

SIFY LIMITED AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED 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 condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (US GAAP) in Indian Rupees, 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, 2006 have been translated into United States dollars at the noon buying rate in New York City on December 31, 2006 for cable transfers in Indian rupees, as certified for customs purposes by the Federal Reserve Bank of New York of US\$1 = Rs. 44.11. 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, 2006 or at any other date.

b. Interim Information

Interim information presented in the condensed consolidated financial statements has been prepared by the management without audit 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 notes included in the Company’s annual report on Form 20-F for the fiscal year ended March 31, 2006.

c. Business combinations

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

d. Recent accounting pronouncements

In 2006, the Financial Accounting Standards Board issued SFAS No. 158 Employer’s accounting for Defined Benefit Pension and Other Postretirement Plans. New Statement 158 requires the company to recognize on balance sheets the funded status of pension and other postretirement benefit plans as of March 31, 2007. The company is required to recognize actuarial gains and losses, prior service cost, and any remaining transition amounts from the initial application of Statements 87 and 106 when recognizing a plan’s funded status, with the offset to accumulated other comprehensive income. Statement 158 will also require fiscal-year-end measurements of plan assets and benefit obligations. The new Statement amends Statements 87, 88, 106, and 132R, but retains most of their measurement and disclosure guidance and will not change the amounts recognized in the income statement as net periodic benefit cost. The company does not believe that adoption of SFAS 158 will have a material impact on the financial statements.

In July 2006, the FASB issued Interpretation (“FIN”) No. 48, Uncertainty in Income Taxes. FIN 48 applies to all tax positions within the scope of Statement 109 and clarifies when and how to recognize tax benefits in the financial statements with a two-step approach of recognition and measurement. Fin No. 48 is effective for fiscal years beginning after December 15, 2006. FIN No. 48 also requires the enterprise to make explicit disclosures about uncertainties in their income tax positions, including a detailed roll forward of tax benefits taken that do not qualify for financial statement recognition.

The company is currently evaluating the impact of this pronouncement and will adopt the guidelines stated FIN No.48 from fiscal year beginning April 1, 2007.

3. Acquisition of Globe Travel Business

During the quarter ended June 30, 2006, the Company acquired Globe Travels which operates an online travel agency. The management believes this acquisition marks Sify's entry into the fast growing online travel business, particularly e-ticketing, the category with highest revenues and fastest growth in online e-commerce today. The management also believes that the addition of a travel portal is in line with the Company's strategy of providing end-to-end services to Sify users. The results of Globe Travels operations have been consolidated in the financial statements effective May 10, 2006, the date of acquisition. The purchase price in respect of the business acquisition comprises the following:

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

The Cash price of USD 2,500 includes an amount of USD 500 as holdback amount payable upon the Airlines Reporting Corporation ("ARC") approval of the Company's application for change of ownership of the travel portal. The said holdback amount has been included and accounted as purchase consideration since the management, based on advice, believes that the resolution of the contingency (i.e approval of ARC) is beyond reasonable doubt.

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

The Cash Price has been allocated to the estimated fair value of the assets, properties including rights at the date of purchase of business.

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

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

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

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

4. IP — VPN License

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

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

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

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

Pursuant to its arrangements with Sify Comm and GOI notification dated 7 November 2005, allowing adjustment of the one time entry fee of Rs. 100,000 paid by Sify towards the entry fee payable by Sify Comm, during the quarter ended December 31, 2006, the Company has adjusted Rs 75,000 towards the annual recurring fees and the balance Rs. 25,000 towards the entry fee payable by Sify Comm. Sify Comm paid the balance Rs. 25,000 towards entry fee for NLD / ILD Licenses.

5. Sale of 26% holding in Sify Communications Limited (Sify Comm)

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

On December 19, 2005 Sify contributed Rs.700,000 as additional equity in Sify Comm to make the net worth of Sify Comm positive. Pursuant to the agreement entered with Infinity Satcom, Sify divested 26% of its holding in Sify Comm, or 4,680 shares, to M/s Infinity Satcom Universal (P) Ltd (Infinity Satcom), a related party, for a sale consideration of Rs.139,810 during the quarter ended December 31, 2005. M/s Infinity Satcom a company incorporated under the laws of India, is owned by Anand Raju, who is the brother of Raju Vegesna, Chairman of Sify’s Board of Directors and the principal of Infinity Capital Ventures, LP (“Infinity Capital”). Infinity Capital owns approximately 41.92 % of Sify’s outstanding equity shares.

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

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

6. Cash and cash equivalents

Cash and cash equivalents as on December 31, 2006 amounted to Rs. 2,338,453 (Rs 2,822,501 as at March 31, 2006) and restricted cash included in non-current assets of Rs. 1,000 (Rs.1,000 as at March 31, 2006) 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.

7. Goodwill and other intangible assets

At December 31, 2006, the Company’s goodwill and other intangible assets amounted to Rs. 41,516 and Rs. 157,668 respectively (Rs 14,596 and Rs.47,840, as at March 31, 2006 respectively). The following are the details of other intangible assets:

	Weighted Average Life	As at March 31, 2006		Weighted average life	As at December 31, 2006	
		Gross carrying amount	Accumulated Amortization		Gross carrying amount	Accumulated Amortization
Technical know how fees	5.00	Rs. 82,753	Rs. 79,240	5.00	82,753	82,753
Portals and web content	4.91	52,730	50,065	4.91	52,730	52,690
Customer contracts and others	4.04	56,084	39,119	4.62	141,883	54,506
IP VPN Licence	—	—	—	20.00	50,000	281
Software	2.90	222,119	197,422	2.91	235,742	215,210
Total		Rs 413,686	Rs.365,846		563,108	405,440

The aggregate amortization expense for the quarter ended December 31, 2006 was Rs. 10,964 (Rs. 8,306 for the quarter ended December 31, 2005) and for the nine months ended December 31, 2006 was Rs. 44,400 (Rs. 30,502 for the nine months ended December 31, 2005).

Estimated amortization expense

For the year ending March 31,

2007	Rs.49,619
2008	35,423
2009	29,525
2010	21,597
2011	20,110
2012	4,394
2013-2026	35,000
2027	1,594

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 during the year ended March 31, 2006 or the nine months ended December 31, 2006.

8. Employee Stock Options

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

SFAS 123, "Accounting for Stock Based Compensation", established accounting and disclosure requirements using a fair value based method of accounting for Stock based employee compensation plans. As allowed by SFAS 123, the Company elected to continue to apply the intrinsic value based method of accounting described above, and adopted the disclosure requirements of SFAS 148, "Accounting for Stock based Compensation – Transition and Disclosure", and amendment of FASB Statement 123. All Stock options issued to date have been accounted as fixed stock option plan.

The following table illustrates the effect on net income and earnings per share if the Company has applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock Based Compensation", to account for stock based employee compensation.

	Quarter ended December 31,	Nine months ended December 31,
	2005	2005
Net loss – as reported	Rs.(10,421)	Rs. (170,157)
Add: Stock based compensation expense included in reported net loss	3,502	5,472
Less: Stock based compensation expense determined under fair value method	18,370	39,524
Pro forma net loss	Rs.(25,289)	Rs. (204,209)
Loss per share: Basic and diluted – reported	Rs. (0.29)	Rs. (4.81)
Basic and diluted – proforma	Rs. (0.71)	Rs. (5.77)

On April 01, 2006, the Company adopted FASB Statement No.123 (revised 2004), Share-Based Payment using the modified prospective approach. The Company recorded amortization of stock compensation expense of Rs. 5,039 for the quarter ended December 31, 2006 and Rs. 46,509 for nine months ended December 31, 2006

During the nine months ended December 31, 2006, the Company has issued 221,000 shares under Associate stock option plan 2005 and has been accounted under SFAS 123R.

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

	Quarter ended December 31,		Nine months ended December 31	
	2005	2006	2005	2006
Dividend Yield	—	—	—	—
Assumed volatility	78.5% - 116.6%	57.70% - 95.45%	78.5% - 116.6%	57.70% - 95.45%
Risk-free interest rate	7.5%	4.84% - 7.5%	7.5%	4.84% - 7.5%
Expected Term	12-40 months	18 - 40 months	12-40 months	18 - 40 months

9. 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*.

The following table sets out the funded status of the Gratuity Plan and the amounts recognized in the Company’s financial statements.

	Quarter ended December 31,		Nine months ended December 31,	
	2005	2006	2005	2006
Service cost	Rs.1,702	1,904	Rs.5,105	5,712
Interest cost	348	416	1,044	1,249
Expected returns on plan assets	(135)	(41)	(404)	(122)
Amortization	—	—	—	—
Recognized net actuarial (gain)/ loss	(122)	(117)	(367)	(350)
Net gratuity costs	<u>Rs.1,793</u>	<u>2,163</u>	<u>Rs.5,378</u>	<u>6,489</u>
	Quarter ended December 31,		Nine months ended December 31,	
	2005	2006	2005	2006
Principal actuarial assumptions:				
Discount rate	8.0%	8.0%	8.0%	8.0%
Long-term rate of compensation increase	6.0%	6.0%	6.0%	6.0%
Rate of return on plan assets	7.5%	7.5%	7.5%	7.5%

The Company estimates the long term return on Gratuity Plan assets at 7.5% based on the average long term rate of return expected to prevail over the next 15 to 20 years on the type of investments held with LIC.

The Company’s best estimate of contributions expected to be paid to the Gratuity Plan during fiscal 2007 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,	
2007	Rs. 1,337
2008	1,672
2009	2,523
2010	4,125
2011	6,607
2012-2017	37,694

10. 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>March 31, 2006</u>	<u>As at December 31, 2006</u>
Corporate network / data services	Rs.305,028	Rs.250,681
Internet access services	133,613	75,894
Online portal services	623	602
Other services	<u>5,069</u>	<u>63,860</u>
Total	<u>Rs.444,333</u>	<u>Rs.391,037</u>

11. Advertising costs

Advertising costs incurred during the quarter have been expensed. The total amount of advertising costs expensed during the quarter ended December 31, 2006 was Rs. 9,282 (Rs. 10,855 for the quarter ended December 31, 2005) and for the nine months ended December 31, 2006 was Rs. 33,391 (Rs. 40,378 for the nine months ended December 31, 2005).

12. Products and services

Break-up 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>	
	2005	2006	2005	2006
<i>Revenue</i>				
Services revenue	Rs.1,028,751	Rs.1,176,129	Rs.2,856,571	Rs.3,458,028
Initial franchisee fee	25,811	11,666	79,319	47,244
Installation services revenue	<u>64,926</u>	<u>67,035</u>	<u>186,239</u>	<u>202,087</u>
	1,119,488	1,254,830	3,122,129	3,707,359
Products revenue	<u>Rs. 82,337</u>	<u>Rs. 136,457</u>	<u>Rs. 273,864</u>	<u>Rs. 385,407</u>
	<u>Rs.1,201,825</u>	<u>Rs.1,391,287</u>	<u>Rs.3,395,993</u>	<u>Rs.4,092,766</u>
<i>Cost of revenues (excluding depreciation and amortization)</i>				
Products	Rs. 63,784	Rs.121,744	Rs. 229,162	Rs. 334,420
Services	549,225	605,562	1,611,321	1,747,686
Annual fee on IP VPN revenue	<u>10,319</u>	<u>18,974</u>	<u>24,562</u>	<u>65,529</u>
	<u>Rs.623,328</u>	<u>Rs.746,280</u>	<u>Rs.1,865,045</u>	<u>Rs.2,147,635</u>

13. 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 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 served. The measure of profit/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 cyber cafés 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 ended December 31, 2005 and 2006 and for the nine months ended December 31, 2005 and 2006 is presented below:

	Quarter ended December 31, 2005				Total
	Corporate Network/Data Services	Internet Access Services	Online Portal Services	Other Services	
Revenues	Rs. 644,804	Rs. 463,306	Rs. 47,932	Rs. 45,783	Rs. 1,201,825
Allocated expenses	(349,352)	(448,767)	(48,441)	(37,903)	(884,463)
Equity in profits of affiliates	—	—	5,849	—	5,849
Minority interest	—	—	—	—	—
Segment operating income / (loss)	Rs. 295,503	Rs. 14,539	Rs. 5,340	Rs. 7,880	Rs. 323,211
Unallocated corporate expenses					(241,034)
Foreign exchange gain / (loss), net					3,976
Other income / (expense), net					7,702
Depreciation and amortization					(114,585)
Interest income, net					7,761
Net Profit/(loss)					<u>Rs. (12,969)</u>

Quarter ended December 31, 2006

	Corporate Network / Data Services	Internet Access Services	Online Portal Services	Other Services	Total
Revenues	Rs. 810,151	458,311	75,668	47,157	1,391,287
Allocated expenses	(519,090)	(431,031)	(86,354)	(39,598)	(1,076,073)
Equity in profits of affiliates	—	—	<u>18,650</u>	—	<u>18,650</u>
Minority Interest	(7,896)	—	—	—	(7,896)
Segment operating income / (loss)	283,165	27,280	7,964	7,559	325,968
Unallocated corporate expenses					(180,958)
Foreign exchange gain / (loss), net					(20,558)
Other income / (expense), net					(2,518)
Depreciation and amortization					(118,388)
Interest income, net					<u>38,025</u>
Net Profit/(loss)					<u><u>41,571</u></u>

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. 3,395,993
Allocated expenses	(1,080,744)	(1,339,858)	(132,274)	(105,685)	(2,658,561)
Equity in profits of affiliates	—	—	35,257	—	35,257
Minority interest	—	—	—	—	—
Segment operating income / (loss)	Rs. 752,900	Rs. (6,691)	Rs. 25,526	Rs. 1,005	Rs. 772,689
Unallocated corporate expenses					(639,868)
Foreign exchange gain / (loss), net					6,609
Other income / (expense), net					15,014
Depreciation and amortization					(353,125)
Interest income, net					<u>25,976</u>
Net Profit/ (loss)					<u><u>Rs. (172,705)</u></u>

Nine months ended December 31, 2006

	Corporate Network / Data Services	Internet Access Services	Online Portal Services	Other Services	Total
Revenues	2,351,441	1,410,435	211,409	119,481	4,092,766
Allocated expenses	(1,420,130)	(1,353,647)	(203,658)	(106,365)	(3,083,800)
Equity in profits of affiliates	—	—	<u>42,544</u>	—	<u>42,544</u>
Minority interest	(7,896)	—	—	—	(7,896)
Segment operating income / (loss)	923,415	56,788	50,295	13,116	1,043,614
Unallocated corporate expenses					(614,368)
Foreign exchange gain / (loss), net					23,781
Other income / (expense), net					(1,721)
Depreciation and amortization					(388,614)
Interest income, net					<u>109,838</u>
Net Profit/(loss)					<u><u>172,530</u></u>

14. 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, 2006:

Minimum lease payments receivable	Rs.33,997
Less: Unearned income	(2,259)
Net investment in sales-type leases	31,738

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

For the year ending March 31,
2007
2008
2009
2010

Rs. 4,602
17,455
6,934
5,006

15. Commitments and contingencies

a) The Company had received a notice from the Income-Tax Department of India for the financial years 2002 and 2003 for a sum of Rs.77,724 stating that no withholding tax has been deducted in respect of international bandwidth and leased line payments made by the Company to international bandwidth / lease line service providers.

Based on the legal opinion, withholding taxes need not be deducted if the service provider did not have any permanent establishment in India and has not installed any equipment at the Company's premises. The Company is able to demonstrate that international service providers has neither had a permanent establishment in India nor has installed any equipment at the Company's premises. Accordingly, the likelihood of the loss contingency is remote and no provision for the loss contingency is considered necessary.

The Commissioner of Income Tax (Appeals) heard the Company's appeal against the order of the Income Tax Officer and directed the Assessing Officer to comment on the submissions filed by the Company. The appeal will be disposed off only after the remand report is received from the Assessing Officer.

Subsequent to the quarter ended December 31, 2006, the Company has also filed a petition for stay of collection of tax demanded in the order until the disposal of the appeal. The appeal was rejected and the Company has been directed to pay the same in installments. Hence, the Company is paying under protest the entire demand in twelve equal installments. This is subject to the outcome of the appeals filed by the Company.

b) The Company has outstanding financial and performance guarantees for various statutory purposes and letters of credit totalling Rs. 475,600 and Rs.635,116 as of December 31, 2005 and 2006, respectively. These guarantees are generally provided to governmental agencies.

c) Provident Fund contribution not provided for on leave encashment in respect of periods prior to April 01, 2005 is estimated at Rs.4,326.

16. 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, 2006 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.

17. Reclassifications

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