1. **Description of business**

Sify Limited (Sify) together with its subsidiaries (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.

2. **Summary of significant accounting policies**

Basis of preparation of financials statements

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States (US 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, 2004 have been translated into United States dollars at the noon buying rate in New York City on March 31, 2004 for cable transfers in Indian rupees, as certified for customs purposes by the Federal Reserve Bank of New York of US$1 = Rs. 43.40. 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, 2004 or at any other date.

Use of estimates

In conformity with US 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.

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 by the equity method 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. Prior to the adoption of Statement of Financial Accounting Standards (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 was recognized as goodwill and was being amortized on a straight-line basis over 5 years. However, such goodwill was completely written-off prior to the adoption of the SFAS No. 142. Subsequent to the adoption of SFAS No. 142, the company will not amortize any goodwill recognized from an investment in an affiliate. The Company would recognize a loss when there is a loss in value in the equity method investment, which is other than a temporary decline.

Cash, cash equivalents and short-term investments

The Company considers all highly liquid investments with remaining maturities, at the date of purchase/investment, of three months or less to be 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 include:

- Corporate network/data services, which provides private network services, messaging services and web hosting to businesses;
- Internet access services;
- 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 email, efax and domain registration. Generally, these elements are sold as a package consisting of all or some of the elements. This multiple element arrangement is 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 00-21, 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 from the carrier exchange (primarily Bharat Sanchar Nigam Limited, or BSNL, a Government of India entity). However, once commissioned this connection 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. When installation and connectivity services are provided as a package, the value of the installation service is determined using the residual method as provided in EITF 00-21. Revenue from ancillary services such as email facilities, fax facility 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 occasion, 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.

Internet access services

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 a CD that allows them to access the internet. The amounts received from customers on the sale of these CDs are not refundable. Sify recognizes revenue from sale of CDs based on usage by the customer. At the end of the specified period, the remaining unutilized hours, if any, are recognized as revenue. Revenue from unlimited internet access and electronic mail access is recognized over the specified period.

Public Internet access is provided to customers through a chain of franchisee cybercafé outlets and, to a lesser extent, Sify-owned cybercafés. Sify enters into an 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.

These initial services consist of a number of activities, including installing the broadband receiver equipment at the cybercafé and "connecting" it to one of Sify's broadcasting towers, obtaining regulatory approvals for clearance of the site for wireless transmission at the allotted frequency range and other ancillary services.

Initial franchisee fee revenue is recognized at the time of commencement of operations by the franchisee, in accordance with SFAS No. 45, Accounting for Franchisee Fee Revenue, because Sify believes that substantial performance for which these non-refundable payments are received is completed at the time of commencement of operations and no uncertainty exists with regard to the collection of such fees. The amount of initial franchise fee revenue recognized during the years ended March 31, 2003 was Rs. 12.82 million and March 31, 2004 was Rs. 102.14 million. As of March 31, 2004, Sify owned 32 of the 1,725 cybercafés. Internet access revenue is recognized based on usage by the customer.

Online portal services

The Company enters into contracts with customers to serve advertisements in the 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 electronic commerce transactions are recognized when the transactions are completed.

Other services

The Company provides e-learning software development services to facilitate web-based learning in various organizations. Revenue from such projects is recognized on the proportionate performance method.

Cost of revenues

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

Inventories

Inventories 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.

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. 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 primary lease period or estimated useful life of the asset. Routine repairs and maintenance costs are expenses as incurred. The estimated useful lives of assets are as follows:

Buildings ……………………………………………………………………28 years

Plant and machinery …………………………………………………………5 years

Computer equipment…………………………………………………………2 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

The Company adopted the provisions of SFAS No. 141 for business combinations initiated after June 30, 2001, which requires that all business combinations be accounted for under the purchase method.

The Company adopted the provisions of SFAS No. 142, Goodwill and Other Intangible Assets effective April 1, 2002. Under SFAS No. 142 the Company no longer amortize goodwill or indefinite-lived intangible assets. The Company has assessed the remaining useful lives of identified intangibles with definite useful lives and provides for amortization over the determined useful life of the asset. Goodwill carried in the book is tested for impairment periodically and diminution in value, if any, is provided for through a charge in the statement of operations. The Company does not have any intangible assets with indefinite useful lives.

The Company assesses the recoverability of goodwill by reference to the valuation methodology on the acquisition date. Accordingly, the Company considers goodwill to be impaired when, in conjunction with its valuation methodology, its expectations with respect to the acquisitions deteriorate coupled with adverse market conditions. The Company would assess, to the extent appropriate, at the enterprise level by comparing its market capitalization to the carrying value of goodwill.

Prior to the adoption of SFAS No. 142, the Company recorded intangible assets at cost or fair value and amortized such assets on a straight-line basis over the economic lives of the respective assets. Goodwill was amortized on a straight-line basis over 5 years.

Foreign currency translations

The functional and reporting currency of the Company is the Indian Rupee, except that of Sify International Inc (formerly known as India Plaza Inc., a wholly owned subsidiary incorporated in the United States) whose functional currency is the US Dollar. The translation of the US 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 a monthly simple average exchange rate 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.

Earnings per share

In accordance with SFAS No. 128, basic earnings per share are computed using the weighted average number of common shares outstanding during the period. Disclosure of diluted earnings per share is not applicable as the potential equity shares are anti-dilutive. The Company's outstanding shares includes shares held with a depositary to represent equity shares underlying the Company's ADS's. Effective September 24, 2002, one ADS represented one equity share.

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. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits for which realization is not more likely than not.

Advertising costs

Advertising costs incurred during the year have been expensed. The total amount of advertising costs expensed was Rs. 25,800, Rs. 29,329 and Rs. 40,009 for the years ended March 31, 2002, 2003 and 2004.

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 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.

Stock-based compensation

The Company applies the intrinsic-value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations including FASB Interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25, issued in March 2000, to account for its fixed-plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. SFAS No. 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 No. 123, the Company has elected to continue to apply the intrinsic-value-based method of accounting described above, and has adopted only the disclosure requirements of SFAS No. 123 as amended by SFAS No. 148, Accounting for Stock-Based Compensation – Transition and Disclosure.

The Company has adopted pro forma disclosure provisions of SFAS No. 123 and SFAS No. 148. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB statement No. 123, *Accounting for Stock Based Compensation* to stock based employee compensation.

(In thousands, except share data and as stated otherwise)

	Year ended March 31,		
	2002	**2003**	**2004**
Net Loss – As reported	Rs. (7,202,517)	Rs. (1,329,388)	Rs. (371,284)
Less: Stock based compensation expense included in reported net loss	9,686	57,729	27,946
Add: Total stock based employee compensation expense determined under fair value based method for all awards	(306,645)	(181,600)	(65,461)
Pro forma net loss	(7,499,476)	(1,453,259)	(408,799)
Loss Per Share:			
Basic and Diluted – as reported	(310.50)	(51.15)	(10.76)
Basic and Diluted – pro forma	(323.30)	(55.92)	(11.84)

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,		
	2002	**2003**	**2004**
Dividend yield	-	-	-
Expected volatility	114%	105%	131% to 157.3%
Risk-free interest rate	7.5-9%	6%	4.5-5.25%
Expected term	12-36 months	12-36 months	12-36 months

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

The Company adopted SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* effective April 1, 2002. Long-lived assets, including amortizable intangibles, are tested for impairment if impairment triggers occur. If an assessment indicates impairment, the impaired asset is written down to its fair market value based on the best information available. Estimated fair market value is generally measured using discounted estimated cash flows.

Investment securities

The Company has evaluated its investment policies consistent with the provisions of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and determined that all of its investment securities are to be classified as available-for-sale. Accordingly, such securities are carried at fair value with unrealized gains and losses, net of taxes, reported as other comprehensive income, a separate component of stockholders' equity. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis and included in other income.

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

EITF Issue No.00-21

In November 2002, the EITF issued Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables. This issue addresses determination of whether an arrangement involving more than one deliverable contains more than one unit of accounting and how arrangement consideration should be measured and allocated to the separate units of accounting. The Company adopted EITF Issue No. 00-21 in respect of all revenue arrangements entered into on or after July 1, 2003. The adoption of EITF Issue No. 00-21 did not have any impact on the consolidated financial statements of the Company.

SFAS No.143

In June 2001, FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligation.* SFAS No. 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets. The Company also would record a corresponding asset that is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation would be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The standard is effective for fiscal years beginning after June 15, 2002. The adoption of SFAS No.143 had no effect on the Company's consolidated financial statements.

SFAS No.146

In June 2002, FASB issued Statement No.146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No.146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity". The provisions of Statement 146 were effective for exit or disposal activities initiated after December 31, 2002, with early application encouraged. The adoption of SFAS No.146 had no effect on the Company's consolidated financial statements.

SFAS No. 150

In May 2003, FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No.150 establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. The Statement also includes required disclosures for financial instruments within its scope. SFAS No.150 is effective for financial instruments entered into or modified after May 31, 2003 and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. The Company currently does not have any financial instruments that are within the scope of SFAS No.150.

FIN 46R

In December 2003, FASB has published a revision to Interpretation 46 to clarify some of the provisions of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*, and to exempt certain entities from its requirements. The additional guidance is issued in response to input received from constituents regarding certain issues arising in implementing Interpretation 46. The revision does not have any impact on the Company's accounting or disclosure policies.

SFAS No. 132 (revised)

In December 2003, FASB issued SFAS No. 132 (revised), *Employers' Disclosures about Pensions and Other Postretirement Benefit*. SFAS No. 132 (revised) prescribes employers' disclosures about pension plans and other postretirement benefit plans; it does not change the measurement or recognition of those plans. The Statement retains and revises the disclosure requirements contained in the original SFAS No. 132. It also requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans. The SFAS No.132 (revised) generally is effective for fiscal years ending after December 15, 2003. The Company's disclosures in note 22 incorporates the requirements of SFAS No. 132 (revised), to the extent applicable.

Reclassifications

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

(In thousands, except share data and as stated otherwise)

3. Business acquisitions

Kheladi.com

On October 12, 2000, Sify entered into an agreement (the "Agreement") to acquire a 100% equity stake in Kheladi.com (India) Private Limited (Kheladi), a sports portal promoted by sports personalities in India. Sify's intention is to assimilate the strengths of Kheladi, including the network of sports personalities, into its sports portal, Khel.com. Sify issued an aggregate of 19,073 equity shares to the shareholders of Kheladi on July 20, 2001 of which 5,019 shares and 10,039 shares were subject to lock-in until September 14, 2001 and September 14, 2002, respectively. Sify paid Rs 52,291 as consideration for the above acquisition and the acquisition has been accounted for using the purchase method.

The acquisition was consummated on July 20, 2001 upon completion of regulatory formalities and the acquisition has been accounted for under the purchase method. The cost of acquisition has been allocated primarily to employment contract-based intangible assets and the excess of cost over fair value of assets acquired has been recognized as goodwill. In accordance with the provisions of SFAS No. 142, the goodwill has not been amortized post acquisition. The allocation of purchase price was as follows:

Estimated fair values

Assets acquired	Rs. 196
Intangible assets	37,500
Goodwill	14,595
Total consideration	Rs. 52,291

The intangible assets relate to employment contracts with sports personalities, which were being amortized over the contract period of 60 months. During the year, based on the assessment of the carrying value of these contracts in the books, the Company has recorded an impairment charge of Rs. 22,551. The terms of the purchase also provide for contingent consideration of 3,089 equity shares based on the achievement of certain specified profitability and revenue targets. As at March 31, 2003 the contingency no longer exists due to the expiry of the period to achieve the targets and hence no contingent consideration is due to the erstwhile shareholders of Kheladi.

The following unaudited consolidated results of operations are presented as if the acquisition of Kheladi was made at the beginning of the periods presented. The proforma-consolidated results of operations reflect the amortization of intangibles acquired in this transaction.

	Year ended March 31, 2002
Revenues	Rs. 1,577,488
Net loss	(7,204,443)
Loss per equity share	Rs. (310.51)
Weighted average equity share used in computing the loss per equity share	23,202,176

E Alcatraz Consulting Private Limited

The Company acquired the business of E Alcatraz Consulting Private Limited ("EAP") for cash, on March 1, 2004. Management believes that as a result of this acquisition, the Company will get into the value added consulting space like security risk assessment, security policy and procedure consulting and Managed Security Services which would serve as end to end security solutions to the Company's corporate clients. The purchase consideration includes a waiver of a loan extended to EAP for Rs. 2,400 and the balance amounts will be paid in agreed installments by September 30, 2004.

(In thousands, except share data and as stated otherwise)

The total purchase price has been preliminarily allocated to the acquired assets and assumed liabilities as follows:

Purchase price	Rs. 32,630
Direct transaction costs	125
	32,755
Allocated to:	
Net current assets	2,909
Tangible assets	762
Intangible assets pending final allocation	29,084
	Rs. 32,755

The purchase consideration has been allocated on a preliminary basis to the assets acquired and liabilities assumed as of the date of acquisition based on management's estimates. However, certain independent appraisals reports are yet to be received by the Company. Finalization of the purchase price allocation, which is expected to be completed within one year from the date of acquisition, may result in certain adjustments to the above-reflected allocations. As the purchase price allocation is preliminary and as management does not expect the fair values of the amortizable intangible assets to be material, no amortization expense/ deferred tax liabilities have been recognized as part of the purchase price allocation.

4. Investments

In June 2003, Sify International Inc., a subsidiary of the Company sold its US based portal business operating under the name indiaplaza.com along with all assets and liabilities. The net assets were sold at a profit of Rs 3,725 after adjusting the translation losses accumulated in Other Comprehensive Income. As the sale agreement includes a commitment to deliver click-throughs for the site sold for value to be received, the sale does not meet the definition of a discontinued business under SFAS No. 144.

In June 2003, the company sold its stake in the joint venture Sify Baron Net devices Limited for Rs 100. The carrying value of the assets was Nil.

In July 2003, the Company sold its stake in Dr Reddy's Bio-Sciences Limited (erstwhile subsidiary " Satyam Institute of E-Business Limited") for a consideration of Rs. 277,462. The Company received Rs. 250,000 during the year and the balance amount has been withheld by the buyer against a dispute on the land held by the erstwhile subsidiary. After deferring Rs. 18,000, the Company recognized a gain of Rs. 76,065 on the sale of its investment.

During the year, the Company has purchased the minority interest held by Plastics Commerce Pte Limited Singapore in the joint venture Sify Plastics Commerce Limited. In December 2003, 2,820,000 equity shares representing 47% of the shareholding was acquired for a consideration of Rs. 940. No goodwill/intangibles arose on account of this transaction.

5. Discontinued operations

On October 24, 2001, Sify announced its proposal to divest its software services (e-business services) division to its parent company, Satyam Computer Services Limited. The software services division provided business-to-business e-commerce and web site development that covered information technology services in India, Australia and the US. Revenues from this segment represented approximately 22% of Sify's total revenue for the year ended March 31, 2002. The objective of the divestment was to permit Satyam Computer Services to concentrate on its core business of software services and to permit Sify to concentrate on Internet services. Sale of this division to Satyam Computer Services was completed for an aggregate consideration of Rs. 332.5 million on February 28, 2002, the date on which requisite shareholders approval was obtained.

The results of operations of the discontinued e-business division for all periods have been reported separately as "Income / (loss) from discontinued operations." The gain on disposal of the e-business division amounting to Rs. 81,121 net of consultancy and other expenses incurred in relation to the disposal of Rs. 37,510 has been reported separately in the statements of operations.

(In thousands, except share data and as stated otherwise)

The summarized information on the results of discontinued operations for the year ended March 31, 2002 is set forth below:

	Year ended March 31,
	2002
Revenues	Rs. 340,718
Operating expenses net of other income	466,091
Net income / (loss) from discontinued operations	Rs. (125,373)

6. Cash and cash equivalents

Cash and cash equivalents as on March 31, 2004 amounted to Rs. 1,325,803 (Rs.897,596 as on March 31, 2003). This excludes cash-restricted included in current assets of Rs. 101,587 (Rs.74,612 as on March 31, 2003) and cash-restricted included in non-current assets of Rs. 10,146 (Rs.100,010 as on March 31, 2003), representing deposits held under lien against bank guarantees given by the Company towards future performance obligations and letters of credit given to suppliers of the Company against purchase obligations.

Cash Restricted – Current	**Years ended March 31,**	
	2003	**2004**
Letter of Credit	Rs. 40,444	Rs. 25,336
Against future performance obligation	34,168	76,251
	Rs. 74,612	Rs. 101,587

Cash Restricted – Non current	**Years ended March 31,**	
	2003	**2004**
Against future performance obligation	Rs. 100,010	Rs. 10,146
	Rs. 100,010	Rs. 10,146

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

7. Accounts receivable

Accounts receivable as of March 31, 2003 and 2004 are stated net of allowance for doubtful accounts. The Company maintains an allowance for doubtful accounts based on age of the accounts. Accounts receivable are not collateralised.

Accounts receivables consist of:

	Years ended March 31,	
	2003	**2004**
Customers	Rs. 512,149	Rs. 546,513
Less: Allowance for doubtful debts	165,879	52,533
Balance at the end of the year	Rs. 346,270	Rs. 493,980

(In thousands, except share data and as stated otherwise)

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

	Years ended March 31, 2003	2004
Balance at the beginning of the year	Rs. 161,531	Rs. 165,879
Add : Additional provision	156,233	76,487
Less : Bad debts written off	151,885	189,833
Balance at the end of the year	Rs. 165,879	Rs. 52,533

8. Investment securities

There are no investment securities as of March 31, 2004. The available for sale securities as at March 31, 2003 were sold during the year and a gain of Rs. 304 was recorded after adjusting the unrealized losses accumulated in Other Comprehensive Income.

The investment securities as at March 31, 2003 consist of;

	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Available for sale:				
Equity securities	Rs. 3,245	-	Rs. 2,130	Rs. 1,115
Mutual fund units	25	-	-	25
	Rs. 3,270	-	Rs. 2,130	Rs. 1,140

9. Inventories

Inventories consist of:

	As at March 31, 2003	2004
CDs	Rs. 88	Rs. 501
Communication hardware	26,460	17,646
Application software	9,931	1,169
Others	3,492	1,443
	Rs. 39,971	Rs. 20,759

(In thousands, except share data and as stated otherwise)

10. Other current assets

Other current assets consist of:

	As at March 31,	
	2003	**2004**
Vendor advances and deposits	Rs. 26,044	Rs. 34,442
Advances for expenses	13,386	15,595
Accrued income	2,375	2,028
Interest earned but not due	12,887	24,061
Tax deposits	75,343	45,875
Others	18,256	1,570
	Rs. 148,291	**Rs. 123,571**

Vendor advances and deposits is net of a provision of Rs. 16,749 and Rs. 439 for non-recoverability for the years ended March 31, 2003 and 2004 respectively. This provision is included in provision for doubtful receivables in the statement of operations.

Tax deposits represent taxes deducted at source by the customer and paid to the Government.

11. Investments in affiliates

Refco-Sify Securities India Private Limited

The Company holds 40% interest in Refco-Sify Securities India Private Limited (Refco). Refco is engaged in Internet based trading and research services. Sify has accounted for its 40% interest in Refco by the equity method. The carrying value of the investment in Refco as of March 31, 2003 and 2004 was Rs. 101,792 and Rs. 140,508 respectively. Sify's equity in the losses of Refco for the year ended March 31, 2003 was Rs. 18,137 and equity in the profits of Refco for the year ended March 31,2004 was Rs. 38,715.

Cricinfo Limited and Wisden Cricinfo Limited

The Company holds 25% of the outstanding shares of Cricinfo Limited ("Cricinfo"), a private company incorporated in the United Kingdom and the Company accounted for its interest in Cricinfo by the equity method. The Company also provided loans of Rs. 123,833 to Cricinfo.

In February 2003, Cricinfo transferred its net assets (other than the loan payable to Sify) to a newly formed company incorporated in the United Kingdom, Wisden Cricinfo Limited. In consideration of such transfer, Cricinfo Limited received 33% equity stake in Wisden Cricinfo Limited and GBP 1.8 million. Cricinfo Limited repaid Sify's loan (including accrued interest) and transferred its 33% stake in Wisden Cricinfo Limited to Sify for a consideration of Rs 22,646. Contemporaneously Sify advanced Rs 22,951 to Wisden Cricinfo Limited.

As a result of the foregoing transactions including the loan to Wisden Cricinfo, Sify recognized a gain of Rs 22,628 in the year ended March 31, 2003, being the difference between the proceeds received Rs 126,948 and the net carrying value of the notes (including accrued interest) of Rs 81,369 and a deferred gain of Rs 22,951. The carrying value of the investment in Cricinfo as of March 31, 2003 and 2004 were nil. Sify's equity in the losses of Cricinfo for the years ended March 31, 2003 and 2004 was Rs. 15,104 and nil respectively.

During the current year, the Company sold its entire investments in Wisden Cricinfo Limited and recognised a gain of Rs 63,059 being the aggregate of the difference between the proceeds received of Rs 61,218 and the net carrying value of the investment of Rs 21,110 and the release of the deferred gain of Rs 22,951 referred to above. The carrying value of the investment in Wisden Cricinfo Limited including loan notes as of March 31, 2003 and 2004 were Rs. 38,261 and nil respectively. Sify's equity in the losses of Wisden Cricinfo Limited for the years ended March 31, 2003 and 2004 was Rs. 4,027 and Rs. 21,632 respectively.

(In thousands, except share data and as stated otherwise)

12. Property, plant and equipment

Property, plant and equipment consist of:

	As at March 31,	
	2003	**2004**
Land	Rs. 188,600	Rs. 5,132
Building	485,156	485,156
Leasehold improvements	111,806	122,154
Plant and machinery	1,842,829	2,093,116
Computer equipment	95,309	133,548
Office equipment	54,384	67,442
Furniture and fixtures	115,922	106,870
Vehicles	16,237	19,980
Software	143,524	172,533
Construction-in-progress	94,371	3,556
	3,148,138	3,209,487
Accumulated depreciation	(1,605,309)	(1,959,689)
	Rs. 1,542,829	**Rs. 1,249,798**

Depreciation expense amounted to Rs. 574,867, Rs 474,261 and Rs. 481,810 for the years ended March 31, 2002, 2003 and 2004 respectively, which include amortization expense on software of Rs. 29,669, Rs. 41,144 and Rs. 49,126 for the years ended March 31, 2002, 2003 and 2004 respectively.

During the year ended March 31, 2003, the Company identified certain assets whose carrying amounts were not recoverable. The Company assessed recoverability under SFAS No. 144 and recorded asset impairment charges totaling Rs. 125,818 for the year ended March 31, 2003. These charges included the write-off of assets under development of Rs. 87,500 and write-off of computer software costs of Rs. 29,178 and other assets of Rs. 8,836.

(In thousands, except share data and as stated otherwise)

13. Goodwill and other intangible assets, net

Goodwill and other intangible assets consist of:

	As at March 31,	
	2003	**2004**
Goodwill	Rs. 5,467,062	Rs.5,467,062
Technical know-how	90,313	90,313
Portals and web content	98,030	100,360
Employment contracts	37,500	37,500
Customer contract	164,873	164,873
Intangibles pending allocation	-	29,084
Total	5,857,778	5,889,192
Less: Accumulated amortization and impairment	5,690,795	5,763,570
	Rs. 166,983	**Rs. 125,622**

Amortization/impairment of goodwill during the year ended March 31, 2002 was Rs 4,420,644. The Company has stopped amortizing goodwill pursuant to SFAS No. 142. The Company has not recognized any impairment of goodwill during the years ended March 31, 2003 and 2004.

The Company has adopted the provisions of SFAS No. 141 and 142, 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.

Amortization of other intangible assets during the years ended March 31, 2002, 2003 and 2004 is Rs 29,337, Rs 69,907 and Rs. 50,224 respectively. The Company has periodically assessed the carrying value of intangible assets in the books and recorded an impairment charge of Rs. 121,181 and Rs. 22,551 during the years ended March 31, 2003 and 2004 respectively.

At March 31, 2004, the Company's goodwill and other intangible assets amounted to Rs 14,595 and Rs 111,027 respectively.

Acquired and amortized intangible assets		As at March 31, 2004	
	Weighted average life	**Gross carrying amount**	**Accumulated amortization/ impairment**
Technical know-how fees	4.89	90,313	53,525
Portals and web content	5.00	100,360	66,456
Customer contracts and others	3.00	56,084	15,749
Total		**246,757**	**135,730**

(In thousands, except share data and as stated otherwise)

Estimated amortization expense

For the year ended March 31,	
2005	46,108
2006	29,657
2007	6,158
2008	20

As required by SFAS No. 142, the Company identified its reporting units and assigned assets and liabilities, including goodwill to the reporting units on the date of adoption. Subsequently, the Company compared the fair value of the reporting unit to its carrying value, to determine whether goodwill is impaired at the date of adoption. Subsequent to the adoption of SFAS No. 142, the Company does not amortize goodwill, but will instead test for impairment at least annually. The following table discloses what reported net loss from operations and loss per share would have been in the year ended March 31, 2002 excluding amortization of goodwill.

	2002
Reported net loss	Rs. (7,202,517)
Add: Goodwill amortization	292,964
Add: APB 18 Goodwill	75,210
Adjusted net loss	(6,834,343)
Reported net loss per share	(310.50)
Add: Goodwill amortization	12.63
Add: APB 18 Goodwill	3.24
Adjusted net loss per share	(294.63)

There is no goodwill associated with discontinued operations and no extraordinary items.

14. Other assets

Other assets consist of:

	As at March 31,	
	2003	**2004**
Deposits	Rs. 96,138	Rs. 86,110
Staff advances recoverable after one year	4,711	1,202
	Rs. 100,849	**Rs. 87,312**

(In thousands, except share data and as stated otherwise)

15. Deferred revenue

Deferred revenue includes the amount of unearned income for the following segments:

	As at March 31,	
	2003	**2004**
Corporate network / Data services	Rs. 107,598	Rs. 166,648
Internet access services	168,359	157,241
Online portal services	927	2,895
Other services	12,413	15,169
	Rs. 289,297	**Rs. 341,953**

16. Leases

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

	As at March 31,	
	2003	**2004**
Vehicles	16,689	19,975
Less: Accumulated depreciation	7,263	5,504
	Rs. 9,426	Rs. 14,471

The following is a schedule of future minimum capital lease commitments as at March 31, 2004:

Due for the year ended March 31,	
2005	6,545
2006	4,330
2007	1,021
Total minimum lease payments	11,896
Less: Interest	894
Present value of net minimum capital leases payments	11,002
Less: Current installments of obligations under capital leases	5,851
Obligations under capital leases, excluding current installments	5,151

17. Accrued and Other liabilities

Accrued liabilities principally comprise of provisions for expenses amounting to Rs. 249,273 and Rs. 293,369 as at March 31, 2003 and 2004 respectively. Other liabilities include deposits received from sales partners amounting to Rs. 42,663 and Rs. 50,877 as at March 31, 2003 and 2004 respectively.

(In thousands, except share data and as stated otherwise)

18. Income tax

The provision for income taxes consists of:

	Year ended March 31,		
	2002	**2003**	**2004**
Current tax	-	Rs. (2,856)	Rs. (72)
Deferred tax	-	-	
	-	**Rs. (2,856)**	**Rs. (72)**

Pre-tax income and income taxes for the years ended March 31, 2002, 2003 and 2004 are substantially all from domestic operations. An amount considered insignificant is from foreign operations. 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:

	Year ended March 31,		
	2002	**2003**	**2004**
Net income from continuing operations before taxes	Rs. (7,158,265)	Rs. (1,326,532)	Rs. (371,212)
Enacted tax rates in India	35.70%	36.75%	35.88%
Computed expected tax expense / (benefit)	Rs. (2,555,501)	Rs. (487,501)	Rs. (133,191)
Differences not deductible for tax purposes	1,609,811	81,596	11,225
Change in valuation allowance	860,921	405,079	(152,719)
Tax rate change of investment in affiliates			201,170
Other	6,599	53,413	24,230
Effect of tax rate change	78,170	(49,731)	49,357
Total income tax (benefit)/expense	-	**Rs. 2,856**	**Rs. 72**

The reported income tax expense differed from amounts computed by applying the enacted tax rates to income from discontinued operations before income taxes as set out below:

	Years ended March 31,		
	2002	**2003**	**2004**
Net gain/loss from discontinued operations before taxes	Rs. (44,252)	-	-
Enacted tax rates in India	35.7%	-	-
Computed expected tax expense	(15,799)	-	-
Valuation allowance	15,799		
Total income tax (benefit)/expense	Rs. -	-	-

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. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes that it is more likely, than not, the Company will not realize the benefit of these deductible differences.

(In thousands, except share data and as stated otherwise)

The carry forward losses as of March 31, 2004, amount to Rs.4,186,719 and it expires as follows:

Year ending March 31,	**Rs.**
2007	256,180
2008	332,467
2009	1,269,244
2010	1,174,620
2011	702,391
2012 and thereafter	451,817

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

	As at March 31,	
	2003	**2004**
Deferred tax assets:		
Carry forward business loss	Rs. 1,440,918	Rs. 1,502,195
Property, plant and equipment	800	14,469
Accrual and expenses currently not allowed for tax purposes	939	6,100
Investment in affiliates	554,074	339,787
Carry forward capital loss	-	14,614
Intangible assets	41,548	35,623
Others	-	453
Accounts receivables	60,960	18,849
Total deferred tax assets	2,099,239	1,932,090
Less: valuation allowance	(2,084,809)	(1,932,090)
Net deferred tax assets	**Rs. 14,430**	**Rs. -**

	As at March 31,	
	2003	**2004**
Deferred tax liabilities:		
Plant and equipment	Rs. 4,425	Rs. -
Investments	1,028	-
Intangibles	8,977	-
Total deferred tax liabilities	14,430	-
Net deferred tax liability	**-**	**-**

19. 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, per share amounts and market prices of the Company's equity shares have been retroactively restated to reflect stock splits made by the Company.

(In thousands, except share data and as stated otherwise)

Effective September 24, 2002, one ADS represented one equity share. The Company’s 1-for-4 ADS reverse ratio change on September 24, 2002 does not have any effect on our equity shares or per equity share amounts, as the underlying shares representing ADS’s were unchanged.

20. Common stock

In October 2002, the Company had entered into a share subscription agreement with VentureTech Solutions Private Limited (VentureTech). Pursuant to this agreement, in April 2003, VentureTech paid for and subscribed to 1,017,442 equity shares. In July 2003, VentureTech’s affiliate paid for and subscribed to 1,017,441 ADS's to complete their subscription obligation under the agreement.

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

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

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 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 a 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.

21. Other income, net

Other income consists of:

	For the year ended March 31,		
	2002	**2003**	**2004**
Interest expense	Rs. (4,780)	Rs. (1,240)	Rs. (2,126)
Other finance charges	(14,506)	(8,519)	(8,882)
Interest income	49,540	31,999	48,187
Gain on sale of investments	-	-	82,758
Others	2,457	30,708	24,210
Other (expense)/income, net	**Rs. 32,711**	**Rs. 52,948**	**Rs. 144,147**

(In thousands, except share data and as stated otherwise)

22. Employee benefit plan

Gratuity

The following table sets out the funded status of the Gratuity Plan and the amounts recognized in Sify's balance sheet.

	As of March 31,	
	2003	**2004**
Accumulated benefit obligation	5,902	8,968
Change in projected benefit obligation		
Projected benefit obligation at the beginning of the year	Rs. 8,782	Rs. 11,659
Service cost	3,876	4,593
Interest cost	789	929
Divestiture / acquisition	-	309
Actuarial (gain)/loss	(1,606)	(1,274)
Benefits paid	(182)	(123)
Projected benefit obligation at the end of the year	**Rs.11,659**	**Rs. 16,093**
Change in plan assets		
Fair value of plan assets at the beginning of the year	3,309	3,720
Actual return on plan assets	66	269
Employer contributions	527	263
Acquisition	-	309
Benefits paid from plan assets	(182)	(124)
Fair value of plan assets at the end of the year	**3,720**	**4,437**
Funded status of the plans	7,939	11,656
Unrecognized transition obligation (asset)	-	-
Unrecognized prior service cost (benefit)	-	-
Unrecognized net actuarial gain/(loss)	1,912	3,048
Accrued benefit cost	**Rs.9,851**	**Rs. 14,704**

	For the year ended March 31,		
	2002	**2003**	**2004**
The components of net gratuity costs are reflected below:			
Service cost	Rs 5,545	Rs 3,876	Rs. 4,593
Interest cost	531	789	929
Expected returns on plan assets	(227)	(320)	(351)
Amortization	-	-	-
Recognized net actuarial (gain)/ loss	-	-	(57)
Net gratuity costs	**Rs. 5,849**	**Rs. 4,345**	**Rs. 5,114**
Principal actuarial assumptions:			
Discount rate	9%	8%	7%
Long-term rate of compensation increase	8%	7%	6%
Rate of return on plan assets	9%	7.5%	6%

(In thousands, except share data and as stated otherwise)

The employer's best estimate of contributions expected to be paid to the plan during the year 2004 – 2005 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,	
2005	748
2006	1,673
2007	1,919
2008	2,765
2009	3,646
2010 to 2014	22,053

Provident fund

Sify contributed Rs 19,797, Rs.17,902 and Rs. 23,137 towards the Provident fund during the years ended March 31, 2002, 2003 and 2004 respectively.

23. Related Party Transactions

The company has entered into transactions with the following related parties:

- Satyam Computer Services Limted (formerly the parent company) where Sify provides connectivity services and software development services for certain e-learning projects.
- Affiliated companies
- Employees of the Company

Given below is an analysis of transactions with Satyam Computer Services Limited:

	As at March 31,		
	2002	**2003**	**2004**
Due (to)/from Satyam Computer Services Limited at beginning of the year	Rs. 12,926	Rs. 8,137	Rs. 16,016
Allocation of facilities costs	(485)	-	(4,408)
Sale of e-business division	332,500	-	-
Expenses incurred on behalf of the Company	(136,230)	(2,897)	-
Capital expenses incurred on behalf of the Company	(4,015)	(9,713)	(5,376)
Purchases from Satyam Computer Services Limited	(19,061)	-	-
Billings to Satyam Computer Services Limited	302,521	34,345	51,455
Collections from Satyam Computer Services Limited	(480,019)	(13,856)	(44,657)
Payment to Satyam Computer Services Limited	-	-	-
Due (to) / from Satyam Computer Services Limited	**Rs. 8,137**	**Rs. 16,016**	**Rs. 13,030**

(In thousands, except share data and as stated otherwise)

The following is a summary of significant transactions with other related parties:

	Year ended March 31,		
	2002	**2003**	**2004**
Sales to affiliates	Rs. 52,847	Rs.4,194	Rs. Nil
Interest on convertible notes	Rs. 2,245	Rs.1,066	Rs. 1,411

The Company has the following amounts due from related parties:

	As at March 31,	
	2003	**2004**
Loans to affiliates	22,951	-
Employee loans	5,692	2,408

The estimated fair value amounts of other employee loans were Rs 4,217 and Rs. 2,095 as of March 31, 2003 and 2004 respectively. These amounts are determined using available market information and appropriate valuation methodologies. Considerable judgement is required to develop the estimates of fair value. Thus, the estimates provided herein are not necessarily indicative of the amounts the Company could realise in the market.

Repayable in the year ending March 31:

2005	1,171
2006	403
2007	247
2008	187
2009	87

24. Stock –based compensation plans

Employee Stock Offer Plan 1999

In fiscal 1999, the Company established the Employee Stock Offer Plan (‘ESOP’), which provides for the issuance of 825,000 warrants to eligible employees. The warrants were issued to an employee welfare trust (the ‘Trust’) at Re 1 each on September 28, 1999. The Trust holds the warrants and transfers them to eligible employees over a period of three years. The warrants, which are to be transferred to eligible employees at Re 1 each, entitles the holder to purchase one equity share at an exercise price determined by the Compensation Committee. The warrants and the equity shares received upon the exercise of warrants are subject to progressive vesting over a three-year period from the date of issue of warrants to employees. Deferred compensation is recorded in the event that the 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 is amortized over the vesting period of the warrants. The warrants allotted and the underlying equity shares are not subject to any repurchase obligations by the Company.

(In thousands, except share data and as stated otherwise)

The warrants are to be exercised within a period of one month from the date of the last vesting.

in Rupees

	Shares arising out of option			Weighted average exercise price		
	Year ended March 31,			Year ended March 31,		
	2002	**2003**	**2004**	**2002**	**2003**	**2004**
Outstanding at beginning of the year	117,500	63,300	2,700	321.49	338.15	350.00
Granted	-	-	-	-	-	-
Forfeited	24,600	-	-	325.61	-	-
Expired	29,600	60,600	2,700	282.00	337.62	350.00
Exercised	-	-	-	-	-	-
Outstanding at the end of the year	63,300	2,700	-	338.15	350.00	-
Exercisable at the end of the year	39,400	-	-	337.31	-	-
Weighted-average grant date fair value of grants during the year	-	-	-	-	-	-

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 sixth of the warrants:	At the end of two years from the date of the grant
Three sixth 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 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 is amortized over the vesting period of the warrants.

The terms of 5,080 stock options with a weighted average exercise price of Rs. 169.30 have been modified. These options are accounted in accordance with EITF Issue 00-23, as a variable plan. The Company has not recorded any additional compensation charge under variable accounting, as the exercise price has been higher than the market price.

(In thousands, except share data and as stated otherwise)

Stock option activity under the ASOP 2000 Plan is as follows:

in Rupees

	Shares arising out of option			Weighted average exercise price		
	Year ended March 31,			Year ended March 31,		
	2002	**2003**	**2004**	**2002**	**2003**	**2004**
Outstanding at beginning of the year	445,420	520,540	396,500	3,211.86	1,657.99	1,385.88
Granted	276,360	15,480	8,520	174.46	49.98	182.47
Forfeited	163,470	58,120	29,320	2,904.99	1,170.53	386.23
Expired	37,770	81,400	153,290	3,730.73	3,025.69	3,265.89
Exercised	-	-	70,910			93.83
Outstanding at the end of the year	520,540	396,500	151,500	1,657.99	1,385.88	214.20
Exercisable at the end of the year	98,138	177,393	37,270	3,253.82	2,001.92	224.01
Weighted-average grant date fair value of grants during the year	-	-	-	343.27	34.43	122.95

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 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 Option quantity:	At the end of one year from the date of the grant
Five sixth 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 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 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 is amortized over the vesting period of the warrants.

(In thousands, except share data and as stated otherwise)

Stock option activity under the ASOP 2002 Plan is as follows:

in Rupees

	Shares arising out of option			Weighted average exercise price		
	Year ended March 31,			Year ended March 31,		
	2002	**2003**	**2004**	**2002**	**2003**	**2004**
Outstanding at beginning of the year	-	-	-	-	-	-
Granted	-	-	1,128,060	-	-	170.13
Forfeited	-	-	20,060	-	-	163.69
Expired	-	-	-	-	-	-
Exercised	-	-	-	-	-	-
Outstanding at the end of the year	-	-	1,108,000	-	-	170.25
Exercisable at the end of the year	-	-	-	-	-	
Weighted-average grant date fair value of grants during the year	-	-	-	-	-	79.79

The following table summarizes information about warrants outstanding at March 31, 2004:

Outstanding shares arising out of plan			Weighted average exercise price (in Rupees)		
1999	**2000**	**2002**	**1999**	**2000**	**2002**
-	151,500	1,108,000	-	Rs. 214.20	Rs. 170.25

The following table summarizes information about fixed price options outstanding at March 31, 2004:

Range of exercise price	Number outstanding at March 31, 2004	Weighted average exercise price	Weighted average remaining contractual life	Number exercisable at March 31, 2004	Weighted average exercise price
Rs. 49 – Rs. 50	7,280	49.98	1.53	330	10.31
Rs. 163 – Rs. 376	1,248,800	201.81	1.47	33,520	115.18
Rs. 723 – Rs. 941	3,420	723.70	-	3,420	114.00
Rs. 50 – Rs. 941	1,259,500	2,125.80		37,270	224.01

25. Commitments and contingencies

The company has outstanding performance guarantees for various statutory purposes and letters of credit totaling Rs.174,622 and Rs. 165,820 as of March 31, 2003 and 2004, respectively. These guarantees are generally provided to governmental agencies.

(In thousands, except share data and as stated otherwise)

26. Products and services

Breakup of revenues and cost of revenues against products and services are as follows:

	Year ended March 31,		
	2002	**2003**	**2004**
Revenue			
Products	Rs. 204,472	Rs.215,559	Rs. 244,401
Services	1,373,016	1,778,641	2,556,783
	Rs. 1,577,488	Rs. 1,994,200	Rs. 2,801,184
Cost of revenues (excluding depreciation and amortization)			
Products	Rs. 172,870	Rs. 193,711	Rs. 213,957
Services	1,019,801	1,070,390	1,262,757
	Rs. 1,192,671	Rs. 1,264,101	Rs. 1,476,714

27. 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 a portal, "Sify.com", that provides 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 Company also has subsidiaries to exploit other opportunities provided by the Internet in e-learning, business to business marketplaces, digital signatures and Internet security.

The primary operating segments of the Company include:

- Corporate network/data services, which provides private network services, messaging services and web hosting to businesses;
- Internet access services;
- Online portals services 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 catered to. The measure of loss reviewed by the CODM was "Earnings/loss before interest, taxes, depreciation and amortization". Prior to fiscal 2001, the CODM reviewed segment information relating to revenues only.

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 follows:

(In thousands, except share data and as stated otherwise)

Bandwidth costs in Sify are of three kinds: Last mile, Inter city and International. Last mile is directly identifiable to the segment. Inter city bandwidth is allocated based on the number of subscribers or iway cafes at "non gate way" points and the bandwidth sold to and used by business enterprises (determined using packet shapers). International bandwidth is allocated amongst user population based on ports used and estimates of bandwidth per port for retail consumers and bandwidth sold and peak bandwidth used for corporate consumers. The Company believes that the resulting allocations are reasonable.

Certain expenses, such as depreciation and technology, which form a significant component of total expenses, are not specifically 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, 2004, 2003 and 2002 are presented below:

Year ended March 31, 2004

	Corporate Network / Data Services	**Internet Access Services**	**Online Portal Services**	**Other Services**	**Continuing operations**	**Discontinued operations**
Revenues	1,395,498	1,088,440	84,233	233,013	2,801,184	-
Operating expenses	(846,526)	(1,188,366)	(100,935)	(85,277)	(2,221,104)	-
Equity in (loss)/ profit of affiliates	-	-	17,083	-	17,083	-
Minority interest	-	-	79	-	79	-
Segment operating income / (loss)	548,972	(99,926)	460	147,736	597,242	-
Corporate expenses					(540,981)	-
Foreign exchange gain / (loss)					(52,148)	-
Other income / (expense), net					97,541	-
Profit from sale of business					63,059	-
Depreciation and amortization					(582,531)	-
Interest income					46,606	-
Income taxes					(72)	-
Net loss					(371,284)	-

(In thousands, except share data and as stated otherwise)

Year ended March 31, 2003

	Corporate Network / Data Services	Internet Access Services	Online Portal Services	Other Services	Continuing operations	Discontinued operations
Revenues	997,976	674,370	164,867	156,987	1,994,200	-
Operating expenses	(677,108)	(933,751)	(211,732)	(106,079)	(1,928,670)	-
Equity in (loss)/ profit of affiliates	-	-	(35,884)	-	(35,884)	-
Minority interest	-	1,967	272	-	2,239	-
Segment operating income / (loss)	320,868	(257,414)	(82,477)	50,908	31,885	-
Corporate expenses					(573,915)	-
Foreign exchange gain / (loss)					(18)	-
Other income / (expense), net					22,190	-
Impairment of investments in affiliates					(14,805)	-
Impairment of assets					(246,999)	-
Profit from sale of business					24,628	-
Depreciation and amortization					(600,256)	-
Interest income, net					30,758	-
Income taxes					(2,856)	-
Net (loss)/ profit					(1,329,388)	-

Year ended March 31, 2002

	Corporate Network / Data Services	Internet Access Services	Online Portal Services	Other Services	Continuing operations	Discontinued operations
Revenues	782,749	515,960	207,105	71,674	1,577,488	340,718
Operating expenses	(558,538)	(1,067,927)	(279,817)	(125,213)	(2,031,495)	(384,365)
Equity in loss of affiliates	-	-	(81,867)	-	(81,867)	-
Minority interest	-	16,650	411	867	17,928	-
Segment operating income / (loss)	224,211	(535,317)	(154,168)	(52,672)	(517,946)	(43,647)
Corporate expenses					(538,360)	-
Foreign exchange gain					44,520	-
Other income / (expense), net					2,457	(16)
Impairment of goodwill					(4,127,680)	-
Impairment of investments in affiliates					(1,089,871)	-
Depreciation and amortization					(961,639)	(81,710)
Interest income					30,254	-
Profit on sale of discontinued operation					-	81,121
Net (loss)/ profit					(7,158,265)	(44,252)

28. Others

The Company has a line of credit of Rs.100,000 from one of its bankers for non-fund based working capital requirements. The facility is secured by inventories, accounts receivables and other current assets of the Company.

29. Legal proceedings

Sify and certain of its 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 ADS 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 ADS's 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. It is possible that the parties may not reach agreement on the final settlement documents or that the Federal District Court may not approve the settlement in whole or part.

The charges for international gateways and other services presently being provided by VSNL are the subject of a dispute pending before the Telecom Regulatory Authority of India ("TRAI") and the Telecom Disputes Settlement and Appellate Tribunal between VSNL and private Internet service providers, including Sify, represented by the Internet Service Providers Association of India ("ISPAI"). VSNL has priced these services at levels that Sify believes are inconsistent with the terms and conditions on which VSNL has secured the bandwidth for its international gateways. The Telecom Disputes Settlement and Appellate Tribunal remanded the matter back to the TRAI, which decided against the ISPAI. The ISPAI has not yet decided on a further course of action. Sify is currently paying for bandwidth from VSNL at the higher rates.

Sify is party to additional legal actions arising in the ordinary course of business. Based on the available information, as at March 31, 2004 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.