

SIFY LIMITED and Subsidiaries

CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

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, and selling products related to such services.

2. Summary of significant accounting policies

a. Basis of preparation of financial statements

The accompanying unaudited 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 quarter and nine months ended December 31, 2005 have been translated into United States dollars at the noon buying rate in New York City on December 31, 2005 for cable transfers in Indian rupees, as certified for customs purposes by the Federal Reserve Bank of New York of US\$1 = Rs. 44.95. 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 December 31, 2005 or at any other date.

b. Interim Information

Interim information presented in the consolidated financial statements has been prepared by the management and, in the opinion of management, includes all adjustments of a normal recurring nature that are necessary for the fair presentation of the financial position, results of operations, and cash flows for the periods shown, is in accordance with U.S. GAAP. These financial statements should be read in conjunction with the consolidated financial statements and related condensed notes included in the Company’s annual report on Form 20-F for the fiscal year ended March 31, 2005.

3. Share Capital

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 Rs.375,000 divided into 37,500,000 Equity Shares of Rs.10/- each to Rs.381,000 divided into 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 Rs.381,000 divided into 38,100,000 Equity Shares of Rs.10/- each to Rs.500,000 divided into 50,000,000 Equity Shares of Rs.10/- each by the creation of 11,900,000 Equity Shares of Rs.10/- each.

4. Equity Structure

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.

5. IP / VPN License

In December 2004, the Government of India (“GOI”) issued guidelines on offering Virtual Private Network (“IP-VPN”) services by Internet Service Providers (“ISPs”). As per the guidelines, the Company paid Rs.100,000 as a one-time entry fee and submitted a financial bank guarantee of Rs.10,000. In addition, the ISP licensees are required to pay an annual fee of 8% of the adjusted gross revenues generated under the ISP license for IP-VPN services. The Company amortized the one-time entry fee through September 30, 2005 and provided for the annual fee through December 31, 2005.

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 and permitted existing IP-VPN provisional license holders to migrate to the NLD and ILD service licenses effective January 1, 2006. The Company has applied for the licenses.

As per the guidelines, the Company is required to pay Rs. 25,000 as a one-time entry fee for each of the licenses and submit a bank guarantee of Rs. 25,000 for the ILD license and Rs. 20,000 for the NLD license. The Company will adjust the one time entry fee payable for the ILD and NLD license against the one time entry fee of Rs. 100,000 already paid for the provisional IP – VPN license. This is permissible under the guidelines mentioned in the above paragraph and the Company has submitted the financial guarantees required under the license. This one-time entry fee of Rs. 25,000 for each of the licenses, will be evenly amortized over the license period of 20 years. In addition to the one time entry fee, the Company has to pay an annual license fee of 6% on the adjusted gross revenue generated under the ILD and NLD licenses for IP-VPN services effective January 1, 2006.

The Company provided Rs. 10,319 for the quarter ended December 31, 2005 and Rs. 24,562 for nine months ended December 31, 2005 towards the 8% annual fee on VPN revenue as per the provisional IP – VPN license.

6. Sale of 26% holding in Sify Communications Limited

The new guidelines issued by the GOI for ILD/NLD licenses limit foreign direct investment (“FDI”) for the telecom sector to 74% of the equity shares outstanding. As the foreign shareholding in Sify is 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 Communications Limited (formerly Safescrypt Limited), a subsidiary of Sify. On December 19, 2005 Sify infused Rs. 700 million as equity in Sify Communication Limited. 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 the Company’s Board of Directors, is the brother of Mr Ananda Raju, the owner of Infinity Satcom Universal (P) Ltd. Sify Communications Limited has applied for the ILD/NLD license to provide IP-VPN services.

The Company recognized an amount of Rs. 2,548 as gain on sale of its 26% holding in Sify Communications Limited as per ARB –51 and has disclosed an amount of Rs. 136,862, as a minority interest, representing 26% of the net assets of Sify Communications Limited as of December 31, 2005.

7. Cash and cash equivalents

Cash and cash equivalents as of December 31, 2005 amounted to Rs. 1,148,627 (Rs. 1,323,912 as of March 31, 2005). This excludes restricted cash included in current assets of Rs. nil (Rs. 24,904 as of March 31, 2005) and restricted cash included in non-current assets of Rs. 1,000 (Rs. 7,336 as of March 31, 2005) 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.

8. Goodwill and intangibles

At December 31, 2005, the Company's goodwill and other intangible assets amounted to Rs.14,595 and Rs.31,450, respectively (Rs. 14,595 and Rs. 157,137 as of March 31, 2005, respectively). The following are the details of other intangible assets:

	Weighted average life	As of March 31, 2005		As of December 31, 2005	
		Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Technical know how fees					
March 31, 2005	4.89	Rs. 85,633	Rs. 65,569		
December 31, 2005	5.00			Rs. 82,753	Rs. 75,100
Portals and web content					
March 31, 2005	5.00	100,360	86,839		
December 31, 2005	4.91			52,731	47,350
Customer contracts and others					
March 31, 2005	4.04	56,084	31,051		
December 31, 2005	5.00			56,084	37,660
IP VPN license fee	15.00	100,000	1,481		
Total		Rs. 342,077	Rs. 184,940	Rs. 191,568	Rs. 160,110

The aggregate amortization expense for the quarter ended December 31, 2005 was Rs. 8,306 (Rs. 12,938 for the quarter ended December 31, 2004) and for the nine months ended December 31, 2005 was Rs. 30,502 (Rs. 39,471 for the nine months ended December 31, 2004).

Following the introduction of new guidelines for the ILD/NLD license, the Company has reversed the amortization of the one-time entry fee paid for the IP-VPN license. This fee is recoverable after adjusting the one-time entry fee payable for the ILD/NLD license.

Accordingly, the Company has reclassified the original license fee of Rs. 100,000 as follows – Rs. 50,000 representing the amount refundable by GOI has been shown under Other Current Asset, the balance Rs. 50,000 has been shown under Other Asset pending assignment towards the license fee payable towards ILD / NLD license fee.

Estimated amortization expense

For the year ended March 31,

2006	Rs. 38,800
2007	11,900
2008	5,800
2009	5,300

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, the Company does not amortize goodwill but tests it for impairment on an annual basis. The Company has not recognized any impairment of goodwill for the year ended March 31, 2005 and for the nine months ended December 31, 2005.

9. Employee Stock Options

During the quarter ended December 31, 2005, the Company formulated the Associate Stock

option plan 2005 (“ASOP 2005”), which was approved by the shareholders of the Company on October 25, 2005. Under ASOP 2005, 1,900,000 ADRs /shares can be granted to eligible associates at an exercise price which is not less than 90% of the market price as of the date of the grant. 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. During the quarter ended December 31, 2005, the Company granted 1,395,600 options under ASOP 2005 at an exercise price of Rs.238.32. Accordingly, the Company has recognized a deferred compensation asset of Rs. 36,955.

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

	<u>Quarter ended December 31,</u>		<u>Nine months ended December 31,</u>	
	2004	2005	2004	2005
Net Profit/ (loss) – as reported	Rs. (95,012)	Rs. (10,421)	Rs. (195,953)	Rs. (170,111)
Add: Stock based compensation expense included in reported net loss	2,690	3,502	9,400	5,477
Less: Stock based compensation expense determined under fair value method	<u>21,318</u>	<u>18,370</u>	<u>60,649</u>	<u>39,522</u>
Pro forma net loss	Rs. (113,640)	Rs. (25,289)	Rs. (247,202)	Rs. (204,202)
Loss per share:				
Basic– reported	Rs. (2.70)	Rs. (0.29)	Rs. (5.59)	Rs. (4.81)
Basic– pro forma	Rs. (3.23)	Rs. (0.71)	Rs. (7.05)	Rs. (5.71)

The fair value of each option is estimated on the date of grant using the Black-Scholes model with the following assumptions:

	<u>Quarter ended December 31,</u>		<u>Nine months ended December 31,</u>	
	2004	2005	2004	2005
Dividend Yield	—	—	—	—
Assumed Volatility	103.4 – 116.6%	78.5% to 116.6%	103.4 - 116.6%	78.5% to 116.6%
Risk-Free Interest Rate	7.5%	7.5%	7.5%	7.5%
Expected Term	12-36 months	12-40 months	12-36 months	12-40 months

10. Super Annuation

The Company has increased the age for retirement from 58 years to 65 years effective October 1, 2005.

11. 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 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*.

	<u>Quarter ended December 31,</u>		<u>Nine months ended December 31,</u>	
	2004	2005	2004	2005
Employers contribution	697	Nil	697	Nil
	<u>Quarter ended December 31,</u>		<u>Nine months ended December 31,</u>	
	2004	2005	2004	2005
The components of net gratuity costs are reflected below:				
Service cost	1,422	1,702	4,266	5,105
Interest cost	275	348	825	1,044

Expected returns on plan assets	(136)	(135)	(408)	(404)
Amortization	—	—	—	—
Recognized net actuarial (gain)/ loss	(32)	(122)	(97)	(367)
Net gratuity costs	<u>1,529</u>	<u>1,793</u>	<u>4,586</u>	<u>5,378</u>

	<u>Quarter ended</u>		<u>Nine months ended</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	2004	2005	2004	2005
Principal actuarial assumptions:				
Discount rate	7.00%	8.00%	7.00%	8.00%
Long-term rate of compensation increase	6.00%	6.00%	6.00%	6.00%
Rate of return on plan assets	6.00%	7.50%	6.00%	7.50%

The Company estimates the long term return on Gratuity Plan assets at 7.50% based on the average long term rate of return expected to prevail over the next 15 to 20 years on the type of investments held with LIC.

The Company's best estimate of contributions expected to be paid to the Gratuity Plan during fiscal 2006 amounts to Rs. 5,000. 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 ending
March 31,

2006	Rs. 1,5
2007	1,9
2008	2,5
2009	3,8
2010	6,0
2011-2015	35,8

12. 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:

	<u>As of</u>	
	<u>March 31, 2005</u>	<u>December 31, 2005</u>
Corporate network / Data services	Rs. 234,496	Rs. 349,8
Internet access services	161,765	137,0
Online portal services	1,073	1,0
Other services	<u>11,910</u>	<u>16,1</u>

Total

Rs. 409,244

Rs. 504,0

13. Advertising costs

Advertising costs incurred during the quarter have been expensed. The total amount of advertising costs expensed during the quarter ended December 31, 2005 was Rs.10,855 (Rs. 8,715 for the quarter ended December 31, 2004) and for the nine months ended December 31, 2005 was Rs.40,378 (Rs. 22,613 for the nine months ended December 31, 2004).

14. Products and services

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

	<u>Quarter ended December 31,</u>		<u>Nine months ended December 31,</u>	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
<i>Revenue</i>				
Services revenue	Rs. 741,973	Rs. 1,028,751	Rs. 2,072,493	Rs. 2,856,799
Initial franchisee fee	30,439	25,811	81,122	79,122
Installation services revenue	<u>60,143</u>	<u>64,926</u>	<u>162,965</u>	<u>186,926</u>
	Rs. 832,555	Rs. 1,119,488	Rs. 2,316,580	Rs. 3,122,847
Products revenue	<u>Rs. 113,084</u>	<u>Rs. 82,337</u>	<u>Rs. 267,693</u>	<u>Rs. 273,395</u>
	<u>Rs. 945,639</u>	<u>Rs. 1,201,825</u>	<u>Rs. 2,584,273</u>	<u>Rs. 3,395,242</u>
<i>Cost of revenues (excluding depreciation and amortization)</i>				
Products	Rs. 102,477	Rs. 63,784	Rs. 234,784	Rs. 229,784
Services	426,730	549,225	1,182,915	1,611,244
IPVPN revenue share		<u>10,319</u>		<u>24,319</u>
	<u>Rs. 529,207</u>	<u>Rs. 623,328</u>	<u>Rs. 1,417,699</u>	<u>Rs. 1,865,347</u>

15. 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 (E1/R2 costs) and spectrum fees for wireless connectivity that can be directly identified to businesses are allocated directly. 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 quarters and nine months ended December 31, 2004 and 2005 is presented below:

**Quarter ended December 31
2004**

	Corporate Network / Data Services	Internet Access Services	Online Portal Services	Other Services	Total
Revenues	Rs.525,246	Rs.377,703	Rs.26,298	Rs.16,392	Rs.945,638
Operating expenses	(357,035)	(355,545)	(24,592)	(19,375)	(756,547)

**Quarter ended December 31
2004**

	Corporate Network / Data Services	Internet Access Services	Online Portal Services	Other Services	Total
Equity in profits of affiliates			17,294		17,294
Segment operating income / (loss)	Rs. 168,211	Rs. 22,158	Rs. 19,000	Rs. (2,983)	Rs.206,386
Unallocated corporate expenses					(154,788)
Foreign exchange gain / (loss), net					(32,851)
Other income / (expense), net					19,931
Depreciation and amortization					(145,721)
Interest income, net					12,021
Net loss					Rs.(95,011)

**Quarter ended December 31
2005**

	Corporate Network / Data Services	Internet Access Services	Online Portal Services	Other Services	Total
Revenues	Rs.644,804	Rs.463,306	Rs.47,932	Rs.45,783	Rs.1,201,825
Operating expenses	(349,352)	(448,767)	(48,441)	(37,903)	(884,463)
Equity in profits of affiliates			5,849		5,849
Minority interest	51				51
Segment operating income / (loss)	Rs.295,503	Rs. 14,539	Rs. 5,340	Rs. 7,880	Rs. 323,262
Unallocated corporate expenses					(238,531)
Foreign exchange gain / (loss), net					3,971
Other income / (expense), net					7,701
Depreciation and amortization					(114,581)
Interest income, net					7,761
Net loss					Rs. (10,421)

**Nine months ended December 31
2004**

	Corporate Network / Data Services	Internet Access Services	Online Portal Services	Other Services	Total
Revenues	Rs.1,441,558	Rs.1,009,150	Rs.72,776	Rs.60,789	Rs.2,584,273
Operating expenses	(937,447)	(964,365)	(72,636)	(47,919)	(2,022,367)
Equity in profits of affiliates			35,565		35,565

Minority interest	Rs. 504,111	Rs. 44,785	Rs.35,705	Rs.12,870	Rs. 597,47
Segment operating income / (loss)					(446,474)
Unallocated corporate expenses					(3,04)
Foreign exchange gain / (loss), net					28,09
Other income / (expense), net					15,71
Depreciation and amortization					(423,23)
Interest income, net					35,52
Net loss					Rs. (195,95)

**Nine months ended December 31
2005**

	Corporate Network / Data Services	Internet Access Services	Online Portal Services	Other Services	Total
Revenues	Rs.1,833,593	Rs.1,333,167	Rs.122,543	Rs.106,690	Rs.3,395,99
Operating expenses	(1,080,744)	(1,339,858)	(132,274)	(105,685)	(2,658,56
Equity in profits of affiliates			35,257		35,25
Minority Interest	51				5

**Nine months ended December 31
2005**

	Corporate Network / Data Services	Internet Access Services	Online Portal Services	Other Services	Total
Segment operating income / (loss)	Rs. 752,900	Rs. (6,691)	Rs. 25,526	Rs. 1,005	Rs. 772,740
Unallocated corporate expenses					(637,371)
Foreign exchange gain / (loss), net					6,609
Other income / (expense), net					15,014
Depreciation and amortization					(353,125)
Interest income, net					25,976
Net loss					Rs. (170,150)

16. Leases

The Company's leasing arrangement consist of leasing various types of routers, modems and other equipment for setting up virtual private network and providing bandwidth to its customers in 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 as of December 31, 2005:

Minimum lease payments receivable	Rs. 25,930
Less: Unearned income	Rs. 1,720
Net investment in sales-type leases	Rs. 24,210

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

For the year ending March 31,

2006	Rs. 11,700
2007	11,800
2008	10,800
2009	300
Total	34,700

17. Legal proceedings

The Company 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 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 December 31, 2005 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.

18. Change in Accounting Estimate

During the quarter ended June 30, 2005, the Company assessed the actual use of the expected benefits of certain computers and servers as compared to previous estimates. Based on its assessment and observations, the Company has revised the estimated life for these assets from 2 years to 5 years. In accordance with Accounting Principles Board Opinion 20, "Accounting Changes," the revisions to the estimated life of these fixed assets are considered to be a change in the accounting estimate and, accordingly, are accounted for during the current period. The change in estimated life has resulted in a decrease in depreciation charge by Rs. 7,192 for the quarter ended December 31, 2005 and a decrease in net loss by Rs. 7,192 for the quarter ended December 31, 2005 and a decrease in depreciation charge by Rs. 27,032 for the nine months ended December 31, 2005 and a decrease in net loss by Rs. 27,032 for the nine months ended December 31, 2005. Consequently, the net loss per share for the quarter ended December 31, 2005 is lower by Rs. 0.20 and the net loss per share for the nine months ended December 31, 2005 is lower by Rs. 0.76.

19. Recent Accounting Pronouncements

SFAS No. 123(R)

Recently, the Financial Accounting Standards Board issued FASB Statement No. 123 (revised 2004), Share Based Payment (SFAS No. 123R), requiring companies to change their accounting policies to record the fair value of stock options issued to employees as an expense. Currently, the Company does not deduct the expense of employee stock option grants from its income statement based on the fair value method as the Company had adopted the pro forma disclosure provisions of SFAS No. 123. The Company is required to adopt SFAS No. 123R on April 1, 2006. The unamortized stock compensation expense as of December 31, 2005, determined under the fair value method is approximately Rs. 128,948 (\$ 2,869). The Company is evaluating the impact of the standard on the existing grants of employee stock options and future grants, if any.

SFAS No. 154

In June 2005, the FASB issued Statement No. 154, *Accounting Changes and Error Corrections*, a replacement of APB Opinion No. 20 and FASB Statement No. 3. The Statement applies to all voluntary changes in accounting principle, and changes the requirements for accounting for and reporting of a change in accounting principle. Statement 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. Opinion 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. Statement 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Statement does not change the transition provisions of any existing accounting pronouncements, including those that are in a transition phase as of the effective date of this Statement. The Company is evaluating the impact of Statement No. 154.

20. Reclassifications

Certain prior period amounts have been reclassified to conform to the current period's presentation.