

SIFY TECHNOLOGIES LIMITED
UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(In thousands, except share, per share data and as stated otherwise)

1. Reporting entity

Sify Technologies Limited, ('Sify' / 'the Company') formerly known as Sify Limited, is a leading internet services provider headquartered in Chennai, India. These Unaudited Consolidated Interim Financial Statements as at and for the three months and nine months ended December 31, 2008 comprise the Company and its subsidiaries (Sify Communications Limited, Sify Networks Private Limited and Sify International Inc) (together referred to as the 'Group' and individually as 'Group entities') and the Group's interest in associate companies. The Group is primarily involved in providing services, such as Corporate Network and Data Services, Internet Access Services, Online Portal and Content offerings and in selling hardware and software related to such services. Sify is listed in the NASDAQ Global market in United States.

2. Basis of preparation

a. Statement of compliance

The Unaudited Condensed Consolidated Interim Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS), *IAS 34 Interim Financial Reporting*. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended March 31, 2008.

These Unaudited Condensed Consolidated Interim Financial Statements have been approved for issue by the Board of Directors on August 12, 2009.

b. Basis of consolidation

Sify consolidates entities which it owns or controls. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are also taken into account. Subsidiaries are consolidated from the date control commences until the date control ceases.

The financial statements of the Group companies are added on a line-by-line basis and intra-group balances and transactions including unrealized gain/ loss from such transactions are eliminated upon consolidation. The consolidated financial statements are prepared by applying uniform accounting policies in use at the Group. Minority interests which represent part of the net profit or loss and net assets of subsidiaries that are not, directly or indirectly, owned or controlled by the Company, are excluded from equity attributable to the equity holders of the Company.

c. Functional and presentation currency

Items included in the financial statements of each Group entity are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). Indian rupee is the functional currency of Sify, its domestic subsidiaries and affiliates. US dollar is the functional currency of Sify's foreign subsidiary located in the US.

The Unaudited Condensed Consolidated Interim Financial Statements are presented in Indian Rupees which is the Group's presentation currency. All financial information presented in Indian Rupees has been rounded up to the nearest thousand except where otherwise indicated.

Convenience translation: Solely for the convenience of the reader, the financial statements as of and for the three months and nine months ended December 31, 2008 have been translated into United States dollars (neither the presentation currency nor the functional currency) at the noon buying rate in the New York City on December 31, 2008, for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York of U.S. \$ 1 = Rs.48.58. No representation is made that the Indian rupee amounts have been, could have been or could be converted into United States dollar at such a rate or at any other rate on December 31, 2008 or at any other date.

d. Use of estimates and judgements

The preparation of Unaudited Condensed Consolidated Interim Financial Statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses during the period. Accounting estimates could change from period to period. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period of change and future periods, if the change affects both and , if material, their effects are disclosed in the notes to the financial statements.

In preparing the Unaudited Condensed Consolidated Interim Financial Statements, the significant judgements made by management in applying the Groups accounting policies and key sources of estimating uncertainties were the same as that were applied to the consolidated financial statements as at and for the year ended March 31, 2008.

e. Reclassification in the unaudited condensed consolidated interim balance sheet and condensed consolidated interim statement of cash flows.

- (i) Certain amounts previously reported in the unaudited condensed consolidated interim statement of cash flow for the three months ended June 30, 2008 and six months ended September 30, 2008 and furnished in form 6-K have been corrected in preparing the unaudited condensed consolidated statements of cash flow for the nine month period ended December 31, 2008. Specifically, advance and deposit paid to VALS Developers Private Limited aggregating Rs.282,825 towards property lease was incorrectly included in acquisition of property, plant and equipment in the statement of cash flows instead of change in other assets. This reclassification error resulted in overstatement of net cash used in investing activities and understatement of net cash used in operating activities aggregating Rs 282,825. This reclassification error has been corrected in the statement of cash flows for the nine months period ended December 31, 2008.
- (ii) Certain amounts previously reported in the unaudited condensed consolidated interim balance sheet as at 30 September 2008 and furnished in form 6-K have been corrected in preparing the unaudited condensed consolidated interim balance sheet as at 31 December 2008. More specifically,
 - (a) term loan of INR 183,333 with call /put option every six months was erroneously classified as non-current liability as of September 30, 2008. As of December 31, 2008, this amount has been reclassified as a current liability.
 - (b) certain non-current finance lease obligations aggregating to INR 89,766 were erroneously classified as a current liability as of September 30, 2008. As of December 31, 2008, this amount has been reclassified as a non current liability.

The above reclassification errors resulted in a net overstatement of non current liabilities and a net understatement of current liabilities aggregating to INR 93,567 as of September 30, 2008. These reclassification errors have been corrected in the unaudited condensed consolidated interim balance sheet as at December 31, 2008.

3. Significant accounting policies

a. The accounting policies applied by the group in these Unaudited Condensed Consolidated Interim Financial Statements are the same as those applied by the Group in its Consolidated Financial Statements as at and for the year ended March 31 2008, except as described below.

IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction provides' guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. *IFRIC 14* has become applicable to the Company effective April 1, 2008. This amendment did not have a significant impact on the Group's consolidated financial statements.

4. Property, plant and equipment

Particulars	Cost				Accumulated depreciation				Carrying amount as at December 31, 2008
	As at April 1, 2008	Additions	Disposals	As at December 31, 2008	As at April 1, 2008	Depreciation for the period	Deletions	As at December 31, 2008	
Building	769,663	-	-	769,663	120,924	20,608	-	141,532	628,131
Plant and machinery	3,683,632	828,358	10,412	4,501,578	2,526,445	206,426	10,260	2,722,611	1,778,967
Computer equipment	438,597	51,469	198	489,868	297,049	53,946	78	350,917	138,951
Office equipment	116,691	11,785	589	127,887	83,928	9,534	589	92,873	35,014
Furniture and fittings	422,939	89,859	2,676	510,122	339,750	35,072	2,666	372,156	137,966
Vehicles	9,174	-	904	8,270	3,846	2,255	407	5,694	2,576
Total	5,440,696	981,471	14,779	6,407,388	3,371,942	327,841	14,000	3,685,783	2,721,605
Add: Construction -in- Progress									271,425
Total	5,440,696	981,471	14,779	6,407,388	3,371,942	327,841	14,000	3,685,783	2,993,030

Particulars	Cost				Accumulated depreciation				Carrying amount as at March 31, 2008
	As at April 1, 2007	Additions	Disposals	As at March 31, 2008	As at April 1, 2007	Depreciation for the period	Deletions	As at March 31, 2008	
Building	634,230	135,433	-	769,663	94,656	26,268	-	120,924	648,739
Plant and machinery	3,180,761	508,820	5,949	3,683,632	2,341,233	187,414	2,202	2,526,445	1,157,187
Computer equipment	353,874	84,857	134	438,597	204,953	92,230	134	297,049	141,548
Office equipment	103,935	12,803	47	116,691	71,989	11,982	43	83,928	32,763
Furniture and fittings	386,994	37,209	1,264	422,939	303,712	36,975	937	339,750	83,189
Vehicles	8,766	4,448	4,040	9,174	2,439	3,788	2,381	3,846	5,328
Total	4,668,560	783,570	11,434	5,440,696	3,018,982	358,657	5,697	3,371,942	2,068,754
Add: Construction-in-progress									113,031
Total	4,668,560	783,570	11,434	5,440,696	3,018,982	358,657	5,697	3,371,942	2,181,785

Leased assets

The Group's leased assets include certain buildings, plant and machinery and motor vehicles acquired under finance leases. As at December 31, 2008 the net carrying amount of buildings, plant and machinery and vehicles acquired under finance leases is Rs. 268,586 (March 31, 2008: Rs. 271,125), 118,416 (March 31, 2008 : Nil) and Rs. 2,576 (March 31, 2008: Rs.5,328) respectively.

Construction-in-progress

Amounts paid towards acquisition of property, plant and equipment outstanding at each balance sheet date and the cost of property, plant and equipment that are not ready for use are disclosed under construction-in-progress.

5. Intangible assets

Intangible assets comprise the following:

	As at December 31, 2008	As at March 31, 2008
Goodwill	38,550	50,796
Other intangible assets	139,756	131,511
Total	178,306	182,307

(i) Goodwill

Particulars	As at December 31, 2008	As at March 31,2008
Balance at the beginning of the year	50,796	50,796
Effect of exchange rate fluctuation	2,954	-
Balance at the end of the Period/Year	53,750	50,796
Less: Impairment loss	(15,200)	-
Net carrying amount of goodwill	38,550	50,796

The above goodwill has been allocated to the 'Consumer One' reporting segment.

(ii) Other Intangibles

	Technical know-how	Portals and web content	Customer related intangibles	Software	License fees	Total
(A) Cost						
Balance as at April 1, 2008	82,753	52,730	199,554	271,116	50,000	656,153
Acquisitions through business combinations	-	-	-	-	-	-
Other acquisitions	-	-	1,016	39,554	-	40,570
Balance as at December 31, 2008	82,753	52,730	200,570	310,670	50,000	696,723
Balance as at April 1, 2007	82,753	52,730	199,554	240,878	50,000	625,915
Acquisitions through business combinations	-	-	-	-	-	-
Other acquisitions	-	-	-	30,238	-	30,238
Balance as at March 31, 2008	82,753	52,730	199,554	271,116	50,000	656,153

	Technical know-how	Portals and web content	Customer related intangibles	Software	License fees	Total
(B) Amortization						
Balance as at April 1, 2008	82,753	52,730	149,926	235,827	3,406	524,642
Amortization for the period	-	-	15,317	15,133	1,875	32,325
Balance as at December 31, 2008	82,753	52,730	165,243	250,960	5,281	556,967
(C) Carrying amounts as at December 31, 2008	-	-	35,327	59,710	44,719	139,756
Balance as at April 1, 2007	82,753	52,710	136,269	216,324	906	488,962
Amortization for the year	-	20	13,657	19,503	2,500	35,680
Balance as at March 31, 2008	82,753	52,730	149,926	235,827	3,406	524,642
(C) Carrying amounts as at March 31, 2008	-	-	49,628	35,289	46,594	131,511

6. Investments in associates

In March 2006, MF Global Overseas Limited (MFG), a Group incorporated in United Kingdom acquired 70.15% of equity share capital of MF Global Sify Securities Private Limited, formerly Man Financial-Sify Securities India Private Limited ('MF Global) from Refco Group Inc., USA ('Refco'). As at December 31, 2008 and March 31, 2008, 29.85% of MF Global equity shares is held by the Company. The remaining 70.15% is owned by MFG, an unrelated third party. MFG is a subsidiary of MF Global Limited, Bermuda.

A summary of key unaudited financial information of MF Global and its subsidiaries which is not adjusted for the percentage ownership held by the Group is presented below:

Balance sheet

	As at December 31, 2008	As at March 31, 2008
Total assets	3,849,793	7,893,663
Total liabilities	2,122,442	6,290,602
Shareholders' equity	1,727,351	1,603,061
Total liabilities and shareholders' equity	3,849,793	7,893,663

Statement of operations

	Three months ended		Nine months ended	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Revenues	266,034	896,434	1,113,313	1,839,836
Net profit	5,108	301,876	129,385	520,209

7. Cash and cash equivalents

Cash and cash equivalents as at December 31, 2008 amounted to Rs. 1,302,558 (Rs. 1,507,327 as at March 31, 2008). This includes cash-restricted of Rs. 868,958 (Rs. 877,582 as at March 31, 2008), representing deposits held under lien against term loans / overdraft facilities availed by the Group.

Non current

	As at December 31, 2008	As at March 31, 2008
Against future performance obligation	1,000	1,000

Current

Restricted-deposits held under lien against term loans / overdraft facilities	868,958	877,582
Cash and bank balances	433,600	628,745

Cash and cash equivalents	1,302,558	1,506,327
Bank overdrafts	(1,353,766)	(617,637)
Cash and cash equivalents considered in the statement of cash flows	(51,208)	888,690

8. Lease prepayments

	As at December 31, 2008	As at March 31, 2008
Towards land	175,737	553,051
Towards buildings	310,906	15,858
	486,643	568,909

- In respect of prepayments towards land, title is not expected to pass to the Group by the end of the lease term, indicating that the Group does not receive substantially all of the risks and rewards incidental to ownership and accordingly, the upfront amount paid to obtain the right to use the land is accounted for as operating lease prepayments and are amortized over the lease term on a straight line basis.
- In respect of buildings, prepayments made towards buildings accounted for as operating leases are amortised over the lease term on a straight line basis. In case prepayments are made towards buildings accounted for as finance leases, such prepayments are capitalized as 'Leasehold Buildings' (included in buildings) on the commencement of the lease term under the head 'Property, plant and equipment' and depreciated in accordance with the depreciation policy for similar owned assets.

9. Trade and other receivables

Trade and other receivables comprise:

	As at December 31, 2008	As at March 31, 2008
(i) Trade receivables, net	1,763,713	1,694,542
(ii) Other receivables including deposits	1,225,826	526,184
	2,989,539	2,220,726

Trade receivable as at December 31, 2008 and, March 31, 2008 are stated net of allowance for doubtful receivables. The Group maintains an allowance for doubtful receivables based on its age and collectability. Trade receivables are not collateralised except to the extent of refundable deposits received from cybercafé franchisees and from cable television operators. Trade receivables consist of:

	As at December 31, 2008	As at March 31, 2008
Due from customers	1,932,400	1,777,858
Less: Allowance for doubtful receivables	168,687	83,316
Balance at the end of the period	1,763,713	1,694,542

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

	Nine months ended December 31, 2008	Year ended March 31, 2008
Balance at the beginning of the period	83,316	101,624
Add : Additional provision	97,666	131,954
Less : Bad debts written off	12,295	150,262
Balance at the end of the period	168,687	83,316

10. Capital and reserves

Reconciliation of movement in capital and reserves Attributable to equity holders of the Company

Particulars	Share capital	Share premium	Share based payment reserve	Translation Reserve	Recognized actuarial gain / (loss)	Fair value reserve	Share of gains and losses from investment in equity accounted investees	Accumulated deficit	Equity attributable to the equity holders of the Company	Minority interest	Total equity
Balance at April 1, 2008	441,018	16,368,647	149,398	(153)	1,085	(1,080)	(9,669)	(12,254,262)	4,694,984	199,907	4,894,891
Total recognized income and expense	-	-	-	(394)	(17,499)	(3,691)	(1521)	(685,057)	(708,162)	38,008	(670,154)
Share-based payments	-	-	47,347	-	-	-	-	-	47,347	-	47,347
Others	-	6,570	-	-	-	-	-	-	6,570	-	6,570
Balance at December 31, 2008	441,018	16,375,217	196,745	(547)	(16,414)	(4,771)	(11,190)	(12,939,319)	4,040,739	237,915	4,278,654

Particulars	Share capital	Share premium	Share based payment reserve	Translation Reserve	Recognised actuarial gain/(loss)	Fair value reserve	Share of gains and losses from associates accounted using equity method	Accumulated deficit	Equity attributable to the equity holders of the Company	Minority interest	Total equity
Balance at April 1, 2007	428,003	16,262,096	101,540	(316)	2,944	-	10,793	(12,266,154)	4,538,906	169,765	4,708,671
Total recognised income and expense	-	-	-	123	(1,717)	2,487	(7,284)	(58,893)	(65,284)	20,010	(45,274)
Share-based payments	-	-	39,618	-	-	-	-	-	39,618	-	39,618
Stock options exercised	198	4,464	-	-	-	-	-	-	4,662	-	4,662
Balance at December 31, 2007	428,201	16,266,560	141,158	(193)	1,227	2,487	3,509	(12,325,047)	4,517,902	189,775	4,707,677

11. Employee benefits

	<u>As at December 31, 2008</u>	<u>As at March 31, 2008</u>
Gratuity payable	37,409	8,592
Compensated absences	58,998	33,658
	<u>96,407</u>	<u>42,250</u>

The following table set out the status of the gratuity plan:

Change in projected benefit obligation	<u>As at December 31, 2008</u>	<u>As at March 31, 2008</u>
Projected benefit obligation at the beginning of the period / year	27,332	20,785
Service cost	9,051	8,533
Interest cost	2,278	1,639
Actuarial gain/ (loss)	17,644	2,393
Benefits paid	(2,234)	(6,018)
Projected benefit obligation at the end of the period / year	<u>54,071</u>	<u>27,332</u>
Change in plan assets		
Fair value of plan assets at the beginning of the period / year	18,740	8,423
Expected return on plan assets	1,255	957
Actuarial gain / (loss)	(1,099)	(423)
Employer contributions	-	15,801
Benefits paid	(2,234)	(6,018)
Fair value of plan assets at the end of the period / year	<u>16,662</u>	<u>18,740</u>
Present value of projected benefit obligation at the end of the period / year	54,071	27,332
Funded status of the plans	16,662	18,740
Liability recognized in the balance sheets	<u>37,409</u>	<u>8,592</u>

The components of net gratuity costs are reflected below:

	<u>Nine months ended December 31, 2008</u>	<u>Nine months ended December 31, 2007</u>
Service cost	9,051	5,254
Interest cost	2,278	1,235
Expected returns on plan assets	(1,255)	(717)
Net gratuity costs recognized in statements of operations	<u>10,074</u>	<u>5,772</u>

Financial Assumptions at Balance Sheet date:

	As at December 31, 2008	As at March 31, 2008
Discount rate	6.20% P.a	7.85% P.a
Long-term rate of compensation increase	8.00% P.a	6.00% P.a
Rate of return on plan assets	8.00% P.a	7.50% P.a
The Group assesses these assumptions with the projected long-term plans of growth and prevalent industry standards.		
Experience adjustment on plan liabilities	(74)	1,489
Experience adjustment on plan assets	(1,099)	(423)

The Group expects Rs.8,500 in contributions to be paid to the funded defined benefit plans for the year ending March 31, 2009.

Actuarial gains and losses recognised in equity

	As at December 31, 2008	As at March 31, 2008
Actuarial gain / (loss)	(18,743)	(1,859)
	(18,743)	(1,859)

12. Borrowings from banks

	As at December 31, 2008	As at March 31, 2008
<i>Current</i>		
Term loans	333,333	-
Loan against fixed deposits	85,000	85,000
Other working capital facilities	295,042	71,426
	713,375	156,426

- The Group has an outstanding balance towards a term loan of Rs. 333,333 (Rs Nil as at 31 March 2008), availed from banker to fund its purchase of fixed assets. This term loan is secured by fixed deposits and moveable fixed assets of the Group. This loan bears interest at 12.50% p.a. The Company has availed this term loan subject to put/call option every six months. The Company has not met certain financial covenants relating to the loan as of 30 September 2008 and 31 December 2008. As at 24 August 2009, the bank has neither called the loan nor demanded the loan for not meeting the financial covenants. As per the terms of the loan agreement, no financial penalty is leviable.
- The Group has a demand loan of Rs. 85,000 (Rs.85,000 as at 31 March 2008), from its bankers for working capital requirements. This loan is secured by fixed deposits held by the Group. This loan bears interest ranging from 9% - 11% p.a.

3. Other working capital facilities are secured by a charge on the current assets and book debts of the Company. These borrowings bear interest ranging from 11% to 13% p.a. Such facilities are renewable every year .

13. Revenue

	Three months ended		Nine months ended	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Rendering of services				
Service revenue	1,336,228	1,230,783	3,954,445	3,621,867
Initial franchise fee	8,292	7,944	25,164	33,993
Installation service revenue	58,380	79,990	187,778	229,583
	1,402,900	1,318,717	4,167,387	3,885,443
Sale of products	147,867	213,570	458,006	523,449
Total	1,550,767	1,532,287	4,625,393	4,408,892

14. Cost of goods sold and services rendered

Cost of goods sold and services rendered information is presented before any depreciation or Amortization that is direct and attributable to revenue sources. The Group's asset base deployed in the business is not easily split into a component that is directly attributable to a business and a component that is common / indirect to all the businesses. Since a gross profit number without depreciation and Amortization does not necessarily meet the objective of such a disclosure, the Group has not disclosed gross profit numbers but disclosed all expenses, direct and indirect, in a homogenous group leading directly from revenue to operating margin.

15. Personnel expenses

	Three months ended		Nine Months ended	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Salaries and wages	352,187	235,482	968,640	655,142
Contribution to provident fund and other funds	14,843	11,303	42,764	31,817
Staff welfare expenses	9,085	10,313	27,726	25,868
Employee stock compensation expense (Refer to note 16)	15,970	10,295	47,347	39,618
	392,085	267,393	1,086,477	752,445
Attributable to Cost of goods sold and services rendered	184,980	129,215	556,947	364,058
Attributable to selling, general and administrative expenses	207,105	138,178	529,530	388,387

16. Share-based payments

Share based payments are designed as equity-settled plans. Under the equity settled plans, the Group had issued stock options under Associate Stock Option Plan (ASOP) 1999, ASOP 2000, ASOP 2002, ASOP 2005 and ASOP 2007.

The terms and conditions of ASOP are disclosed in the Consolidated Financial Statements as at and for the year ended March 31, 2008. During the three months ended December 31, 2008 the Company has granted 10,000 options under ASOP 2007.

The fair value of share options granted during the three months ended December 31, 2008 was estimated using the following assumptions:

1. Dividend Yield – 0%
2. Assumed Volatility – 53.01% - 77.82%
3. Risk free rate – 2.8%
4. Expected term – 3.0 - 4.5 yrs

The basis of measuring fair value is consistent with that disclosed in the Consolidated Financial Statements as at and for the year ended March 31, 2008. Compensation cost recognized for the three months and nine months ended December 31, 2008 is Rs.15,970 and Rs.47,347 respectively (Rs.10,295 and Rs.39,618 for the three months and nine months ended December 31, 2007 respectively).

17. Net finance income and expense

	Three months ended		Nine Months ended	
	Decemb er 31, 2008	Decemb er 31, 2007	December 31, 2008	Decemb er 31, 2007
Interest income on bank deposits	22,337	6,985	76,158	21,701
Interest income from leases	2,695	34,857	12,238	104,396
Others	2,404	-	4,297	-
Finance income	27,436	41,842	92,693	126,097
Interest expense on finance lease obligations	(99)	(285)	(370)	(649)
Bank charges	(28,581)	(13,728)	(56,186)	(25,472)
Interest on borrowings	(51,614)	(3,768)	(109,541)	(7,984)
Finance expense	(80,294)	(17,781)	(166,097)	(34,105)
Net finance income / (expense) recognised in profit or loss	(52,858)	24,061	(73,404)	91,992

18. Earnings per share

	Three months		Nine months ended	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Net profit / (loss) – as reported	(258,548)	35,738	(685,057)	(58,894)
Weighted average number of shares – Basic	42,820,082	42,743,011	43,523,852	42,838,055
Profit / (loss) per share	(6.04)	0.83	(15.74)	(1.37)
Weighted average number of shares – Dilutive	42,820,082*	42,743,011	43,523,852*	42,838,055
Profit / (loss) per share	(6.04)	0.83	(15.74)	(1.37)

* Shares issued under employee stock option scheme are anti-dilutive

19. Segment reporting

The primary operating segments of the Group are:

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

Three months ended December 31, 2008

	Corporate Network / Data Services	Internet access services	Online portal services	Consumer One (sub-total)	Other Services	Total
		A	B	A+B		
Segment revenue	1,095,962	265,302	44,770	310,072	144,733	1,550,767
Segment expenses allocated	(685,956)	(317,287)	(56,279)	(373,566)	(112,638)	(1,172,160)
Segment operating income	410,006	(51,986)	(11,556)	(63,494)	32,095	378,607
Unallocated corporate expenses						(422,834)
Depreciation and amortization						(142,000)
Foreign exchange gain / (loss)						8,465
Other income / (expense), net						27,112
Net finance expense						(52,858)
Equity in profit of associate						1,525
Minority interest						(11,526)
Income taxes						(45,038)
Net profit/(loss)						(258,548)

Three months ended December 31, 2007

	Corporate Network / Data Services	Internet access services	Online portal services	Consumer One (sub-total)	Other Services	Total
		A	B	A+B		
Segment revenue	1,011,345	369,511	55,636	425,147	95,795	1,532,287
Segment expenses allocated	(635,690)	(342,377)	(72,168)	(414,545)	(97,570)	1,147,805
Segment operating income	375,655	27,134	(16,532)	10,602	(1,775)	384,482
Unallocated corporate expenses						(277,546)
Depreciation and amortization						(142,129)
Foreign exchange gain / (loss)						1,830
Other income / (expense), net						11,143
Net finance income						24,061
Equity in profit of associate						81,409
Minority interest						(5,824)
Income taxes						(41,688)
Net profit/(loss)						35,738

Nine months ended December 31, 2008

	Corporate Network / Data Services	Internet access services	Online portal services	Consumer One (sub-total)	Other Services	Total
		A	B	A+B		
Segment revenue	3,177,625	888,792	144,325	1,033,117		4,625,393
Segment expenses allocated	(2,079,672)	(1,004,502)	(168,343)	(1,189,798)	414,651	(3,612,327)
Segment operating income	1,097,953	(115,710)	(24,018)	(139,728)	54,840	1,013,066
Unallocated corporate expenses						(1,249,637)
Depreciation and amortisation						(375,368)
Foreign exchange gain / (loss)						25,736
Other income / (expense), net						60,697
Net finance expense						(73,404)
Equity in profit of associate						38,622
Minority interest						(38,008)
Income taxes						(85,368)
Net profit/(loss)						(685,057)

Nine months ended December 31, 2007

	Corporate Network / Data Services	Internet access services	Online portal services	Consumer One (sub-total)	Other Services	Total
	A	B	A+B			
Segment revenue	2,783,098	1,187,596	149,726	1,337,322	288,472	4,408,892
Segment expenses allocated	(1,739,582)	(1,097,877)	(227,455)	(1,325,322)	(264,618)	(3,329,522)
Segment operating income	1,043,516	89,719	(77,719)	12,000	23,854	1,079,370
Unallocated corporate expenses						(905,929)
Depreciation and amortization						(389,855)
Foreign exchange gain / (loss)						(18,189)
Other income / (expense), net						34,598
Net finance income						91,992
Equity in profit of associate						146,581
Minority interest						(20,010)
Income taxes						(77,452)
Net profit/(loss)						(58,894)

20. Capital Commitments

Contracts pending to be executed on capital account as at December 31, 2008 and not provided for amounted to Rs.419,270(net of advances Rs. 182,009),[March 31, 2008 Rs.111,384 (net of advances Rs. Rs,507,157). In addition, the Company has a commitment to make payments aggregating to Rs.485,800 (USD 10 million) to Emirates Integrated Telecommunications Company PJSC under the agreement for supply of capacity from the Europe India Gateway, of which the Company has already made payments amounting to Rs. 52,507 (USD 1.08 million) as at December 31, 2008. For lease related commitments, refer Note 22 below.

21. Contingencies

a) During the year ended March 31, 2006, the Group had received a notice from the Income-Tax Department of India for the financial years 2002 and 2003 for a sum of Rs.103,000 on a plea that no withholding tax was deducted in respect of international bandwidth and leased line payments made by the Group to international bandwidth / lease line service providers. Subsequently, the demand was revised to Rs. 77,724 by the income tax authorities and the Group was directed to pay the amount of demand in instalments. Accordingly, the Group paid a sum of Rs. 77,724.

The Group considered that the likelihood of the loss contingency was remote and no provision for the loss contingency was necessary. Subsequently, Group has received an order in it's favour from the Income Tax Authorities and refund for the same has been received during the nine months ended December 31, 2008.

b) The Group has outstanding financial and performance guarantees for various statutory purposes and letters of credit aggregating to Rs.587,569 and Rs.773,961 as at December 31, 2008 and March 31, 2008, respectively. These guarantees are generally provided to governmental agencies.

c) Additionally, the Group is involved in other disputes, lawsuits, claims, governmental and/or regulatory inspections, inquiries, investigations and proceedings. The Group does not foresee any material adverse effect on its financial position, results of operations or cash flows in any given accounting period.

22. Lease obligations

The Group's lease obligations as at December 31, 2008 are summarized below:

Lease Obligations	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Finance lease obligations	128,875	25,495	52,082	51,298	-
Non-cancellable operating lease obligations	1,830,769	128,818	261,269	331,897	1,108,785
Non-cancellable obligations towards proposed lease *	2,423,373	-	122,825	391,249	1,909,299

* For details on lease taken from VALS, refer Note 24(2) below on related parties.

23. Legal proceedings

The Group 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 Group'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 Group 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 Group. 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 provided that the insurers of all settling issuers would 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 did not recover \$1 billion, the insurers for the settling issuers would make up the difference. This proposed settlement was terminated on June 25, 2007, following the ruling by the United States Court of Appeals for the Second Circuit on December 5, 2006, reversing the District Court's granting of class certification.

On August 14, 2007, the plaintiffs filed Amended Master Allegations. On September 27, 2007, the Plaintiffs filed a Motion for Class Certification. Defendants filed a Motion to Dismiss the focus cases on

November 9, 2007. On March 26, 2008, the Court ruled on the Motion to Dismiss, holding that the plaintiffs had adequately pleaded their Section 10(b) claims against the Issuer Defendants and the Underwriter Defendants in the focus cases. As to the Section 11 claim, the Court dismissed the claims brought by those plaintiffs who sold their securities for a price in excess of the initial offering price, on the grounds that they could not show cognizable damages, and by those who purchased outside the previously certified class period, on the grounds that those claims were time barred. This ruling, while not binding on the Group's case, provides guidance to all of the parties involved in this litigation. On October 2, 2008, plaintiffs requested that the class certification motion in the focus cases be withdrawn without prejudice. On October 10, 2008, the Court signed an order granting that request.

The parties have filed a motion for preliminary approval of a proposed settlement between all parties, including the Group and its former officers and directors. The District Court issued a preliminary order approving the global settlement of the IPO laddering cases. The Court issued its opinion and order preliminarily approving the settlement agreement. The settlement fairness agreement has been fixed on September 10, 2009. The Court on that day will issue an order either granting or denying final settlement approval and dismissing the case if final approval is granted. Any direct financial impact of the proposed settlement is expected to be borne by the Company's insurers. The Group believes that it has sufficient insurance coverage to cover the maximum amount that it may be responsible for under the proposed settlement. The Group believes, the maximum exposure under this settlement is approximately U.S.\$ 338,983.05, an amount which the Group believes is fully recoverable from the Group's insurer.

The Group is a party to other legal actions. Based on the available information, as of December 31, 2008, the Group 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 it.

24. Related parties

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

	Nine months ended December 31, 2008	Nine months ended December 31, 2007
Transactions with related parties		
Payments to directors (Fees for consultancy services)	180	180
Sale of services (see note 1 below)	6,473	-
Balance due to / receivable from related parties	523	
Deposit for land and advance rent (see note 2 below)	282,825	-

Note:

1. Represents invoices raised in relation to services rendered to MF Global Sify Securities Private Limited, an equity accounted affiliate.
2. Represents deposit made to VALS Developers Private Limited ("VALS"). VALS is owned and controlled by Raju Vegesna Infotech & Industries Private Limited, in which Mr. Raju Vegesna, our principal share holder and Chief Executive Officer, is holding 94.66% equity in his personal capacity. During the period ended December 31, 2008, Sify entered into a memorandum of understanding with VALS Developers Private Limited to obtain land and building which is in the process of being constructed on a long term lease. The lease agreement, when final, is expected to have an initial non-cancellable term of 5 years, with a further option for Sify to renew or cancel the lease for two five year terms. In connection with this lease, Sify has paid a security deposit of Rs. 125,700 and advance rental of Rs. 157,125 to VALS. The security deposit will be refunded at the end of lease term and the advance rental would be adjusted over a period of 15 months from the commencement of the lease.

25. Financial risk management

The Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements as of and for the year ended March 31, 2008.

Credit risk: The credit risk is the risk that financial loss may arise from a possible failure of a customer or counterparty to meet its obligations under a contract. With regard to Group's activities trade receivables, treasury operations and other activities that are in the nature of leases give rise to credit risks.

Since services are provided to and products are sold to customers spread over a vast spectrum, the Group is not exposed to concentration of credit to any one single customer.

In the area of treasury operations, the Group is presently exposed to counter-party risks relating to short term and medium term deposits placed with Public-Sector Banks, and investments made in mutual funds (MF). The risks pertaining to such investments existed on the balance sheet date with respect to these mutual funds. However, these investments were subsequently disposed. In managing this risk, the Group is driven by three fundamentals of prudent cash management, safety, liquidity and yield. The Chief Financial Officer is responsible for monitoring the counterparty credit risk, and has been vested with the authority to seek Board's approval to hedge such risks in case of need.

Liquidity Risks: Liquidity risk is the risk that one or more of Group entity may fail to meet its financial obligations on time. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities, without incurring unacceptable losses or risking Group's reputation. Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses and servicing of financial obligations. In addition, the Group has concluded arrangements with well reputed Banks, and has unused lines of credit that could be drawn upon should there be a need. The Group is also in the process of negotiating additional facilities with banks for funding its requirements. Subsequent to the balance sheet date, the Group has revised some of its long-term commitments such as the ELCOT land arrangement and sought / obtained refund of deposits made.

Currency Risk: The Group's exposure in USD denominated transactions gives rise to exchange rate fluctuation risk. Group's policy in this regard incorporates:

- Forecasting inflows and outflows denominated in US\$ for a twelve-month period
- Estimating the net-exposure in foreign currency, in terms of timing and amount
- Determining the extent to which exposure should be protected through one or more risk-mitigating instruments to maintain the permissible limits of uncovered exposures
- Carrying out a variance analysis between estimate and actual on an ongoing basis, and taking stop-loss action when the adverse movements breaches the 5% barrier of deviation, subject to review by Audit Committee.

26. Subsequent Events

a. Acquisition of Minority Interest in Subsidiary

The Board of Directors and shareholders of the Company at their meeting held on November 24, 2008 approved the merger of Sify's subsidiary Sify Communications Limited with retrospective effect from April 1, 2008, subject to approval by the Honourable High Court of Madras and other statutory authorities. Subsequent to the balance sheet date, the Company has obtained the approval of Honourable High Court on June 26, 2009. Adjustments arising out of such merger would be given effect to in the period in which such approval is received. The adjustments relate to the reversal of current tax provision established by Sify Communications Limited for the period subsequent to April 1, 2008 and write off of deferred tax assets established in the books of Sify Communications Limited. As a part of the merger, the Company has issued 10,530,000 equity shares to Infinity Satcom Universal Pvt. Limited (on July 16, 2009) and acquired the remaining 26% equity interest of Sify Communications.

b. Surrender of leasehold land

During the year ended March 31, 2008, the Company had taken on lease 16.97 acres of land from Electronics Corporation of Tamil Nadu (ELCOT) for a period of 90 years. The Company had paid a sum of Rs.555,616 as refundable security deposit towards such land. In connection with this, the Company was in discussions with ELCOT to consider the option of surrendering 11.42 acres of land out of the total 16.97 acres allotted and made an application for refund of such amount. Consequent to such application made by the Company, subsequent to the balance sheet date of December 31, 2008, ELCOT has refunded to the Company a sum of Rs.374,576 representing proportionate sum of refundable security deposit amount. In March 2009, the Company has made another request for refund of the security deposit relating to the remaining 5.55 acres of land.

Under the arrangements with ELCOT, the Company has made payments amounting to Rs 10,469 towards costs for setting up common infrastructure. Consequent to such request to surrender land to the ELCOT, the Company has made applications for refund of amounts paid for setting up such common infrastructure.

27. Group entities

Particulars	Country of incorporation	% of Ownership interest	
		December 31, 2008	March 31, 2008
Significant subsidiaries			
Sify Communications Limited	India	74	74
Sify International Inc	US	100	100
Sify Networks Private Limited	India	100	100
Associates			
MF Global-Sify securities India Private Limited	India	29.85	29.85

28. Recent accounting pronouncements

Following is a short description of new accounting standards :

IFRS 8 'Operating Segments' introduces the 'management approach' to segment reporting, whereby segment reporting is based on internal management reporting and replaces *IAS 14*. *IFRS 8* aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information." The standard is applicable for periods beginning on or after January 1, 2009. Sify early adopted *IFRS 8* for the year ending March 31, 2009 and has made disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them.

Revised *IAS 23 'Borrowing Costs'* removes the option to expense borrowing costs and requires that an entity capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised *IAS 23* will become mandatory for the Group's March 31, 2010 financial statements and will constitute a change in accounting policy for the Group. Sify will not early adopt *IAS 23*. The amendment is not expected to have a significant impact on Sify's consolidated financial statements.

IFRIC 13 'Customer Loyalty Programmes' addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programs for their customers. It relates to customer loyalty programs under which the customer can redeem credits for awards such as free or discounted goods or services. *IFRIC 13*,

which becomes mandatory for the Group's March 31, 2010 financial statements, is not expected to have a significant impact on the Consolidated Financial Statements.

IAS 1 'Presentation of Financial Statements', applicable for annual periods beginning on or after January 1, 2009. This Standard permits early adoption except to the extent of amendment made by IAS 27 (as amended in 2008) in paragraph 106. This Standard would be adopted, by the Company effective April 1, 2009.

IFRS 3 (Revised), 'Business Combinations', as amended, is applicable for annual periods beginning on or after July 1, 2009. Early adoption is permitted. However, this Standard can be applied only at the beginning of an annual reporting period that begins on or after June 30, 2007. The Company would adopt this Standard with effect from April 1, 2009. *IFRS 3 (Revised)* primarily requires the acquisition-related costs to be recognized as period expenses in accordance with the relevant IFRS. Costs incurred to issue debt or equity securities are required to be recognized in accordance with *IAS 39*. Consideration, after this amendment, would include fair values of all interests previously held by the acquirer. Re-measurement of such interests to fair value would be required to be carried out through the income statement. Contingent consideration is required to be recognized at fair value even if not deemed probable of payment at the date of acquisition.

IFRS 3 (Revised) provides an explicit option on a transaction-by-transaction basis, to measure any non-controlling interest ("NCI") in the entity acquired at fair value of their proportion of identifiable assets and liabilities or at full fair value. The first method would result in a marginal difference in the measurement of goodwill from the existing IFRS 3; however the second approach would require recording goodwill on NCI as well as on the acquired controlling interest.

IAS 27, 'Consolidated and Separate Financial Statements', as amended, is applicable for annual periods beginning on or after July 1, 2009. Earlier adoption is permitted provided *IFRS 3 (Revised)* is also early adopted. This Standard would be adopted by the company as at April 1, 2009. It requires a mandatory adoption of economic entity model which treats all providers of equity capital as shareholders of the entity. Consequently, a partial disposal of interest in a subsidiary in which the parent company retains control does not result in a gain or loss but in an increase or decrease in equity. Additionally, purchase of some or all of the NCI is treated as equity transaction and accounted for in equity and a partial disposal of interest in subsidiary in which the parent company loses control triggers recognition of gain or loss on the entire interest. A gain or loss is recognized on the portion that has been disposed of and a further holding gain or loss is recognized on the interest retained, being the difference between the fair value and carrying value of the interest retained. This Standard requires an entity to attribute proportionate share of net income and reserves to the NCI even if this results in the NCI having a deficit balance.

Amendment to IAS 39 "Financial Instruments-Recognition and Measurement" becomes mandatory to the Company's financial statements for the year ending March 31, 2010. The Company is currently in the process of evaluating the potential impact of the revised standard on its consolidated financial statements.

IFRIC 14, IAS 19- "A limit on a defined benefit asset, minimum funding requirement and their interaction" becomes mandatory on the Company's financial statements for the year ending March 31, 2010 and is not expected to have any material impact on its consolidated financial statements.

IFRIC 18- Transfer of assets from customers defines the treatment for property, plant and equipment transferred by customers to companies or for cash received to be invested in property, plant and equipment that must be used to either connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to both.

The item of property, plant and equipment is to be initially recognized by the Company at fair value with a corresponding credit to revenue. If an ongoing service is identified as a part of the agreement, the period over which revenue will be recognized for that service would be determined by the terms of the agreement with the customer. If the period is not clearly defined, then revenue should be recognized over a period no longer than the usual life of the transferred asset used to provide the ongoing service. This interpretation is to be applied prospectively to transfers of assets from customers received on or after July 1, 2009. Earlier

application is permitted provided the valuation and other information needed to apply the information to past transfers were obtained at the time the transfers occurred. We would prospectively adopt this interpretation for all assets transferred after July 1, 2009. The Company is currently evaluating the requirements of IFRIC 18 on its consolidated financial statements and the same is not expected to have a significant impact on Sify's statement of operations.

Improvements to IFRS- In April 2009, the IASB issued "Improvements to IFRSs" — a collection of amendments to twelve International Financial Reporting Standards — as part of its program of annual improvements to its standards, which is intended to make necessary, but non-urgent, amendments to standards that will not be included as part of another major project. The latest amendments were included in exposure drafts of proposed amendments to IFRS published in October 2007, August 2008, and January 2009. The amendments resulting from this standard mainly have effective dates for annual periods beginning on or after January 1, 2010, although entities are permitted to adopt them earlier. The Company is evaluating the impact, these amendments will have on the Company's condensed consolidated interim financial statements