b>	<b>Rs.</b>
<b>March 31,</b>	
2008	
2009	216,549
2010	599,738
2011	227,625
2012	82,547
2013	10,047
2014	1,573

## **20. Stockholders equity**

The Company has only one class of capital stock referred to as equity shares. All references in these financial statements to the number of shares and per share amounts of the Company's equity shares have been retroactively restated to reflect stock splits made by the Company.

The shareholders of the Company, in the annual general meeting held on October 25, 2005, approved an increase in authorized share capital of the Company from 37,500,000 Equity Shares of Rs. 10/- each to 38,100,000 Equity Shares of Rs.10/- each. Further, the shareholders of the Company in an extraordinary general meeting held on December 23, 2005 approved the increase in the authorized share capital of the Company from 38,100,000 Equity Shares of Rs.10/- each to 50,000,000 Equity Shares of Rs.10/- .

## **21. Common stock**

### *Voting*

Each holder of equity shares is entitled to one vote per share. The equity shares represented by American Depositary Shares ( ADS ) carry similar rights to voting and dividends as the other equity shares. One ADS represents one underlying equity share.

### *Share holding agreement*

Sify, Satyam Computers Services Limited (Satyam), SAIF Investment Company Limited (SAIF) and Venture Tech entered into a subscription agreement dated October 7, 2002 and entered into an investor rights agreement dated October 7, 2002 reserving certain rights of consultation and veto for SAIF Investment Company Limited and Venture Tech.

Effective July 7, 2005 Sify entered into a Termination and Amendment Agreement with Satyam Computer Services Limited, SAIF Investment Company Limited and Venture Tech Solutions Private Limited, pursuant to which SAIF irrevocably terminated all of its rights and obligations pursuant to the Investor Rights Agreement.

Effective July 21, 2005 Sify entered into a Termination and Amendment Agreement with Satyam Computer Services Limited and Venture Tech Solutions Private Limited, pursuant to which Venture Tech irrevocably terminated all of its rights and obligations pursuant to the Investor Rights Agreement.

Effective September 20, 2005 Sify entered into a Termination and Amendment Agreement with Satyam Computer Services Limited, pursuant to which Satyam irrevocably terminated all of its rights and obligations pursuant to the Investor Rights Agreement.

On November 10, 2005, Infinity Capital Ventures, LP ( Infinity Capital ), a Delaware limited partnership, acquired 11,182,600 Sify American Depositary Shares ( ADSs ) from Satyam Computer Services Limited ( Satyam ) for US \$5.60 per share. The total purchase price for the Satyam shares was US \$62,623. Upon this acquisition, the entire holding of Satyam in Sify has been divested.

On November 10, 2005, Sify and Infinity Capital entered into a Subscription Agreement pursuant to which Infinity Capital agreed to purchase from Sify 6,720,260 newly-issued equity shares (ADSs) at a price of US \$5.60 per share. The total issue price for the newly issued shares was Rs. 1,691,624 (equivalent of US \$37,633). The closing of this transaction occurred in January 2006.

*Dividends*

Should the Company declare and pay dividends, such dividends will be paid in Indian Rupees. Indian law mandates that any dividend be declared out of distributable profits as determined under the Indian Companies Act 1956, only after the transfer of a specified percentage of net income computed in accordance with current regulations to a general reserve. Moreover, the remittance of dividends outside India is governed by Indian law on foreign exchange and is subject to applicable taxes.

*Liquidation*

In the event of liquidation of the Company, the holders of common stock shall be entitled to receive any of the remaining assets of the Company, after distribution of all preferential amounts. The amounts will be in proportion to the number of equity shares held by the stockholders.

*Stock Options*

There are no voting, dividend or liquidation rights to the holders of warrants issued under the Company's stock option plan.

**22. Other income, net**

Other income consists of:

	<b>For the year ended March 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	Rs.	Rs.	Rs.
Interest expense	(1,938)	(11,090)	(5,618)
Other finance charges	(11,281)	(13,773)	(17,949)
Interest income	52,759	70,314	154,190
Others	38,074	13,788	(1,981)
<b>Other (expense)/income, net</b>	<b>77,614</b>	<b>59,239</b>	<b>128,642</b>

**23. Employee benefits****Gratuity**

The following table sets out the funded status of the Gratuity Plan and the amounts recognized in Sify's balance sheet.

	<b>As of March 31,</b>	
	<b>2006</b>	<b>2007</b>
	Rs.	Rs.
<b>Accumulated benefit obligation</b>	12,799	10,702
<b>Change in projected benefit obligation</b>		
Projected benefit obligation at the beginning of the year	18,140	21,615



Service cost	6,806	7,616
Interest cost	1,392	1,666
Actuarial (gain)/loss	(2,217)	(832)
Benefits paid	(2,506)	(12,589)
<b>Projected benefit obligation at the end of the year</b>	<b>21,615</b>	<b>17,476</b>

	<b>As of March 31,</b>	
	<b>2006</b>	<b>2007</b>
	Rs.	Rs.
<b>Change in plan assets</b>		
Fair value of plan assets at the beginning of the year	4,716	1,718
Actual return on plan assets	(492)	794
Employer contributions		18,500
Benefits paid	(2,506)	(12,589)
<b>Fair value of plan assets at the end of the year</b>	<b>1,718</b>	<b>8,423</b>
Funded status of the plans	19,897	9,053
Unrecognized net actuarial gain/(loss)	7,395	
<b>Accrued benefit cost</b>	<b>27,292</b>	<b>9,053</b>

Effective March 31, 2007, the Company adopted the recognition and disclosure provisions of SFAS No. 158. The adoption of SFAS No. 158 had no effect on the Company's net income, however it was effected via a gross credit to accumulated other comprehensive income of Rs. 5,566, net of related deferred income tax of Rs. 2,824. The effect of applying this statement on individual line items presented in the Balance Sheet is as follows:

	<b>Before Application of FAS 158</b>	<b>Adjustments</b>	<b>After Application of FAS 158</b>
Deferred income taxes - Non Current	68,928	(2,824)	66,104
Total Assets	7,165,776	(2,824)	7,162,952
Other Liabilities	130,328	(8,390)	121,938
Total Liabilities	2,620,487	(8,390)	2,612,097
Accumulated Other Comprehensive Income	(325)	5,566	5,241
Total Stockholders' equity	4,375,524	5,566	4,381,090
Total liabilities and stockholders' equity	7,165,776	(2,824)	Rs. 7,162,952

The estimated net gain for the defined benefit gratuity and pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is Rs. 764.

	As of March 31,		
	2005 Rs.	2006 Rs.	2007 Rs.
<b>The components of net gratuity costs are reflected below:</b>			
Service cost	5,688	6,806	7,616
Interest cost	1,100	1,392	1,665
Expected returns on plan assets	(543)	(538)	(163)
Recognized net actuarial (gain)/ loss	(130)	(490)	(467)
<b>Net gratuity costs</b>	<b>6,115</b>	<b>7,170</b>	<b>8,651</b>

**Principal weighted average actuarial assumptions:**

Discount rate	8%	8%	9.8%
Long-term rate of compensation increase	6%	6%	6%
Rate of return on plan assets	6%	7.50%	7.50%

The Company assesses these assumptions with the projected long-term plans of growth and prevalent industry standards. The Company provides the gratuity benefit through annual contributions to a fund managed by the Life Insurance Corporation of India (LIC). The Company estimates the long term return on plan assets at 7.5% based on the average long term rate of return expected to prevail over the next 15 to 20 years on the types of investments held with LIC. The Trustees administer contributions made to the trust and contributions are invested in specific designated instruments.

The employer's best estimate of contributions expected to be paid to the plan during the year 2007-2008 amounts to Rs. 10,000. Further, the benefits expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter are:

For the year ended March 31,	
2008	1,338
2009	1,625
2010	2,484
2011	4,133
2012	6,448
2013 to 2018	38,879

**Provident fund**

The Company contributed Rs. 28,242, Rs. 36,572 and Rs. 36,668 towards the provident fund during the years ended March 31, 2005, 2006 and 2007 respectively.

## 24. Related Party Transactions

The Company has entered into transactions with the following related parties:

Satyam Computer Services Limited (formerly the Company's parent company), where the Company provides connectivity services and software development services for certain e-learning projects until November 10, 2005;

Affiliated companies; and

Employees of the Company.

Directors of the Company

Given below is an analysis of transactions with Satyam Computer Services Limited, for the year ended March 31, 2005 and for the period from April 01, 2005 to November 10, 2005:

	<b>As at March 31,2005</b>	<b>April 01 to November 10,2005</b>
	Rs.	Rs.
Due (to)/from Satyam Computer Services Limited at beginning of the year	13,030	33,524
Allocation of facilities costs	(1,647)	
Billings to Satyam Computer Services Limited	48,713	121,132
Collections from Satyam Computer Services Limited	(36,005)	(101,958)
Payment to Satyam Computer Services Limited	9,433	
<b>Due (to)/from Satyam Computer Services Limited</b>	<b>33,524</b>	<b>52,698</b>

The following is a summary of significant transactions with other related parties:

	<b>Year ended March 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	Rs.	Rs.	
Sale of Equity in Sify Communications Limited		139,810	
Payments to Directors (Fees for consultancy services)	240	240	240
<i>Employee loans</i>			

The Company has the following amounts due with respect to employee loans:

	<b>2006</b>	<b>2007</b>
	Rs.	Rs.
Due from employees	25,393	7,726
The estimated fair value amounts of other employee loans were Rs. 23,519 and Rs. 7,726 as of March 31, 2006 and 2007, respectively. Considerable judgment is required to develop the estimates of fair value. Thus, the estimates		

provided herein are not necessarily indicative of the amounts the Company could realize in the market.

**25. Stock based compensation plans****Associate Stock Option Plan 2000**

In fiscal 2000, the Company established the Associate Stock Option Plan 2000 (the ASOP 2000 Plan), which provides for the issuance of warrants to eligible employees. The warrants were issued to an employee welfare trust on May 22, 2000. The Trust transfers these warrants to the eligible employees at Re. 1 each and each warrant entitles the holder to purchase one ADS at an exercise price determined by the Compensation committee.

The warrants vest in a graded manner over a period of 3 years as follows:

One sixth of the warrants: At the end of one year from the date of the grant

Two sixths of the warrants: At the end of two years from the date of the grant

Three sixths of the warrants: At the end of three years from the date of the grant.

The warrants are to be exercised within a period of one month from the date of the last vesting.

As the number of warrants that an individual employee is entitled to receive and the price of the warrants are known at the grant date, the ASOP 2000 Plan is considered as a fixed grant. Deferred compensation in respect of the grants issued before March 31, 2006 is recorded in the event that exercise price of the warrant is determined to be less than the fair market value of the underlying shares on the date of the grant. Deferred compensation in respect of the grants issued after March 31, 2006 is recorded at the fair value of the options determined on the grant date. Deferred compensation is amortized over the vesting period of the warrants.

Stock option activity under the ASOP 2000 Plan is as follows:

	<b>Shares arising out of option</b>			<b>Weighted average exercise price</b>		
	<b>Year ended March 31,</b>			<b>(in Rupees)</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Outstanding at beginning of the year	151,500	7,770	2,040	214.20	105.91	182.47
Granted						
Forfeited	10,391	720		171.40	165.91	
Expired	19,396	1,090	2,040	281.26	107.11	182.47
Exercised	113,943	3,920		167.36	54.71	
Outstanding at the end of the year	7,770	2,040		105.91	182.47	
Exercisable at the end of the year	990	960		107.52	182.47	
Weighted-average grant date fair value of grants during the year						

**Associate Stock Option Plan 2002**

In fiscal 2002, the Company established the Associate Stock Option Plan 2002 (the ASOP 2002 Plan), which provides for the issuance of warrants to eligible employees. On December 9, 2002, the Company issued warrants to the eligible employees at Re. 1 each and each warrant entitles the holder to purchase one ADS at an exercise price determined by the Compensation Committee.

The warrants vest in a graded manner over a period of 3 years as follows:

One sixth of the warrant quantity: At the end of one year from the date of the grant

Five sixths of the warrant quantity: At the end of each quarter during the second and third year from the date of the grant in eight equal installments.

The warrants are to be exercised within a period of one month from the date of the last vesting.

As the number of warrants that an individual employee is entitled to receive and the price of the warrants are known at the grant date, the ASOP 2002 Plan is considered as a fixed grant. Deferred compensation in respect of the grants issued before March 31, 2006 is recorded in the event that exercise price of the warrant is determined to be less than the fair market value of the underlying shares on the date of the grant. Deferred compensation in respect of the grants issued after March 31, 2006 is recorded at the fair value of the options determined on the grant date. Deferred compensation is amortized over the vesting period of the warrants.

Stock option activity under the ASOP 2002 Plan is as follows:

	Shares arising out of option			Weighted average exercise price (in Rupees)		
	Year ended March 31,			Year ended March 31,		
	2005	2006	2007	2005	2006	2007
Outstanding at beginning of the year	1,108,000	757,473	376,857	170.25	178.35	172.83
Granted	90,000			254.16		
Forfeited	69,458	85,479	521	189.66	214.74	265.35
Expired	5,727	10,081	31,323	281.26	239.35	188.45
Exercised	365,342	285,056	338,763	163.39	172.60	172.18
Outstanding at the end of the year	757,473	376,857	6,250	178.35	172.83	228.74
Exercisable at the end of the year	131,589	357,482	3,906	174.61	168.58	228.74
Weighted-average grant date fair value of grants during the year				157.78		

**Associate Stock Option Plan 2005**

In October 2005, the Company established the Associate Stock Option Plan 2005 (the ASOP 2005 Plan), which provides for the issuance of 1,900,000 ADR s/shares to eligible employees. The Company cancelled any balance available for issue under previous plans. Accordingly, any unissued options available under previous plans or any options surrendered or lapsed are cancelled.

The options vest in a graded manner over a period of 3 years as follows:

One sixth of the option quantity: At the end of one year from the date of the grant

Five sixths of the option quantity: At the end of each quarter during the second and third year from the date of the grant in eight equal installments.

The options can be exercised only after they vest but before the expiry date of forty months from the date of the grant. As the number of ADR s/shares that an individual employee is entitled to receive and the price of the option is known at the grant date, the ASOP 2005 Plan is considered as a fixed grant. Deferred compensation in respect of the grants issued before March 31, 2006 is recorded in the event that exercise price of the warrant is determined to be less than the fair market value of the underlying shares on the date of the grant. Deferred compensation in respect of the grants issued after March 31, 2006 is recorded at the fair value of the options determined on the grant date. Deferred compensation is amortized over the vesting period of the options.

Stock option activity under the ASOP 2005 Plan is as follows:

	<b>Shares arising out of option</b>		<b>Weighted average exercise price Year ended March 31</b>	
	<b>Year ended March 31</b>			
	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>
Outstanding at beginning of the year		1,676,400		286.20
Granted	1,735,400	547,600	285.98	451.15
Forfeited	59,000	1,268,293	279.57	290.32
Expired		15,524		254.01
Exercised		71,988		238.32
Outstanding at the end of the year	1,676,400	868,195	286.20	391.59
Exercisable at the end of the year		54,914		338.66
Weighted-average grant date fair value of grants during the year			126.37	224.86

The following table summarizes information about fixed price options outstanding at March 31, 2007:

	<b>Number outstanding at Range of exercise price</b>	<b>March 31, 2007</b>	<b>Weighted average exercise price</b>	<b>Weighted average exercisable at remaining contractual life</b>	<b>Number exercisable at March 31, 2007</b>	<b>Weighted average exercise price</b>
ASOP 2002	163-265	6,250	228.74	0.29 years	3,906	228.74
ASOP 2005	163-265	868,195	391.59	1.57 to 2.81 years	54,914	338.66



**26. Commitments and contingencies**

- a) During the year ended March 31, 2006, the Company received a notice from the Income-Tax Department of India for the financial years 2002 and 2003 for a sum of Rs.103,000 stating that no withholding tax has been deducted in respect of international bandwidth and leased line payments made by the Company to international bandwidth / lease line service providers. Subsequently, the demand was revised to Rs. 77,724 by the income tax authorities. Under the Income tax regulations the company is required to pay such amounts in 12 monthly instalments under protest if it seeks to dispute the demand. Accordingly, the Company has paid two instalments amounting to Rs. 12,954 till March 31, 2007 under protest and challenged such demands. The Company believes that withholding taxes need not be deducted if the service provider did not have any permanent establishment in India and has not installed any equipment at the Company's premises. The Company has demonstrated to the tax authorities that international service providers neither had a permanent establishment in India nor installed any equipment at the Company's premises, and hence concluded that the likelihood of the loss contingency is remote and no provision for the loss contingency is considered necessary. The amounts paid under protest is included under Other assets .
- b) The Company has outstanding financial and performance guarantees for various statutory purposes and letters of credit totalling Rs. 422,683 and Rs. 641,115 as of March 31, 2006 and 2007, respectively. These guarantees are generally provided to governmental agencies.
- c) Additionally, the Company is also involved in lawsuits, claims and proceedings, which arise in the ordinary course of business. There are no such items pending that the Company expects to be material in relation to its business.

**27. Products and services**

Breakup of revenues against products and services are as follows:

	<b>Year ended March 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	Rs.	Rs.	Rs.
<i>Revenue</i>			
Service revenue	2,858,070	3,928,072	4,587,873
Initial franchise fee	107,956	104,085	67,269
Installation service revenue	236,508	262,059	256,040
	3,202,534	4,294,216	4,911,182
Product revenue	410,923	387,591	536,165
	<b>3,613,457</b>	<b>4,681,807</b>	<b>5,447,347</b>
<i>Cost of revenues (excluding depreciation and amortization)</i>			
Products	357,753	324,411	462,419
Services	1,660,578	2,167,748	2,357,326
Annual fee on IP VPN revenue	5,611	42,564	88,511
	<b>2,023,942</b>	<b>2,534,723</b>	<b>2,908,256</b>

## 28. Segment reporting

SFAS No 131, *Disclosures about Segments of an Enterprise and Related Information*, establishes standards for the way that public business enterprises report information about operating segments and related disclosures about products and services, geographic areas and major customers. The Company's operations predominantly relate to connectivity to enterprises and providing Internet access to retail subscribers (both home access and public access). The Company also operates portals, Sify.com, Samachar.com and SifyMax.in that provide a variety of India-related content to audiences both in India and abroad, and which generates revenue from advertisements and other value added services.

The primary operating segments of the Company are:

Corporate network/data services, which provides Internet, connectivity, security and consulting, hosting and managed service solutions;

Retail Internet access services, from homes and through cybercafés;

Online portal and content offerings; and

Other services, such as development of e-learning software.

The Chief Operating Decision Maker ( CODM ) evaluates the Company's performance and allocates resources to various strategic business units that are identified based on the products and services that they offer and on the basis of the market served. The measure of loss reviewed by the CODM was Earnings/loss before interest, taxes, depreciation and amortization. Revenue in relation to segments is categorized based on items that are individually identifiable to that segment. Bandwidth costs, which form a significant part of the total expenses, are allocated primarily between the corporate network/data services and Internet access services businesses as described below:

International bandwidth refers to bandwidth that is required for access to sites and offices outside the country. For all these businesses, bandwidth is allocated based on actual utilization captured by monitoring traffic per IP pool assigned at the egress points. The Company has packet shapers in the main locations to monitor bandwidth use by each of the above categories of users. This information is used in determining norms like bandwidth per port and bandwidth per PC. The actual utilization is cross validated against assumptions / norms for each business.

National bandwidth refers to the inter-city link bandwidth implemented within the country. Inter-city link bandwidth was allocated based on the number of subscribers or iway cybercafés at non gateway points and the bandwidth sold to and used by business enterprises (determined using packet shapers). However, in order to strengthen its corporate business, the Company enhanced its national backbone to carry Internet traffic to the international fibre gateways, shifting from hybrid satellite and fibre gateways to fibre only gateways for international bandwidth. National bandwidth costs are now allocated based on international bandwidth allocation ratios because most of the traffic carried on the national backbone is directed towards the international gateways. The Company believes that the resulting allocations are reasonable.

Last mile costs related to dial-up access that can be directly identified to businesses are allocated directly. Spectrum charges that are paid for the license that has been provided to enable Sify to operate on the 5.7 ghz wireless spectrum are allocated based on the bandwidth that is used by the various businesses that use this spectrum. Certain expenses, such as depreciation, technology and administrative overheads, which form a significant component of total expenses, are not allocable to specific segments as the underlying services are used interchangeably. Management believes that it is not practical to provide segment disclosure of these expenses and, accordingly, they are separately disclosed as unallocated and adjusted only against the total income of the Company

A significant part of the fixed assets used in the Company's business are not identifiable to any of the reportable segments and can be used interchangeably between segments. Management believes that it is not practicable to provide segment disclosures relating to total assets since a meaningful segregation of the available data is onerous.



The Company's operating segment information for the years ended March 31, 2005, 2006 and 2007 are presented below:

**Year ended March 31, 2007** (in Rupees)

	<b>Corporate Network / Data</b>	<b>Internet Access</b>	<b>Online Portal</b>	<b>Other Services</b>	<b>Total</b>
Revenues	3,147,369	1,862,945	262,903	174,130	5,447,347
Allocated expenses	(1,937,489)	(1,760,624)	(261,949)	(154,692)	(4,114,754)
Equity in profits of affiliates			70,221		70,221
Minority Interest	(30,531)				(30,531)
Segment operating income / (loss)	1,179,349	102,321	71,175	19,438	1,372,283
Unallocated corporate expenses					(886,789)
Foreign exchange gain / (loss), net					8,332
Other income / (expense), net					(1,309)
Depreciation and amortization					(521,740)
Interest income, net*					148,055
Income Taxes					68,928
Net Profit / (Loss)					187,760

\* Excludes bank charges of Rs. 18,104 being allocated to the strategic business units.

**Year ended March 31, 2006** (all in Rupees)

	<b>Corporate Network / Data</b>	<b>Internet Access</b>	<b>Online Portal</b>	<b>Other Services</b>	<b>Total</b>
Revenues	Rs. 2,531,094	Rs. 1,814,115	Rs. 178,986	Rs. 157,612	Rs. 4,681,807
Allocated expenses	(1,512,832)	(1,798,963)	(187,941)	(141,567)	(3,641,303)
Equity in profits of affiliates			40,703		40,703

Segment operating income / (loss)	Rs. 1,018,262	Rs. 15,152	Rs. 31,748	Rs. 16,045	Rs. 1,081,207
Unallocated corporate expenses					(843,599)
Foreign exchange gain / (loss), net					23,221
Other income / (expense), net					11,835
Depreciation and amortization					(476,526)
Interest income, net*					54,617
Net Profit / (Loss)					Rs. (149,245)

\* Excludes bank charges of Rs. 7,413 being allocated to the strategic business units.

Year ended March 31, 2005

(all in Rupees)

	Corporate	Internet	Online	Other	Total
	Network/Data	Access	Portal	Services	
	Services	Services	Services	Services	
Revenues	2,023,412	1,404,876	103,053	82,116	3,613,457
Allocated expenses	(1,345,254)	(1,361,140)	(99,303)	(74,346)	(2,880,043)
Equity in (loss)/profit of affiliates			50,752		50,752
Segment operating income/(loss)	678,158	43,736	54,502	7,770	784,166
Corporate expenses					(620,235)
Foreign exchange gain/(loss)					2,595
Other income/(expense), net					42,503
Depreciation and amortization					(567,426)
Interest income, net					50,821
Net Profit / (Loss)					(307,576)

## 29. Legal proceedings

The Company and certain of its erstwhile officers and directors are named as defendants in a securities class action lawsuit filed in the United States District Court for the Southern District of New York. This action, which is captioned *In re Satyam Infoway Ltd. Initial Public Offering Securities Litigation*, also names several of the underwriters involved in Sify's initial public offering of American Depositary Shares as defendants. This class action is brought on behalf of a purported class of purchasers of Sify's ADSs from the time of Sify's Initial Public Offering (IPO) in October 1999 through December 2000. The central allegation in this action is that the underwriters in Sify'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. More than 300 issuers have been named in similar lawsuits.

In July 2002, an omnibus motion to dismiss all complaints against issuers and individual defendants affiliated with issuers was filed by the entire group of issuer defendants in these similar actions. In October 2002, the cases against the Company's executive officers who were named as defendants in this action were dismissed without prejudice. In February 2003, the court in this action issued its decision on defendants' omnibus motion to dismiss. This decision denied the motion to dismiss the Section 11 claim as to the Company and virtually all of the other issuer defendants. The decision also denied the motion to dismiss the Section 10(b) claim as to numerous issuer defendants, including the Company. On June 26, 2003, the plaintiffs in the consolidated IPO class action lawsuits currently pending against Sify and over 300 other issuers who went public between 1998 and 2000, announced a proposed settlement with Sify and the other issuer defendants. The proposed settlement provides that the insurers of all settling issuers will guarantee that the plaintiffs recover \$1 billion from non-settling defendants, including the investment banks who acted as underwriters in those offerings. In the event that the plaintiffs do not recover \$1 billion, the insurers for the settling issuers will make up the difference.

The Company believes that it has sufficient insurance coverage to cover the maximum amount that it may be responsible for under the proposed settlement. Although the Federal District Court has preliminarily approved the settlement, it is possible that the Federal District Court may not finally approve the settlement in whole or part. The Company believes the maximum exposure under this settlement, in the event that the plaintiffs recover nothing from the non-settling defendants, is approximately U.S. \$3.9 million, an amount which the Company believes is fully recoverable from the Company's insurer.

The Company is party to additional legal actions arising in the ordinary course of business. Based on the available information, as of March 31, 2007 Sify believes that it has adequate legal defenses for these actions and that the ultimate outcome of these actions will not have a material adverse effect on Sify.

**MF Global Sify Securities India Private Limited and Subsidiaries**

(formerly Man Financial-Sify Securities India Private Limited)

US GAAP Consolidated Financial Statements

As of March 31, 2007 and 2006 and for the

years ended March 31, 2007 and 2006



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders

MF Global Sify Securities India Private Limited:

(formerly Man Financial-Sify Securities India Private Ltd.)

In our opinion, the accompanying consolidated statement of financial condition of MF Global Sify Securities India Private Limited and subsidiaries (collectively, the Company) as of March 31, 2007, and the related consolidated statements of income and comprehensive income, stockholders' equity and of cash flows for the year then ended present fairly, in all material respects, the financial condition of the Company at March 31, 2007, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

**Price Waterhouse**

Mumbai, India

October 10, 2007

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders

Man Financial-Sify Securities India Private Limited:

We have audited the accompanying consolidated statement of financial condition of Man Financial-Sify Securities India Private Limited and subsidiaries (collectively, the Company) as of March 31, 2006, and the related consolidated statements of income and comprehensive income, stockholders' equity and of cash flows for the year then ended.

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Man Financial-Sify Securities India Private Limited and subsidiaries as of March 31, 2006, and the results of their operations and their cash flows for the year then ended in conformity with US generally accepted accounting principles.

KPMG

Mumbai, India

October 12, 2006.

MF Global Sify Securities India Private Limited and Subsidiaries  
(formerly Man Financial-Sify Securities India Private Ltd.)

Consolidated statements of financial condition

*In Rupees thousands, except share data and as otherwise stated*

	<b>As of March 31</b>	
	<b>2007</b>	<b>2006</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>Assets</b>		
Cash	324,375	93,739
Cash-restricted	2,562,032	1,039,115
Interest bearing deposits with bank	130,424	102,250
Deposits with clearing organizations and others	138,533	438,103
Receivable from broker-dealers and clearing organizations	60,916	138,301
Receivable from customers (net of allowances of Rs. 76,400 Previous year Rs. 3,100)	616,792	621,233
Securities owned:		
Marketable, at market value	204,176	12,605
Not readily marketable (at estimated fair value)	52,000	2,927
Memberships in exchanges, at adjusted cost (Refer Note 7)	8,745	8,899
Furniture and equipment-net	80,814	55,517
Other assets	165,387	89,619
Deferred tax asset -net	33,878	5,223
<b>Total assets</b>	<b>Rs. 4,378,072</b>	<b>Rs. 2,607,531</b>
<b>Liabilities</b>		
Payable to broker dealers and clearing organizations	1,195,594	366,210
Payable to customers	1,797,100	1,271,821
Accounts payable, accrued expenses, and other liabilities	370,452	200,838
<b>Total liabilities</b>	<b>3,363,146</b>	<b>1,838,869</b>
Commitments, contingencies and guarantees (Refer note 15)		
<b>Stockholders equity</b>		
Common stock at Rs. 10 par value: 65,000,000 shares authorized (2006 - 65,000,000); Issued, Subscribed and outstanding: 51,894,182 shares as of March 31, 2007 and 51,894,182 shares as of March 31, 2006	518,942	518,942
Additional paid-in capital	28,968	28,968
Retained earnings	468,108	220,752
Accumulated other comprehensive income (loss)	(1,092)	-
<b>Total stockholders equity</b>	<b>1,014,926</b>	<b>768,662</b>

<b>Total liabilities and stockholders equity</b>	<b>Rs. 4,378,072</b>	<b>Rs. 2,607,531</b>
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*The accompanying notes are an integral part of these consolidated financial statements*

MF Global Sify Securities India Private Limited and Subsidiaries  
(formerly Man Financial-Sify Securities India Private Ltd.)

**Consolidated statements of income and comprehensive income**

*In Rupees thousands, except share data and as otherwise stated*

<b>Particulars</b>	<b>Years ended March 31</b>	
	<b>2007</b>	<b>2006</b>
	Rs.	Rs.
<b>Revenues</b>		
Commissions	1,025,505	674,045
Depository and clearing fees	44,352	28,350
Interest and dividends	160,801	64,910
Gain on exchange shares	49,073	
Other income	61,928	29,304
<b>Total</b>	<b>Rs. 1,341,659</b>	<b>Rs. 796,609</b>
<b>Expenses</b>		
Employee compensation and benefits	453,457	259,099
Exchange expenses and clearance fees	104,065	27,479
Brokerage to other broker-dealers	109,319	96,168
Communications and data processing	14,611	12,949
Interest	19,896	9,967
Occupancy	63,732	67,616
Allowance for doubtful debts	73,300	2,600
Other expenses	145,911	96,287
Loss on exchange membership rights (Refer note 7)		5,980
<b>Total</b>	<b>984,291</b>	<b>578,145</b>
<b>Income before income taxes</b>	<b>357,368</b>	<b>218,464</b>
Income tax expense	(110,012)	(88,371)
<b>Net income</b>	<b>Rs. 247,356</b>	<b>Rs. 130,093</b>
Loss on foreign currency translation, net of taxes	(1,061)	
<b>Comprehensive income</b>	<b>Rs. 246,295</b>	<b>Rs. 130,039</b>

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

MF Global Sify Securities India Private Limited and Subsidiaries  
(formerly Man Financial-Sify Securities India Pvt. Ltd.)

**Consolidated statement of stockholders equity**

*In Rupees thousands, except share data and as otherwise stated*

	Common		Additional	Accumulated	Retained	Total
	Shares		Paid-In	Other	Earnings	Stockholders
	No. of	Rs.	Capital	Comprehensive		Equity
	shares		Rs.	Income/ (loss)	Rs.	Rs.
<b>Balance as of April 1, 2005</b>	<b>51,894,182</b>	<b>518,942</b>	<b>28,968</b>		<b>90,659</b>	<b>638,569</b>
Net Income					130,093	<b>130,093</b>
<b>Balance as of March 31, 2006</b>	<b>51,894,182</b>	<b>518,942</b>	<b>28,968</b>		<b>220,752</b>	<b>768,662</b>
Net income					247,356	<b>247,356</b>
Loss on foreign currency translation, net of taxes				(1,061)		<b>(1,061)</b>
Adjustment to initially adopt SFAS 158, net of taxes				(31)		<b>(31)</b>
<b>Balance as of March 31, 2007</b>	<b>51,894,182</b>	<b>518,942</b>	<b>28,968</b>	<b>(1,092)</b>	<b>468,108</b>	<b>1,014,926</b>

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

MF Global Sify Securities India Private Limited and Subsidiaries  
(formerly Man Financial-Sify Securities India Pvt. Ltd.)

**Consolidated statements of cash flows**

*In Rupees thousands, except share data and as otherwise stated*

<b>Particulars</b>	<b>Years ended March 31</b>	
	<b>2007</b>	<b>2006</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>Cash flows from operating activities</b>		
Net income	<b>247,356</b>	<b>130,093</b>
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	33,635	22,414
Loss on exchange membership rights (Refer note 7)		5,980
Allowance for doubtful debts	73,300	2,600
Deferred tax expense	(28,655)	12,411
Stock Appreciation Rights	7,174	
Gain on Exchange Shares	(49,073)	
Others	146	35
<b>Changes in operating assets and liabilities:</b>		
Interest bearing deposits with banks	(28,174)	(102,250)
Deposits with clearing organizations and others	299,570	(317,249)
Net receivable from broker-dealers and clearing organizations	77,385	(4,817)
Net receivable from customers	(68,859)	(229,213)
Securities owned, net	(191,571)	20,242
Other, net	(75,768)	(35,479)
Increase (decrease) in operating liabilities:		
Payable to broker dealers and clearing organizations	829,384	119,956
Payable to customers	525,279	493,360
Accounts payable, accrued expenses, and other liabilities	179,617	66,546
<b>Net cash provided by operating activities</b>	<b>1,830,746</b>	<b>184,629</b>
<b>Cash flows from investing activities</b>		
Expenditure on furniture and equipment	(58,924)	(34,258)
Purchase of DGCX membership		(4,512)
Net movement in cash-restricted	(1,522,917)	(143,382)
Proceeds from sale of furniture, equipment		806
<b>Net cash used in investing activities</b>	<b>(1,581,841)</b>	<b>(181,346)</b>
<b>Cash flows from financing activities</b>		
Payment of bank loans	(17,177)	(3,471)
<b>Net cash used in financing activities</b>	<b>(17,177)</b>	<b>(3,471)</b>

Effect of foreign exchange fluctuation on cash	<b>(1,092)</b>	-
Net increase (decrease) in cash	230,636	(188)
Cash at the beginning of the year	93,739	93,927
<b>Cash at the end of the year</b>	<b>324,375</b>	<b>93,739</b>



MF Global Sify Securities India Private Limited and Subsidiaries  
(formerly Man Financial-Sify Securities India Pvt. Ltd.)

**Consolidated statements of cash flows (continued....)**

*In Rupees thousands, except share data and as otherwise stated*

<b>Particulars</b>	<b>Years ended March 31</b>	
	<b>2007</b>	<b>2006</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>Supplementary information:</b>		
Cash paid for:		
Interest	9,486	1,893
Taxes	158,515	91,875

Non-cash operating activities: During the year ended March 31, 2006, the Company exchanged its former membership rights having a carrying value of Rs. 13,750 thousand for fresh exchange membership rights and ownership in the exchange pursuant to the scheme of corporatisation and demutualization (Refer note 7)

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

## 1. Organization and nature of business

MF Global Sify Securities India Private Limited (formerly Man Financial-Sify Securities India Private Limited) was incorporated on 29 December 1999 as a private limited company under the Indian Companies Act 1956.

MF Global Sify Securities India Private Limited ( MF Global Sify ) has three wholly owned subsidiaries, MF Global Commodities India Private Ltd., MF Global Capital India Private Ltd. incorporated in India and MF Global Middle East Limited DMCC ( DMCC ) incorporated in Dubai. MF Global Sify and its subsidiaries are hereinafter referred to as the Company .

In March 2006, MF Global Overseas Limited (MFG), a company incorporated in United Kingdom acquired 70.15% of MF Global Sify equity share capital from Refco Group Inc., USA ( Refco ). Thereby, MFG holds 70.15% of MF Global Sify and the balance, 29.85% of MF Global Sify s equity shares, is held by Sify Limited. MFG is a subsidiary of Man Group plc, a company incorporated in United Kingdom. Man Group plc along with its subsidiaries is referred as Man Group .

The principal activity of the Company is to act as a stock and commodity broker for foreign institutional investors ( FIIs ), mutual funds, domestic financial institutions and retail investors. The Company also acts as a depository participant and provides depository services to FIIs, mutual funds, domestic financial institutions and retail investors.

## 2. Significant accounting policies

### *Basis of presentation*

The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (U.S. GAAP).

### *Use of Estimates*

In conformity with U.S. GAAP, management of the Company has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements. Some of the more significant estimates include allowances for doubtful accounts, depreciation of assets, valuation allowance for deferred tax assets and valuation of memberships in exchanges. Actual results could differ from those estimates.

### *Principles of consolidation*

The consolidated financial statements of MF Global Sify include the amounts of MF Global Sify and all of its majority-owned subsidiaries, where MF Global Sify is able to exercise control over the operating and financial policies of the investees. All significant inter-company accounts and transactions are eliminated on consolidation.

### ***Securities Transactions***

The Company executes transactions on behalf of its clients and does not trade on its own account. Transactions executed as agents for customers are recorded on trade date basis. The Commission income and related expenses are reported on the trade date basis.

Amounts receivable and payable for securities transactions that have not reached their contracted settlement date are recorded net on the statement of financial condition.

Marketable securities are valued at market value. Non-marketable shares in exchange held by the Company that are not required for trading rights are recorded at fair market value, as determined by management, taking into account any restrictions. Unrealized gains and losses arising from these assets are reported separately in the consolidated statements of income as gain on exchange shares.

### ***Revenue***

Commission, Clearing fees and related expenses are recorded on a trade-date basis as securities transactions occur. Depository fee income earned from customer is recognized in the period in which services are rendered.

Interest income is recognized on a time proportion basis. Dividend income is recognized when the right to receive payment is established.

### ***Foreign Currencies transactions***

The Indian rupee ( Rs. ) is the functional currency of MF Global Sify and its subsidiaries, except for MF Global Middle East Limited DMCC, whose functional currency is the US dollar. The consolidated financial statements are reported in Indian rupees (Rs.), the reporting currency of the Company. In case of MF Global Middle East Limited DMCC, assets and liabilities are translated into reporting currency at the exchange rate prevailing on the date of consolidated financial condition, and income and expense items are translated using average exchange rates prevailing during the period. The resulting unrealized gains or losses are reported as Loss on foreign currency translation, net of taxes within accumulated other comprehensive income (loss), a separate component of shareholders equity.

Transactions in foreign currency are recorded at the exchange rate prevailing on the dates of the transactions. Revenues, costs and expenses are recorded using average exchange rates prevailing during the reporting periods. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates in effect at the date of consolidated financial condition. The resulting gains or losses from the settlement of foreign currency transactions and from remeasurement at the date of consolidated financial condition are included in the consolidated statements of income.

### ***Furniture and equipment***

Furniture and equipments are stated at cost of acquisition less accumulated depreciation thereon. Cost includes all expenses incidental to the acquisition and placing the assets to use, while maintenance and repairs are charged to expense when incurred.

Depreciation is provided over the estimated useful lives of the assets on the reducing balance method.

Capitalized costs of computer software obtained for internal use represent costs incurred to purchase computer software from third parties. Capitalized costs are amortized on a straight line basis over the estimated useful life of the software.

### ***Exchange membership rights***

The Company has exchange membership rights of Bombay Stock Exchange Limited ( BSEL ) and membership in Dubai Gold and Commodity exchange ( DGCX ). These assets are carried at cost after reviewing for impairment in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*.

### ***Income Taxes***

Income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amount considered more likely than not to be realized.

### ***Retirement benefits to employees***

#### ***Provident Fund***

In accordance with Indian law, all employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and employer make monthly contributions to the plan, each equal to a specified percentage of employee's basic salary. The Company has no further obligations under the plan beyond its monthly contributions.

#### ***Gratuity***

The Company provides for gratuity, a defined benefit retirement plan (the Gratuity Plan) covering all employees. The plan provides a lump sum payment to vested employees at retirement or termination of employment of an amount based on the respective employee's salary and the years of employment with the Company. The Company provides the gratuity benefit through annual contributions to a fund managed by the Life Insurance Corporation of India (LIC). Under this scheme, the settlement obligation remains with the Company, although the LIC administers the scheme and determines the contribution premium required to be paid by the Company. The Gratuity Plan is accounted for in accordance with SFAS No. 87, *Employers' Accounting for Pensions* as amended by SFAS 158.

Effective March 31, 2007, the Company adopted the provision of SFAS No. 158, *Employer's accounting for defined benefit pension and other postretirement plans an amendment of SFAS 87*. The provisions of SFAS 158 were adopted pursuant to the transition provision therein. Accordingly, unrecognized losses have been recognized with an adjustment (net of taxes) to accumulated other comprehensive income (loss), a separate component of shareholders' equity.

***Stock-based compensation***

The Company's employees participate in various share-based payment plans; that is stock appreciation rights plan sponsored by MF Global Sify and co-investment plan sponsored by Man Group. The Company follows SFAS No. 123R, Share Based Payment ( SFAS 123R ). SFAS 123R measures the cost of employee services received for stock based compensation based on the grant-date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award.

***Recently issued accounting pronouncements***

In July 2006, the Financial Accounting Standards Board ( FASB ) issued FIN 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* ( FIN 48 ). FIN 48 applies to all tax positions within the scope of SFAS No. 109, *Accounting for Income Taxes*, and clarifies when and how to recognize tax benefits in the financial statements with a two-step approach of recognition and measurement. FIN 48 is effective for fiscal years beginning after December 15, 2006, which is the fiscal year commencing April 1, 2007 for the Company. FIN 48 also requires the enterprise to make explicit disclosures about uncertainties in its income tax positions, including a detailed roll-forward of tax benefits taken that do not qualify for financial statement recognition. The Company is currently evaluating the impact that is expected to result from the adoption of this standard on its consolidated financial statements.

In September 2006, the United States Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 ( SAB 108 ) effective for fiscal years ending after November 15, 2006. SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement for the purpose of a materiality assessment. The adoption of SAB 108 as of March 31, 2007 has no impact on the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS 157 ), which establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007, which is the fiscal year commencing April 1, 2008 for the Company. The Company is currently evaluating the impact that is expected to result from the adoption of this standard on its consolidated financial statements.

In February 2007, FASB issued SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities* ( SFAS 159 ). SFAS 159 expands the use of fair value measurement by allowing entities the option to reflect the current cash equivalent value of financial instruments rather than the historical price of the transaction. The fair value option established by SFAS 159 permits all entities to choose to measure eligible

items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007, which is the fiscal year commencing April 1, 2008 for the Company. The Company is currently evaluating the impact that is expected to result from the adoption of this standard on its consolidated financial statements.

**3. Cash-restricted**

Restricted cash as of March 31, 2007 includes fixed deposits of Rs. 1,061,603 thousand (Rs. 750,615 thousand as of March 31, 2006) placed with banks as margins for bank guarantees issued to clearing organizations and fixed deposits of Rs. 1,500,429 thousand (Rs. 288,500 thousand as of March 31, 2006) specifically earmarked as liens to

clearing organizations towards margins.

**4. Receivable from and Payable to Broker-Dealers and Clearing Organizations**

Amounts receivable from and payable to broker-dealers and clearing organizations consist of the following:

	As of March 31			
	2007			2006
	<i>Receivable</i>	<i>Payable</i>	<i>Receivable</i>	<i>Payable</i>
	(Rs. in thousands)			
Clearing organizations -				
- Unsettled trade	60,724	14,400	133,898	83,344
- Margin deposit		5,600		26,960
Broker-Dealer	192	1,175,594	4,403	255,906
<b>Total</b>	<b>60,916</b>	<b>1,195,954</b>	<b>138,301</b>	<b>366,210</b>

**5. Receivable From and Payable to Customers**

Accounts receivable from and payable to customers include amounts due on cash and margin transactions. Securities owned by customers are held as collateral for receivables.

**6. Securities owned**

Marketable securities consist of investments in units of mutual funds. These are reported at fair value. Securities not readily marketable represent investments in equity shares of Bombay Stock Exchange Limited (BSEL), obtained by the Company pursuant to the exchange transaction explained in Note 7. BSEL, exchange shares that are not required for trading rights are recorded at fair market value, as determined by management, taking into account any restrictions.

**7. Membership in exchanges**

Membership in exchanges consists of

- (i) BSE membership of Rs 4,387 thousands as at March 31, 2007 and 2006, and
- (ii) DGCX membership of Rs 4,358 thousands and Rs.4,512 thousand as at March 31, 2007 and 2006, respectively. DGCX membership value underwent a change due to foreign currency translation.

**BSE membership**

The Company acquired The Stock Exchange, Mumbai (the BSE) membership card on December 6, 2000. During the year 2005-06, a scheme, The Bombay Stock Exchange (Corporatisation and Demutualization) Scheme 2005 (the Scheme) was approved by Securities Exchange Board of India with effect from 19 August 2005 (the due date) which converted the BSE from an Association of Person to a corporate body in the name of Bombay Stock Exchange Limited (BSEL).



In accordance with the scheme, the members of the erstwhile BSE, in exchange of their erstwhile BSE membership cards (rights) received membership rights of BSEL (i.e. right to trade on BSEL without placement of cash deposit) as well as equity shares of BSEL.

The carrying value of the erstwhile BSE membership card on the due date in the books of the Company was Rs. 13,570 thousand. Consequent to the corporatisation of the BSE, the Company computed the fair value of the membership rights of BSEL and shares of BSEL as follows:

Membership rights of BSEL      On the basis of the benefits which the Company would get over the current deposit based membership right of BSEL

Equity shares of BSEL      On the basis of the fair value of the equity shares of BSEL determined by the management  
The difference between the aggregate of the fair values of the membership right of BSEL and the equity shares of BSEL and the carrying value of the initial BSE membership right of Rs. 5,980 thousand has been written off to consolidated statements of income during the year ended March 31, 2006 as follows:

	(Rs. in thousands)		
	Carrying Value as of 19 August 2005	Fair Value as of 19 August 2005	Write off to Profit & Loss Account
Erstwhile BSE membership card	13,570	4,673	8,897
Shares in BSE Limited at cost		2,917	(2,917)
<b>Total</b>	<b>13,570</b>	<b>7,590</b>	<b>5,980</b>

#### **DGCX membership**

MF Global Middle East Limited DMCC ( DMCC ) is registered with and has been granted a trading license by the Dubai Multi Commodities Centre on 7<sup>th</sup> February 2006. The United Arab Emirates Securities and Commodities Authority (ESCA) issued the DMCC a license on 18<sup>th</sup> June 2006 to operate as a broker on the Dubai Gold and Commodities Exchange ( DGCX ). DMCC has been admitted as a member of the DGCX on September 2006. DMCC has paid and capitalized US\$ 100 thousand towards the license of DGCX, which is assessed annually for impairment.

**8. Furniture and equipment**

A listing of furniture and equipment by asset category is set out below:

<b>Particulars</b>	<b>Depreciation Rate (in percentage)</b>	<b>As of March 31,</b>	
		<b>2007</b>	<b>2006</b>
		<b>(Rs. In thousands)</b>	
Furniture, fixtures and equipment	13.9 - 18.1	18,505	12,446
Computer hardware and software*	33.3 - 40.0	382,227	331,557
Vehicles	25.9	8,303	6,108
		409,035	350,111
Less: Accumulated depreciation and amortization		328,221	294,593
<b>Furniture and equipment-net</b>		<b>80,814</b>	<b>55,517</b>

\* Software is depreciated on a straight line basis

The depreciation expense was Rs. 33,635 thousand and Rs. 21,274 thousand for years ended March 31, 2007 and 2006, respectively, which is included in occupancy expenses in the consolidated statements of income.

**9. Other assets**

Other assets consist of the following:

<b>Particulars</b>	<b>As of March 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(Rs. in thousands)</b>	
Interest accrued but not due	61,725	27,034
Prepaid expenses	24,684	20,901
Advance-tax net of tax provisions	49,091	31,948
Loans to staff	9,990	1,905
Others*	19,897	7,831
<b>Total</b>	<b>165,387</b>	<b>89,619</b>

\* Includes Advances to vendors towards expenses,

Interest  
receivable from  
clients,  
withholding tax  
recoverable, etc

**10. Accounts payable, accrued expenses and other liabilities**

Accounts payable, accrued expenses and other liabilities consist of the following:

	<b>As of March 31</b>	
	<b>2007</b>	2006
	<b>(Rs. in thousands)</b>	
Accrued expenses	62,425	51,393
Withholding tax payable	63,925	30,394
Provision for gratuity	2,259	1,404
Bank overdraft	37,369	54,547
SARs provision	7,174	
Bonus payable	152,164	46,064
Others	45,136	17,036
<b>Total</b>	<b>370,452</b>	<b>200,838</b>

**11. Employee benefits**

The following table sets forth the funded status of the plans and the amounts recognized in the Company's consolidated financial condition.

	<b>As of March 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(Rs. in thousands)</b>	
<i>Change in benefit obligations</i>		
Projected benefit obligations at beginning of the year	4,130	2,100
Service cost	2,214	1,416
Interest cost	296	157
Benefits payments		
Actuarial (gain)/loss on obligations	(354)	457
Projected benefit obligations at the end of the year	6,286	4,130
<i>Change in plan assets</i>		
Fair value of plan assets at beginning of the year	2,264	
Return on plan assets	210	
Employer contributions	1553	2,264
Actual benefits paid		
Plan assets at the end of the year	4,027	2,264
<i>Funded status</i>	(2,259)	(1,866)
Unrecognized actuarial loss		
Net prepaid (accrued) gratuity cost	<b>(2,259)</b>	<b>(1,866)</b>
Accumulated benefit obligation	<b>1,702</b>	<b>1,341</b>

The components of the net gratuity cost are reflected below:

	<b>As of March 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(Rs. in thousands)</b>	
Service cost	2,214	1,416
Interest cost	296	157
Expected return on assets	(170)	
<b>Net gratuity cost</b>	<b>2,340</b>	<b>1,573</b>

The actuarial assumptions used in determining the benefit obligation and the net gratuity cost are given below:

	<b>As of March 31,</b>	
	<b>2007</b>	<b>2006</b>
Discount rate	8.00%	7.50%
Rate of increase in compensation levels	6.00%	6.00%
Rate of return on plan assets	8.00%	7.50%

The expected long term rate of return is an average of the expected long term returns for the fund held with LIC.

*Investment strategy for plan assets maintained by the Life Insurance Corporation of India ( LIC )*

The LIC administers the plan fund and it independently determines the target allocation by asset category. The LIC primarily invests the fund in government securities and other debt instruments. The selection of investments and the asset category is determined by LIC. The LIC's strategy is to invest in a prudent manner to produce a return that will enable the fund to meet the required benefit obligations. The insurance industry in the country is highly regulated and the LIC, which is majority, owned by the Government of India, functions within regulated investment norms. As such, while the return on investments is subject to market interest rate and other risks, no untoward losses are expected to the plan assets. No such events have occurred in the history of operations of the fund. The payments to the plan fund started in March 29, 2006. As of March 31, 2007 all plan assets are invested in approved government securities only.

The benefits expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter are as follows:

	<b>(Rs. in thousands)</b>
Future estimated payments during the year ending March 31,	
2008	80
2009	101
2010	257
2011	315
2012	599
Thereafter	5612
<b>Total</b>	<b>6,964</b>

The Company's best estimate of contribution expected to be paid to the plan during the period 2007-2008 amounts to Rs. 1,839 thousand.

Effective March 31, 2007, the Company adopted the recognition and disclosure provisions of SFAS 158. While the adoption of SFAS 158 had no effect on the Company's net income, it was, however, effected via gross charge to accumulated other comprehensive income of Rs. 47 thousand, net of related deferred income tax of Rs.16 thousand.

The effect of applying this statement on individual line items presented in the March 31, 2007 consolidated financial statements is as follows:

<b>Before application</b>	<b>After application</b>
-------------------------------	------------------------------

<b>Particulars</b>	<b>of SFAS 158</b>	<b>Adjustments</b>	<b>of SFAS 158</b>
Deferred income taxes	33,862	16	33,878
<b>Total Assets</b>	<b>33,862</b>	<b>16</b>	<b>33,878</b>
Other liabilities (grouped under Account payable, accrued expenses and other liabilities)	2,307	47	2,260
<b>Total liabilities</b>	<b>2,307</b>	<b>47</b>	<b>2,260</b>
Accumulated Other Comprehensive Income (Loss)	(1,061)	(31)	(1,092)
<b>Total Shareholders Equity</b>	<b>(1,061)</b>	<b>(31)</b>	<b>(1,092)</b>

**Provident fund**

The Company contributed Rs. 3,615 thousand during the year ended March 31, 2007 (Rs. 2,280 thousand during March 31, 2006) towards provident fund.

**12. Income taxes***Components of the deferred tax balances*

The tax effects of temporary differences are reflected through a deferred tax asset/ liability, which is included in the statement of financial condition of the Company.

Components of the deferred tax balances are set out below:

<b>Particulars</b>	<b>As of March 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(Rs. In thousands)</b>	
<b>Deferred tax assets</b>		
Furniture and equipment	6,806	12,185
Allowances for Debtors	25,924	1,009
Gratuity	671	470
Membership in exchanges		3,881
Stock Appreciation Rights	2,438	
Bonus Payable	12,606	
Preliminary Expenditure	65	
	<b>48,510</b>	<b>17,545</b>
<b>Valuation allowance</b>		<b>(3,881)</b>
<b>Total deferred tax asset</b>	<b>48,510</b>	<b>13,664</b>
<b>Deferred tax liability</b>		
Furniture and equipment	11	-
Undistributed earnings of subsidiaries	13,848	8,441
Gain on Exchange Shares	773	
<b>Net deferred tax asset</b>	<b>33,878</b>	<b>5,223</b>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax asset is dependent on the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the scheduled reversal of the projected future taxable income and tax planning strategies in making this assessment. Based on the level of historical taxable income and projections for future taxable incomes over the periods in which the deferred tax assets are deductible, management believes that it is more likely than not that the Company will realize the benefits of those deductible differences. The valuation allowance as of March 31, 2006 relates to the long-term capital loss carried forward on membership in exchanges.

*Reconciliation of tax rates*

The Indian statutory tax rate consists of a basic rate (30% in 2007 and 2006) plus a surcharge, if any. During each of the years presented, legislation was enacted in the first few months of the fiscal year that changed the amount of the surcharge for that fiscal year and future years. The surcharge (including education cess) during years 2007 and 2006 has been 12.20% of the base tax rate.

DMCC incorporated in Dubai is operates in a tax-free jurisdiction.

The reported income tax expense differs from amounts computed by applying the enacted tax rates to income before income taxes as set out below:

	<b>Year ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(Rs. In thousands)</b>	
<b>Income before income taxes</b>	<b>357,368</b>	<b>218,464</b>
<b>Statutory tax rate</b>	33.66%	33.66%
<b>Income tax expense at the statutory tax rate</b>	<b>120,290</b>	<b>73,534</b>
<i>Increase/(reduction) in taxes on account of:</i>		
Loss on misdeal		2,446
Change in valuation allowance		1,609
Dividend on marketable securities	(3,174)	
Contribution to co-investment plan	2,973	
Loss at MF Global Middle East DMCC (a non-taxable entity)	352	
Income charged at rates other than statutory tax rate*	(16,518)	804
Fringe benefit tax	935	994
Tax on undistributed earnings of subsidiaries*	5,407	7,192
Others	(253)	1,792
<b>Income tax expense reported</b>	<b>110,012</b>	<b>88,371</b>

\* Income charged at tax rate other than statutory tax rate includes gain on fair valuation of BSE Limited shares for the year ended March 31, 2007 and profit on sale of investments for the year ended March 31, 2006,



taxable as long  
term capital  
gain at a lower  
tax rate of 20%  
plus surcharge.  
Tax on  
undistributed  
earnings of  
subsidiaries  
represents long  
term capital  
gain subject to a  
lower tax rate of  
20% plus  
surcharge.

*Components of income tax expense/(benefit)*

Components of income tax expense/ (benefit) from operations are set out below:

	<b>Year ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(Rs. In thousands)</b>	
Current	138,650	75,960
Deferred	(28,638)	12,411
<b>Income tax expense/ (benefit) reported</b>	<b>110,012</b>	<b>88,371</b>

**13. Stockholders equity**

The Company has only one class of common stock referred to as equity shares.

*Dividends*

Under the Indian Companies Act, dividends may be paid out of the profits of a company in the year in which the dividend is declared or out of the undistributed profits of previous fiscal years. Before declaring a dividend greater than 10% of the par value of its equity shares, a company is required to transfer to its reserves a minimum percentage of its profits for that year, ranging from 2.5% to 10.0%, depending on the dividend percentage to be declared for such year. In case of a loss or inadequacy of current distributable profits, dividends can be distributed out of the general reserve.

Dividends payable to equity shareholders are based on the net income available for distribution as reported in the Company's stand alone financial statements prepared in accordance with Indian GAAP. Hence, the consolidated net income in accordance with U.S. GAAP may, in certain years, either not be fully available or will be additionally available for distribution to equity shareholders.

**14. Financial instruments***Financial instruments with off-Balance-Sheet risk*

In the normal course of business, the Company's customer activities involve the execution, settlement, and financing of various customer securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer or other broker-dealer is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

The Company's customer securities activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to its customers, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customers' accounts. In connection with these activities, the Company executes and clears customer transactions involving the purchase and sale of securities, which are transacted on a margin basis subject to individual exchange regulations. Such transactions may expose the Company to significant off-balance-sheet risk in the event margin requirements are not sufficient to fully cover losses that customers may incur. In the event the customer fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's obligations. The Company seeks to mitigate the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin-levels daily and pursuant to such guidelines, requires the customer to deposit additional collateral or to reduce positions when necessary. The Company mitigates the risk by monitoring the market value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure. In addition, the Company establishes credit limits for such activities and monitors compliance on a daily basis.

The Company provided Rs. 73,300 thousand in 2007 (Rs. 2,600 thousand in 2006) as allowance for doubtful debts.

***Concentrations of credit risk***

The Company is engaged in brokerage activities in which counterparties primarily include foreign institutional investors, financial institutions, mutual funds and retail investors. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

**15. Commitments and contingent liabilities**

***Operating lease commitments***

The Company has obligations under long term operating leases with initial noncancelable terms in excess of one year. Aggregate annual rentals for office space as of March 31, 2007, are approximately as listed below:

	<b>Rs. in thousand</b>
Lease rental commitments for the years ending March 31,	
2008	19,068
2009	8,026
2010	1,101
2011	
Thereafter	
<b>Total minimum lease commitments</b>	<b>28,196</b>

Rent expense for the current year aggregated to Rs. 23,714 thousand (2006: Rs. 11,878 thousand) and is included in the occupancy expense line item on the consolidated Statements of income and comprehensive income.

***Guarantees***

FASB Interpretation No. 45 (FIN 45), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, requires the Company to disclose information about its obligations under certain guarantee arrangements and to record a liability at inception of the guarantee. FIN 45 defines guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying (such as an interest or foreign exchange rate, security or commodity price, an index or the occurrence or nonoccurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. FIN 45 also defines guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement as well as indirect guarantees of the indebtedness of others.

***Exchange member guarantees***

The Company is a member of various exchanges that trade and clear securities, commodities and/or futures contracts. Associated with its membership, the Company may be required to pay a proportionate share of the financial obligations of another member who may default on its obligations to the exchange. While the rules governing different exchange memberships vary, in general the Company's guarantee obligations would be restricted only to the extent of amounts due/receivable from the exchange and would arise only if the exchange had previously exhausted its resources. In addition, any such guarantee obligation would be apportioned among the other non-defaulting members of the exchange. Any potential contingent liability under these membership agreements cannot be estimated. The Company has not recorded any contingent liability in the consolidated financial statements for these agreements and believes that any potential requirement to make payments under these agreements is remote.

**16. Related party transactions**

The Company has entered into transactions with the following related parties:

- § Significant stakeholders;
- § Affiliates of significant stakeholders; and
- § Employees/Directors of the Company.

***Other income***

Other income includes reimbursement for rent and electricity expenses of Rs. 870 thousand during March 31, 2007 (Rs. 4,329 thousand during March 31, 2006 towards service fee income and reimbursement for rent and electricity expenses) and referral fees of Rs. 9,738 thousand during March 31, 2007 received from affiliates of significant stakeholder.

***Other expenses***

Other expenses include internet expenses of Rs. 2,303 thousand during March 31, 2007 (Rs. 1,399 thousand during March 31, 2006) paid to significant stakeholder-SIFY.

***Due from affiliates of significant stakeholders***

Balances with affiliates of significant stakeholder as of March 31, 2007 amounts to Rs.4,648 thousand (Rs.73 thousand as of March 31, 2006) representing amount receivable for common expenses.

***Due from employees***

The Company has advanced general purpose loans to employees bearing interest rates of 4% per annum, with an average tenure of 1 year. The loans are generally secured by the assets acquired by the employees. Employee loan balances outstanding as of March 31, 2007 was Rs. 9,990 thousand (Rs. 1,905 thousand as of March 31, 2006) are included in other assets. The interest income of these loans amounts to Rs. 138 thousand for the year ended March 31, 2007 (Rs. 128 thousand for the year ended March 31, 2006)

**17. Fair value of financial instruments**

Cash, deposits with clearing organizations, receivable/payables to broker-dealers and clearing organizations, accounts payable, accrued expenses and other liabilities, receivable/payable to customers approximate fair value because of short term maturity of these instruments. Securities are reported at fair value. During the year ended March 31, 2007 the company has recorded a gain of Rs.49,073 thousand on valuation of shares of BSE Limited at its fair value as on March 31, 2007.

**18. Share-based payments**

On account of share-based payments, the Company recognized total charge of Rs.9,382 thousand in the consolidated statements of income, which is determined by amortizing the total cost on a straight-line basis over the vesting period.

***Employee s Stock Appreciation Scheme***

During the current year, the Company introduced the Stock Appreciation Rights Plan 2006 ( SARS Plan 2006 ), and granted stock appreciation rights pursuant to the SARS Plan 2006 to eligible employees. The Company believes that such awards better align the interests of its employees with those of its shareholders. The stock appreciation rights vest with the employee on the day following the fourth anniversary of the grant date. The exercise price for the grant is zero.

In November 2006, the Company has granted a total of 711,247 SARs under the SARs Plan 2006 to the employees, with a weighted-average grant date fair value of SARs equal to Rs. 34 and fair value as of March 31, 2007 is Rs 42. The vesting shall commence after four years from the grant date of SARs when the Board adopts the audited financial statements of the Company. The participant can exercise the vested SARs within 90 days of the vesting date. There is no forfeiture, vesting or exercise of the grant during the year.

The Company has carried out an independent fair valuation of the stock appreciation rights as of March 31, 2007. The total unrecognized compensation costs relating to SARs to be recognized in future over the remaining vesting period (approximately 3.54 years) is estimated to be Rs. 21,522 thousand as of March 31, 2007.

The fair value of each SARs is estimated on the date of grant using a Black Scholes valuation model that uses the following variables:

Stock Price: Current value of the underlying asset is derived through a valuation exercise, wherein the profit earning capacity has been considered as an appropriate method of valuation.

Exercise price: As per the plan grant price of the SARs is Rs.NIL

The Company has no past track record for dividend payments. Hence, a zero percent dividend yield has been assumed for the purpose of the valuation.

#### *Co-investment plan*

The co-investment plan allows selected senior employees of Man Group, including the Company, to use a portion of their cash bonus to purchase Man Group stock for investment within the plan. Shares held as investment within the plan for at least three years are matched by four shares of Man Group shares. Participants vest into the matching Man Group shares after one additional year. The plan limits the total value that can received by a participant at 100% of their cash bonus, including both their original investment in the plan and matching shares of Man Group stock.

The Company requested Man Group plc for application of co-investment plan for certain senior employees. Man Group plc consented and framed an India sub-plan ( Plan ) of co-investment scheme, which was approved by the board of Man Group on May 31, 2006. This Plan was later approved by the board of directors of the Company as on June 1, 2006.

During the year ended March 31, 2007, 4476 shares of Man Group plc were purchased by participants as part of the plan. During the year ended March 31, 2007, the Company contributed USD 200,000 (Rs.8,833 thousand) toward the purchase of additional shares to Man Group plc to ED & F Man Group (No.2) Employees Trust, who in turn issued 27,300 matching shares with a weighted-average grant date fair value of \$ 6.84 to be held in trust. There was no forfeiture, vesting or exercise of the grant during the year. The total unrecognized compensation to be expensed is Rs. 6,625 thousand.

#### **19. Other Income**

Other Income consists of the following:

	<b>As of March 31</b>	
	<b>2007</b>	<b>2006</b>
	<b>(Rs in thousands)</b>	
Penalty on Delayed Payment	28,719	11,425
Account Opening Charges	2,668	2,892
CTCL Fees	2,362	2,272
Research Fees	1,587	2,031
Others	26,592	10,684
<b>Total</b>	<b>61,928</b>	<b>29,304</b>

**20. Other Expenses**

Other Expenses consists of the following:

	<b>As of March 31</b>	
	<b>2007</b>	<b>2006</b>
	<b>(Rs in thousands)</b>	
Advertisement & Business Promotion	45,418	27,912
Professional Fees	14,465	14,682
Traveling & Conveyance	15,388	8,923
Books, Postage, Printing & Stationary	33,958	20,255
Loss on account of error trades (net)	21,988	6,698
Repairs & Maintenance	1,687	1,935
Others	13,007	15,882
<b>Total</b>	<b>145,911</b>	<b>96,287</b>

**Item 19. Exhibits**

<b>Number</b>	<b>Description</b>
1.1	Amended Articles of Association of Sify Limited. (1)
1.2	Memorandum of Association of Sify Limited. (2)
1.3	Amendment of Memorandum of Association. (3)
2.1	Deposit Agreement, dated as of October 18, 1999, among Sify Limited, Citibank, N.A. and holders from time to time of American Depositary Receipts issued thereunder (including, as an exhibit, the form of American Depositary Receipt). (4)
2.2	Amendment No. 1 to Deposit Agreement among Sify Limited, Citibank, N.A. and holders from time to time of American Depositary Receipts issued thereunder (including, as an exhibit, the form of American Depositary Receipt). (4)
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2.4	Subscription Agreement dated November 10, 2005 between Sify Limited and Infinity Capital Ventures, LP. (9)
2.5	Standstill Agreement dated November 10, 2005 by and among Sify Limited, Infinity Capital Ventures, LP and Mr Raju Vegesna. (9)
2.6	Shareholders Agreement dated December 20, 2005 between Sify Limited, Infinity Satcom Universal (P) Limited, and Sify Communications Limited. (10)
2.7	Shareholders Agreement dated November 25, 2005 between Sify Limited and Man Financial. (11)
4.1	Associate Stock Option Plan 2000 (6)
4.2	Associate Stock Option Plan 2002 (6)
4.3	Associate Stock Option Plan 2005 (12)
4.4	Form of Indemnification Agreement. (7)
4.5	License Agreement for Provision of Internet Service, including Internet Telephony dated as of April 1, 2002 by and between Sify Limited and the Government of India, Ministry of Communications and Information Technology, Department of Telecommunications, Telecom Commission. (3)
4.6	Bank Guarantee, dated as of November 4, 1998. (2)
4.7	Agreement, dated November 10, 2004, between Sify Limited, Satyam Computer Services Limited, SAIF Investment Company Limited and Venture Tech Solutions Pvt. Ltd. (8)



- 8.1 List of Subsidiaries.
- 11.1 Code of Conduct and Conflict of Interest Policy (6)
- 12.1 Rule 13a-14(a) Certification of Chief Executive Officer
- 12.2 Rule 13a-14(a) Certification of Chief Financial Officer
- 13.1 Section 1350 Certification of Chief Executive Officer
- 13.2 Section 1350 Certification of Chief Financial Officer
- 15.1 Consent of KPMG in respect of the Sify Limited
- 15.2 Consent of KPMG in respect of Man Financial-Sify Securities India Private Limited for the fiscal year ended March 31, 2006
- 15.3 Consent of PWC in respect of Man Financial-Sify Securities India Private Limited for the fiscal year ended March 31, 2007

- (1) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on February 17, 2005 and incorporated herein by reference.
- (2) Previously filed as an exhibit to Amendment No. 1 to the Registration Statement on Form F-1 filed with the Commission on October 4, 1999 and incorporated herein by reference.
- (3) Previously filed as an exhibit to the Annual Report on Form 20-F filed with the Commission on July 1, 2002 and incorporated herein by reference.
- (4) Previously filed as an exhibit to the Post-Effective Amendment No. 1 to Form F-6 filed with the Commission on January 5,

2000 and  
incorporated  
herein by  
reference.

- (5) Previously filed as an exhibit to the Registration Statement on Form S-8 (File No. 333-101322) filed with Commission on November 20, 2002 and incorporated herein by reference.
- (6) Previously filed as an exhibit to the Annual Report on Form 20-F filed with the Commission on June 29, 2004 and incorporated herein by reference.
- (7) Previously filed as an exhibit to Amendment No. 2 to the Registration Statement on Form F-2 filed with the Commission on October 13, 1999 and incorporated herein by reference.
- (8) Previously filed as an exhibit to the Report on Form 6-K filed

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**SIGNATURES**

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

**SIFY LIMITED**

By: /s/ Raju Vegesna

Name:

Raju Vegesna

Title: Chief Executive Officer & Managing  
Director

By: /s/ Pijush Kanti Das

Name:

Pijush Kanti Das

Title: Chief Financial Officer

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Date: October 15, 2007

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**Exhibit Index**

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