

SIFY LIMITED and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data and as stated otherwise)

1. Description of business

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

2. Summary of significant accounting policies

Basis of preparation of financial statements

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

Use of estimates

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

Business combinations

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

Principles of consolidation

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

Investments in affiliates

The Company accounts for investments between 20% and 50% or where it would be otherwise able to exercise significant influence over the operating and financial policies of the investees, under the equity method. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142), the excess of cost of the stock of those affiliates over the Company's share of their net assets at the acquisition date is recognized as goodwill, which is tested for impairment periodically and diminution in value, if any, is provided for through a charge in the statement of operations. In accordance with Accounting Principles Board (APB) Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, the Company recognizes a loss when there is a loss in value in the equity method investment, which represents other than a temporary decline.

Cash and cash equivalents

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

Revenue recognition

The operating segments of the Company are:

- Corporate network/data services, which provides Internet, connectivity, security and consulting, hosting and managed service solutions;
- Internet access services, from homes and through cybercafés;
- Online portal services and content offerings; and
- Other services such as development of e-learning software.

These segments recognize revenues on the following basis:

Corporate network/data services

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

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

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

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

Internet access services

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

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

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

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

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

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

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

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

Online portal services

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

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

Other services

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

Cost of revenues

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

Inventories

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

Sales-type leases

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

Property, plant and equipment

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

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

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

Goodwill and intangible assets

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

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

Foreign currency translations

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

Foreign currency transactions

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

Forward Contracts

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

Earnings per share

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

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

Income taxes

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

Retirement benefits to employees

Provident fund

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

Gratuity

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

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

Stock Based Compensation

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

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

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

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

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

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

Year ended March 31,

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

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

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

Gain / Loss on sale of investments

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

Fair value of financial instruments

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

Recent Accounting Pronouncements***FIN 48***

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

Reclassifications

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

- Withholding taxes amounting to Rs. 46,929 has been regrouped from 'Other current assets' to 'Other Assets' in the balance sheet as of March 31, 2006.
- Deposits received from franchisees amounting to Rs. 27,292 has been regrouped from 'Other current liabilities' to 'Other liabilities' in the balance sheet as of March 31, 2006.
- Gain on sale of investments amounting to Rs. 15,710 has been regrouped from 'Other income, net' to 'Gain on sale of investments' in the statement of consolidated operations for the year ended March 31, 2005.

3. Acquisition of Globe Travel Business

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

| | |
|--------------------------------|------------------------|
| 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 Company has been advised by its legal counsel that the receipt of ARC approval is only a procedural formality and hence the resolution of the contingency is beyond reasonable doubt. Accordingly, the said holdback amount has been included and accounted as purchase consideration. Subsequent to the balance sheet date, the ARC approval was received in August 2007.

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

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

| | |
|------------------------|----------------|
| Property and Equipment | Rs.1,246 |
| Intangible Assets | 88,052 |
| Goodwill | 26,921 |
| 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 |

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

4. IP / VPN License

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

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

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

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

5. Sale of 26% holding in Sify Communications Limited

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

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

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

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

6. Cash and cash equivalents

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

Cash Restricted – Non current

| | Years ended March 31, | |
|---------------------------------------|-----------------------|-----------|
| | 2006 | 2007 |
| Against future performance obligation | Rs.1,000 | Rs. 1,000 |
| | Rs.1,000 | Rs.1,000 |

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

7. Accounts receivable

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

Accounts receivables consist of:

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

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

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

8. Inventories

Inventories consist of:

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

9. Sales-Type Leases

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

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

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

For the year ending March 31,

| | |
|--------------|---------------|
| 2008 | 17,796 |
| 2009 | 7,275 |
| 2010 | 5,422 |
| Total | 30,493 |

10. Other current assets

Other current assets consist of:

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

11. Investments in affiliates

Man Financial-Sify Securities India Private Limited(Formerly Refco-Sify Securities India Private Limited)

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

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

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

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

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

| Statement of Operations | For the year ended March 31, | | |
|--------------------------------|-------------------------------------|-------------|-------------|
| | 2005 | 2006 | 2007 |
| | (unaudited) | | |
| | Rs. | Rs. | Rs. |
| Revenues | 507,105 | 796,609 | 1,341,659 |
| Net Profit | 99,785 | 130,093 | 247,356 |

12. Property, plant and equipment

Property, plant and equipment consist of:

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

13. Goodwill and other intangible assets, net

Goodwill and other intangible assets consist of:

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

Goodwill

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

| Year ended | March 31,2006 | March 31,2007 |
|--------------------------------------|----------------------|----------------------|
| Balance at the beginning of the year | 14,596 | 14,596 |
| Acquired during the year | - | 26,921 |
| Balance at the end of the year | 14,596 | 41,517 |

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

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

| Segment | March 31,2006 | March 31,2007 |
|------------------------|----------------------|----------------------|
| Online Portal Services | 14,596 | 26,921 |
| Total | 14,596 | 26,921 |

Intangible Assets

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

Acquired and amortized intangible assets consist of:

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

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

For the year ended March 31,

| | |
|------------------|--------|
| 2008 | 28,598 |
| 2009 | 25,947 |
| 2010 | 25,442 |
| 2011 | 20,110 |
| 2012 | 20,110 |
| 2013 and onwards | 30,666 |

14. Other assets

Other assets consist of:

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

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

15. Deferred revenue

Deferred revenue includes the following amounts of unearned income:

- For the Company's corporate network / data services division, revenue relating to the connectivity / hosting charges and from provision of digital certificates;
- For the Company's Internet access services and online portal services divisions, revenue relating to the internet access charges and the advertisement charges respectively; and
- For the Company's other service division, revenue relating to development of e-learning software.

The components of deferred revenue for these segments are:

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

16. Capital lease obligations

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

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

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

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

17. Borrowings from banks

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

18. Accrued and Other liabilities

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

19. Income tax

The provision for income taxes consists of:

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

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

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

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

| | As at March 31, | |
|---|-----------------|----------------|
| | 2006 | 2007 |
| Deferred tax assets: | | |
| Carry forward business loss | 1,470,841 | 1,175,143 |
| Property, plant and equipment | 35,447 | 95,282 |
| Accrual and expenses currently not allowed for tax purposes | - | 10,603 |
| Investment in affiliates | 335,474 | 318,587 |
| Carry forward capital loss | 31,169 | 35 |
| Provision for doubtful accounts receivables | 30,416 | 43,913 |
| Intangible Assets | 5,126 | 2,975 |
| Total deferred tax assets | 1,908,473 | 1,646,538 |
| Less: valuation allowance | (1,908,473) | (1,573,695) |
| Net deferred tax assets | - | 72,843 |
| Deferred tax liabilities: | | |
| Intangible Assets | - | (3,915) |
| Retirement benefits | - | (2,824) |
| Total deferred tax liabilities | - | (6,739) |
| Net Deferred Tax Asset | | 66,104 |

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

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

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

20. Stockholders' equity

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

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

21. Common stock

Voting

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

Share holding agreement

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

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

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

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

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

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

Dividends

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

Liquidation

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

Stock Options

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

22. Other income, net

Other income consists of:

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

23. Employee benefits

Gratuity

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

| | As of March 31, | |
|--|-----------------|---------------|
| | 2006 | 2007 |
| | Rs. | Rs. |
| Accumulated benefit obligation | 12,799 | 10,702 |
| Change in projected benefit obligation | | |
| Projected benefit obligation at the beginning of the year | 18,140 | 21,615 |
| Service cost | 6,806 | 7,616 |
| Interest cost | 1,392 | 1,666 |
| Actuarial (gain)/loss | (2,217) | (832) |
| Benefits paid | (2,506) | (12,589) |
| Projected benefit obligation at the end of the year | 21,615 | 17,476 |

| Change in plan assets | | |
|---|---------------|--------------|
| Fair value of plan assets at the beginning of the year | 4,716 | 1,718 |
| Actual return on plan assets | (492) | 794 |
| Employer contributions | - | 18,500 |
| Benefits paid | (2,506) | (12,589) |
| Fair value of plan assets at the end of the year | 1,718 | 8,423 |
| | | |
| Funded status of the plans | 19,897 | 9,053 |
| Unrecognized net actuarial gain/(loss) | 7,395 | - |
| Accrued benefit cost | 27,292 | 9,053 |

Effective March 31, 2007, the Company adopted the recognition and disclosure provisions of SFAS No. 158. The adoption of SFAS No. 158 had no effect on the Company's net income, however it was effected via a gross credit to accumulated other comprehensive income of Rs. 5,566, net of related deferred income tax of Rs. 2,824. The effect of applying this statement on individual line items presented in the Balance Sheet is as follows:

| | Before Application of FAS 158 | Adjustments | After Application of FAS 158 |
|--|--|--------------------|---|
| Deferred income taxes – Non Current | 68,928 | (2,824) | 66,104 |
| Total Assets | 7,165,776 | (2,824) | 7,162,952 |
| Other Liabilities | 130,328 | (8,390) | 121,938 |
| Total Liabilities | 2,620,487 | (8,390) | 2,612,097 |
| Accumulated Other Comprehensive Income | (325) | 5,566 | 5,241 |
| Total Stockholders' equity | 4,375,524 | 5,566 | 4,381,090 |
| Total liabilities and stockholders' equity | 7,165,776 | (2,824) | Rs. 7,162,952 |

The estimated net gain for the defined benefit gratuity and pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is Rs. 764.

| | As of March 31, | | |
|--|------------------------|--------------|--------------|
| | 2005 | 2006 | 2007 |
| | Rs. | Rs. | Rs. |
| The components of net gratuity costs are reflected below: | | | |
| Service cost | 5,688 | 6,806 | 7,616 |
| Interest cost | 1,100 | 1,392 | 1,665 |
| Expected returns on plan assets | (543) | (538) | (163) |
| Recognized net actuarial (gain)/ loss | (130) | (490) | (467) |
| Net gratuity costs | 6,115 | 7,170 | 8,651 |

Principal weighted average actuarial assumptions:

| | | | |
|---|----|-------|-------|
| Discount rate | 8% | 8% | 9.8% |
| Long-term rate of compensation increase | 6% | 6% | 6% |
| Rate of return on plan assets | 6% | 7.50% | 7.50% |

The Company assesses these assumptions with the projected long-term plans of growth and prevalent industry standards. The Company provides the gratuity benefit through annual contributions to a fund managed by the Life Insurance Corporation of India (LIC). The Company estimates the long term return on plan assets at 7.5% based on the average long term rate of return expected to prevail over the next 15 to 20 years on the types of investments held with LIC. The Trustees administer contributions made to the trust and contributions are invested in specific designated instruments.

The employer's best estimate of contributions expected to be paid to the plan during the year 2007–2008 amounts to Rs. 10,000. Further, the benefits expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter are:

For the year ended March 31,

| | |
|--------------|--------|
| 2008 | 1,338 |
| 2009 | 1,625 |
| 2010 | 2,484 |
| 2011 | 4,133 |
| 2012 | 6,448 |
| 2013 to 2018 | 38,879 |

Provident fund

The Company contributed Rs. 28,242, Rs. 36,572 and Rs. 36,668 towards the provident fund during the years ended March 31, 2005, 2006 and 2007 respectively.

24. Related Party Transactions

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

- Satyam Computer Services Limited (formerly the Company's parent company), where the Company provides connectivity services and software development services for certain e-learning projects until November 10, 2005;
- Affiliated companies; and
- Employees of the Company.
- Directors of the Company

Given below is an analysis of transactions with Satyam Computer Services Limited, for the year ended March 31, 2005 and for the period from April 01, 2005 to November 10, 2005:

| | As at March 31,2005 | April 01 to November 10, 2005 |
|---|--------------------------------|--|
| | Rs. | Rs. |
| Due (to)/from Satyam Computer Services Limited at beginning of the year | 13,030 | 33,524 |
| Allocation of facilities costs | (1,647) | - |
| Billings to Satyam Computer Services Limited | 48,713 | 121,132 |
| Collections from Satyam Computer Services Limited | (36,005) | (101,958) |
| Payment to Satyam Computer Services Limited | 9,433 | - |
| Due (to)/from Satyam Computer Services Limited | 33,524 | 52,698 |

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

| | Year ended March 31, | | |
|---|-----------------------------|-------------|-------------|
| | 2005 | 2006 | 2007 |
| | Rs. | Rs. | |
| Sale of Equity in Sify Communications Limited | - | 139,810 | - |
| Payments to Directors (Fees for consultancy services) | 240 | 240 | 240 |

Employee loans

The Company has the following amounts due with respect to employee loans:

| | 2006 | 2007 |
|--------------------|-------------|-------------|
| | Rs. | Rs. |
| Due from employees | 25,393 | 7,726 |

The estimated fair value amounts of other employee loans were Rs. 23,519 and Rs. 7,726 as of March 31, 2006 and 2007, respectively. Considerable judgment is required to develop the estimates of fair value. Thus, the estimates provided herein are not necessarily indicative of the amounts the Company could realize in the market.

25. Stock –based compensation plans

Associate Stock Option Plan 2000

In fiscal 2000, the Company established the Associate Stock Option Plan 2000 (the ASOP 2000 Plan), which provides for the issuance of warrants to eligible employees. The warrants were issued to an employee welfare trust on May 22, 2000. The Trust transfers these warrants to the eligible employees at Re. 1 each and each warrant entitles the holder to purchase one ADS at an exercise price determined by the Compensation committee.

The warrants vest in a graded manner over a period of 3 years as follows:

| | |
|-------------------------------|---|
| One sixth of the warrants: | At the end of one year from the date of the grant |
| Two sixths of the warrants: | At the end of two years from the date of the grant |
| Three sixths of the warrants: | At the end of three years from the date of the grant. |

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

As the number of warrants that an individual employee is entitled to receive and the price of the warrants are known at the grant date, the ASOP 2000 Plan is considered as a fixed grant. Deferred compensation in respect of the grants issued before March 31, 2006 is recorded in the event that exercise price of the warrant is determined to be less than the fair market value of the underlying shares on the date of the grant. Deferred compensation in respect of the grants issued after March 31, 2006 is recorded at the fair value of the options determined on the grant date. Deferred compensation is amortized over the vesting period of the warrants.

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

| | Shares arising out of option | | | Weighted average exercise price (in Rupees) | | |
|---|------------------------------|-------|-------|--|--------|--------|
| | Year ended March 31, | | | Year ended March 31, | | |
| | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 |
| Outstanding at beginning of the year | 151,500 | 7,770 | 2,040 | 214.20 | 105.91 | 182.47 |
| Granted | - | - | - | - | - | - |
| Forfeited | 10,391 | 720 | - | 171.40 | 165.91 | - |
| Expired | 19,396 | 1,090 | 2,040 | 281.26 | 107.11 | 182.47 |
| Exercised | 113,943 | 3,920 | - | 167.36 | 54.71 | - |
| Outstanding at the end of the year | 7,770 | 2,040 | - | 105.91 | 182.47 | - |
| Exercisable at the end of the year | 990 | 960 | - | 107.52 | 182.47 | - |
| Weighted-average grant date fair value of grants during the year | - | - | - | - | - | - |

Associate Stock Option Plan 2002

In fiscal 2002, the Company established the Associate Stock Option Plan 2002 (the ASOP 2002 Plan), which provides for the issuance of warrants to eligible employees. On December 9, 2002, the Company issued warrants to the eligible employees at Re. 1 each and each warrant entitles the holder to purchase one ADS at an exercise price determined by the Compensation Committee.

The warrants vest in a graded manner over a period of 3 years as follows:

| | |
|--------------------------------------|---|
| One sixth of the warrant quantity: | At the end of one year from the date of the grant |
| Five sixths of the warrant quantity: | At the end of each quarter during the second and third year from the date of the grant in eight equal installments. |

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

As the number of warrants that an individual employee is entitled to receive and the price of the warrants are known at the grant date, the ASOP 2002 Plan is considered as a fixed grant. Deferred compensation in respect of the grants issued before March 31, 2006 is recorded in the event that exercise price of the warrant is determined to be less than the fair market value of the underlying shares on the date of the grant. Deferred compensation in respect of the grants issued after March 31, 2006 is recorded at the fair value of the options determined on the grant date. Deferred compensation is amortized over the vesting period of the warrants.

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

| | Shares arising out of option | | | Weighted average exercise price (in Rupees) | | |
|--|------------------------------|---------|---------|--|--------|--------|
| | Year ended March 31, | | | Year ended March 31, | | |
| | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 |
| Outstanding at beginning of the year | 1,108,000 | 757,473 | 376,857 | 170.25 | 178.35 | 172.83 |
| Granted | 90,000 | - | - | 254.16 | - | - |
| Forfeited | 69,458 | 85,479 | 521 | 189.66 | 214.74 | 265.35 |
| Expired | 5,727 | 10,081 | 31,323 | 281.26 | 239.35 | 188.45 |
| Exercised | 365,342 | 285,056 | 338,763 | 163.39 | 172.60 | 172.18 |
| Outstanding at the end of the year | 757,473 | 376,857 | 6,250 | 178.35 | 172.83 | 228.74 |
| Exercisable at the end of the year | 131,589 | 357,482 | 3,906 | 174.61 | 168.58 | 228.74 |
| Weighted-average grant date fair value of grants during the year | - | - | - | 157.78 | - | - |

Associate Stock Option Plan 2005

In October 2005, the Company established the Associate Stock Option Plan 2005 (the ASOP 2005 Plan), which provides for the issuance of 1,900,000 ADR's/shares to eligible employees. The Company cancelled any balance available for issue under previous plans. Accordingly, any unissued options available under previous plans or any options surrendered or lapsed are cancelled.

The options vest in a graded manner over a period of 3 years as follows:

| | |
|-------------------------------------|---|
| One sixth of the option quantity: | At the end of one year from the date of the grant |
| Five sixths of the option quantity: | At the end of each quarter during the second and third year from the date of the grant in eight equal installments. |

The options can be exercised only after they vest but before the expiry date of forty months from the date of the grant.

As the number of ADR's/shares that an individual employee is entitled to receive and the price of the option is known at the grant date, the ASOP 2005 Plan is considered as a fixed grant. Deferred compensation in respect of the grants issued before March 31, 2006 is recorded in the event that exercise price of the warrant is determined to be less than the fair market value of the underlying shares on the date of the grant. Deferred compensation in respect of the grants issued after March 31, 2006 is recorded at the fair value of the options determined on the grant date. Deferred compensation is amortized over the vesting period of the options.

Stock option activity under the ASOP 2005 Plan is as follows:

| | Shares arising out of option | | Weighted average exercise price | |
|--|------------------------------|-----------|---------------------------------|--------|
| | Year ended March 31 | | Year ended March 31 | |
| | 2006 | 2007 | 2006 | 2007 |
| Outstanding at beginning of the year | - | 1,676,400 | - | 286.20 |
| Granted | 1,735,400 | 547,600 | 285.98 | 451.15 |
| Forfeited | 59,000 | 1,268,293 | 279.57 | 290.32 |
| Expired | - | 15,524 | - | 254.01 |
| Exercised | - | 71,988 | - | 238.32 |
| Outstanding at the end of the year | 1,676,400 | 868,195 | 286.20 | 391.59 |
| Exercisable at the end of the year | - | 54,914 | - | 338.66 |
| Weighted-average grant date fair value of grants during the year | - | - | 126.37 | 224.86 |

The following table summarizes information about fixed price options outstanding at March 31, 2007:

| | Range of exercise price | Number outstanding at March 31, 2007 | Weighted average exercise price | Weighted average remaining contractual life | Number exercisable at March 31, 2007 | Weighted average exercise price |
|-----------|-------------------------|--------------------------------------|---------------------------------|---|--------------------------------------|---------------------------------|
| ASOP 2002 | 163-265 | 6,250 | 228.74 | 0.29 years | 3,906 | 228.74 |
| ASOP 2005 | 163-265 | 868,195 | 391.59 | 1.57 to 2.81 years | 54,914 | 338.66 |

26. Commitments and contingencies

- a) During the year ended March 31, 2006, the Company received a notice from the Income-Tax Department of India for the financial years 2002 and 2003 for a sum of Rs.103,000 stating that no withholding tax has been deducted in respect of international bandwidth and leased line payments made by the Company to international bandwidth / lease line service providers. Subsequently, the demand was revised to Rs. 77,724 by the income tax authorities. Under the Income tax regulations the company is required to pay such amounts in 12 monthly instalments under protest if it seeks to dispute the demand. Accordingly, the Company has paid two instalments amounting to Rs. 12,954 till March 31, 2007 under protest and challenged such demands. The Company believes that withholding taxes need not be deducted if the service provider did not have any permanent establishment in India and has not installed any equipment at the Company's premises. The Company has demonstrated to the tax authorities that international service providers neither had a permanent establishment in India nor installed any equipment at the Company's premises, and hence concluded that the likelihood of the loss contingency is remote and no provision for the loss contingency is considered necessary. The amounts paid under protest is included under 'Other assets'.
- b) The Company has outstanding financial and performance guarantees for various statutory purposes and letters of credit totalling Rs. 422,683 and Rs. 641,115 as of March 31, 2006 and 2007, respectively. These guarantees are generally provided to governmental agencies.
- c) Additionally, the Company is also involved in lawsuits, claims and proceedings, which arise in the ordinary course of business. There are no such items pending that the Company expects to be material in relation to its business.

27. Products and services

Breakup of revenues against products and services are as follows:

| | Year ended March 31, | | |
|---|----------------------|------------------|------------------|
| | 2005 | 2006 | 2007 |
| <i>Revenue</i> | Rs. | Rs. | Rs. |
| Service revenue | 2,858,070 | 3,928,072 | 4,587,873 |
| Initial franchise fee | 107,956 | 104,085 | 67,269 |
| Installation service revenue | 236,508 | 262,059 | 256,040 |
| | 3,202,534 | 4,294,216 | 4,911,182 |
| Product revenue | 410,923 | 387,591 | 536,165 |
| | 3,613,457 | 4,681,807 | 5,447,347 |
| <i>Cost of revenues (excluding depreciation and amortization)</i> | | | |
| Products | 357,753 | 324,411 | 462,419 |
| Services | 1,660,578 | 2,167,748 | 2,357,326 |
| Annual fee on IP VPN revenue | 5,611 | 42,564 | 88,511 |
| | 2,023,942 | 2,534,723 | 2,908,256 |

28. Segment reporting

SFAS No 131, “ *Disclosures about Segments of an Enterprise and Related Information,*” establishes standards for the way that public business enterprises report information about operating segments and related disclosures about products and services, geographic areas and major customers. The Company’s operations predominantly relate to connectivity to enterprises and providing Internet access to retail subscribers (both home access and public access). The Company also operates portals, “ Sify.com” , “ Samachar.com” and “ SifyMax.in” that provide a variety of India-related content to audiences both in India and abroad, and which generates revenue from advertisements and other value added services.

The primary operating segments of the Company are:

- Corporate network/data services, which provides Internet, connectivity, security and consulting, hosting and managed service solutions;
- Retail Internet access services, from homes and through cybercafés;
- Online portal and content offerings; and
- Other services, such as development of e-learning software.

The Chief Operating Decision Maker (“CODM”) evaluates the Company’s performance and allocates resources to various strategic business units that are identified based on the products and services that they offer and on the basis of the market served. The measure of loss reviewed by the CODM was “Earnings/loss before interest, taxes, depreciation and amortization.” Revenue in relation to segments is categorized based on items that are individually identifiable to that segment. Bandwidth costs, which form a significant part of the total expenses, are allocated primarily between the corporate network/data services and Internet access services businesses as described below:

International bandwidth refers to bandwidth that is required for access to sites and offices outside the country. For all these businesses, bandwidth is allocated based on actual utilization captured by monitoring traffic per IP pool assigned at the egress points. The Company has packet shapers in the main locations to monitor bandwidth use by each of the above categories of users. This information is used in determining norms like bandwidth per port and bandwidth per PC. The actual utilization is cross validated against assumptions / norms for each business.

National bandwidth refers to the inter-city link bandwidth implemented within the country. Inter-city link bandwidth was allocated based on the number of subscribers or iway cybercafés at “non gateway” points and the bandwidth sold to and used by business enterprises (determined using packet shapers). However, in order to strengthen its corporate business, the Company enhanced its national backbone to carry Internet traffic to the international fibre gateways, shifting from hybrid satellite and fibre gateways to fibre only gateways for international bandwidth. National bandwidth costs are now allocated based on international bandwidth allocation ratios because most of the traffic carried on the national backbone is directed towards the international gateways. The Company believes that the resulting allocations are reasonable.

Last mile costs related to dial-up access that can be directly identified to businesses are allocated directly. Spectrum charges that are paid for the license that has been provided to enable Sify to operate on the 5.7 ghz wireless spectrum are allocated based on the bandwidth that is used by the various businesses that use this spectrum. Certain expenses, such as depreciation, technology and administrative overheads, which form a significant component of total expenses, are not allocable to specific segments as the underlying services are used interchangeably. Management believes that it is not practical to provide segment disclosure of these expenses and, accordingly, they are separately disclosed as “unallocated” and adjusted only against the total income of the Company

A significant part of the fixed assets used in the Company’s business are not identifiable to any of the reportable segments and can be used interchangeably between segments. Management believes that it is not practicable to provide segment disclosures relating to total assets since a meaningful segregation of the available data is onerous.

The Company's operating segment information for the years ended March 31, 2005, 2006 and 2007 are presented below:

Year ended March 31, 2007

(in Rupees)

| | Corporate Network / Data Services | Internet Access Services | Online Portal Services | Other Services | Total |
|-------------------------------------|--|-------------------------------------|-----------------------------------|-----------------------|--------------|
| Revenues | 3,147,369 | 1,862,945 | 262,903 | 174,130 | 5,447,347 |
| Allocated expenses | (1,937,489) | (1,760,624) | (261,949) | (154,692) | (4,114,754) |
| Equity in profits of affiliates | - | - | 70,221 | - | 70,221 |
| Minority Interest | (30,531) | - | - | - | (30,531) |
| Segment operating income / (loss) | 1,179,349 | 102,321 | 71,175 | 19,438 | 1,372,283 |
| Unallocated corporate expenses | | | | | (886,789) |
| Foreign exchange gain / (loss), net | | | | | 8,332 |
| Other income / (expense), net | | | | | (1,309) |
| Depreciation and amortization | | | | | (521,740) |
| Interest income, net* | | | | | 148,055 |
| Income Taxes | | | | | 68,928 |
| Net Profit / (Loss) | | | | | 187,760 |

* Excludes bank charges of Rs. 18,104 being allocated to the strategic business units.

Year ended March 31, 2006

(all in Rupees)

| | Corporate Network / Data Services | Internet Access Services | Online Portal Services | Other Services | Total |
|-------------------------------------|--|-------------------------------------|-----------------------------------|-----------------------|--------------|
| Revenues | Rs.2,531,094 | Rs.1,814,115 | Rs.178,986 | Rs. 157,612 | Rs.4,681,807 |
| Allocated expenses | (1,512,832) | (1,798,963) | (187,941) | (141,567) | (3,641,303) |
| Equity in profits of affiliates | | | 40,703 | | 40,703 |
| Segment operating income / (loss) | Rs.1,018,262 | Rs.15,152 | Rs.31,748 | Rs.16,045 | Rs.1,081,207 |
| Unallocated corporate expenses | | | | | (843,599) |
| Foreign exchange gain / (loss), net | | | | | 23,221 |
| Other income / (expense), net | | | | | 11,835 |
| Depreciation and amortization | | | | | (476,526) |
| Interest income, net* | | | | | 54,617 |
| Net Profit / (Loss) | | | | | Rs.(149,245) |

* Excludes bank charges of Rs. 7,413 being allocated to the strategic business units.

Year ended March 31, 2005

(all in Rupees)

| | Corporate Network/Data Services | Internet Access Services | Online Portal Services | Other Services | Total |
|---------------------------------------|---------------------------------------|--------------------------------|---------------------------|-------------------|-------------|
| Revenues | 2,023,412 | 1,404,876 | 103,053 | 82,116 | 3,613,457 |
| Allocated expenses | (1,345,254) | (1,361,140) | (99,303) | (74,346) | (2,880,043) |
| Equity in (loss)/profit of affiliates | - | - | 50,752 | - | 50,752 |
| Segment operating income/(loss) | 678,158 | 43,736 | 54,502 | 7,770 | 784,166 |
| Corporate expenses | | | | | (620,235) |
| Foreign exchange gain/(loss) | | | | | 2,595 |
| Other income/(expense), net | | | | | 42,503 |
| Depreciation and amortization | | | | | (567,426) |
| Interest income, net | | | | | 50,821 |
| Net Profit / (Loss) | | | | | (307,576) |

29. Legal proceedings

The Company and certain of its erstwhile officers and directors are named as defendants in a securities class action lawsuit filed in the United States District Court for the Southern District of New York. This action, which is captioned In re Satyam Infoway Ltd. Initial Public Offering Securities Litigation, also names several of the underwriters involved in Sify's initial public offering of American Depositary Shares as defendants. This class action is brought on behalf of a purported class of purchasers of Sify's ADSs from the time of Sify's Initial Public Offering ("IPO") in October 1999 through December 2000. The central allegation in this action is that the underwriters in Sify's IPO solicited and received undisclosed commissions from, and entered into undisclosed arrangements with, certain investors who purchased Sify's ADSs in the IPO and the aftermarket. The complaint also alleges that Sify violated the United States federal securities laws by failing to disclose in the IPO prospectus that the underwriters had engaged in these allegedly undisclosed arrangements. More than 300 issuers have been named in similar lawsuits.

In July 2002, an omnibus motion to dismiss all complaints against issuers and individual defendants affiliated with issuers was filed by the entire group of issuer defendants in these similar actions. In October 2002, the cases against the Company's executive officers who were named as defendants in this action were dismissed without prejudice. In February 2003, the court in this action issued its decision on defendants' omnibus motion to dismiss. This decision denied the motion to dismiss the Section 11 claim as to the Company and virtually all of the other issuer defendants. The decision also denied the motion to dismiss the Section 10(b) claim as to numerous issuer defendants, including the Company. On June 26, 2003, the plaintiffs in the consolidated IPO class action lawsuits currently pending against Sify and over 300 other issuers who went public between 1998 and 2000, announced a proposed settlement with Sify and the other issuer defendants. The proposed settlement provides that the insurers of all settling issuers will guarantee that the plaintiffs recover \$1 billion from non-settling defendants, including the investment banks who acted as underwriters in those offerings. In the event that the plaintiffs do not recover \$1 billion, the insurers for the settling issuers will make up the difference.

The Company believes that it has sufficient insurance coverage to cover the maximum amount that it may be responsible for under the proposed settlement. Although the Federal District Court has preliminarily approved the settlement, it is possible that the Federal District Court may not finally approve the settlement in whole or part. The Company believes the maximum exposure under this settlement, in the event that the plaintiffs recover nothing from the non-settling defendants, is approximately U.S. \$3.9 million, an amount which the Company believes is fully recoverable from the Company's insurer.

The Company is party to additional legal actions arising in the ordinary course of business. Based on the available information, as of March 31, 2007 Sify believes that it has adequate legal defenses for these actions and that the ultimate outcome of these actions will not have a material adverse effect on Sify.