SIFY TECHNOLOGIES LTD
Form 6-K
March 31, 2009

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**United States Securities and Exchange Commission**
**Washington, DC 20549**
**FORM 6-K**
**Report of Foreign Private Issuer**
**Pursuant to Rule 13a-16 or 15d-16 of the Securities Exchange Act of 1934**
**For the period ended September 30, 2008**
**Commission File Number 000-27663**
**SIFY TECHNOLOGIES LIMITED**
(Translation of registrant s name into English)
Tidel Park, Second Floor
No. 4, Rajiv Gandhi Salai, Taramani
Chennai 600 113, India
(91) 44-2254-0770
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F. Form 20F þ Form 40 F o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b) (1). Yes o No þ

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b) (7). Yes o No þ

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934. Yes o No þ

If Yes is marked, indicate below the file number assigned to registrant in connection with Rule 12g3-2(b). Not applicable.

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## Currency of Presentation and Certain Defined Terms

Unless the context otherwise requires, references herein to we, us, the Company or Sify are to Sify Technologies Limited, a limited liability Company organized under the laws of the Republic of India. References to U.S. or the United States are to the United States of America, its territories and its possessions. References to India are to the Republic of India. In January 2003, we changed the name of our Company from Satyam Infoway Limited to Sify Limited. In October 2007, we again changed our name from Sify Limited to Sify Technologies Limited. Sify , *SifyMax.in,* , Sify e-ports and Sify online are trademarks used by us for which we have already obtained the registration certificates in India. All other trademarks or trade names used in this quarterly report are the property of their respective owners.

In this report, references to $, US$, Dollars or U.S. dollars are to the legal currency of the United States, and references to Rs, rupees or Indian Rupees are to the legal currency of India. References to a particular fiscal year ar to our fiscal year ended March 31 of that year.

For your convenience, this report contains translations of some Indian rupee amounts into U.S. dollars which should not be construed as a representation that those Indian rupee or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Indian rupees, as the case may be, at any particular rate, the rate stated below, or at all. Except as otherwise stated in this report, all translations from Indian rupees to U.S. dollars contained in this report have been based on the noon buying rate in the City of New York on September 30, 2008 for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York. The noon buying rate on September 30, 2008 was Rs .46.45 per $1.00.

Our financial statements are prepared in Indian rupees and presented in accordance with International Financial Reporting standards, or IFRS. In this report, any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

Information contained in our websites, including our principal corporate website, *www.sifycorp.com*, is not part of this report.

**Forward-looking Statements May Prove Inaccurate**

IN ADDITION TO HISTORICAL INFORMATION, THIS REPORT CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE SUBJECT TO RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE REFLECTED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN THE SECTION ENTITLED RISK FACTORS AND ELSEWHERE IN THIS REPORT. YOU ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH REFLECT MANAGEMENT S ANALYSIS ONLY AS OF THE DATE OF THIS REPORT. IN ADDITION, YOU SHOULD CAREFULLY REVIEW THE OTHER INFORMATION IN THIS REPORT AND IN OUR PERIODIC REPORTS AND OTHER DOCUMENTS FILED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE SEC ) FROM TIME TO TIME. OUR FILINGS WITH THE SEC ARE AVAILABLE ON ITS WEBSITE, *WWW.SEC.GOV*.

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**Sify Technologies Limited**
**Unaudited Condensed Consolidated Interim Balance Sheet**
(In thousands, except share data and as otherwise stated)

| | Note | As at September 30, 2008 Rs. | As at March 31, 2008 Rs. | As at September 30, 2008 Convenience translation into US$ (Note 2(b)) |
|---|---|---|---|---|
| **Assets** | | | | |
| Property, plant and equipment | 4 | 2,979,794 | 2,181,785 | 64,150 |
| Intangible assets | 5 | 182,464 | 182,307 | 3,928 |
| Investment in associates/equity accounted investees | 6 | 513,752 | 478,514 | 11,060 |
| Restricted Cash | 7 | 1,000 | 1,000 | 22 |
| Net investment in leases other than current installments | | 2,177 | 5,297 | 47 |
| Lease prepayments | 8 | 852,177 | 568,909 | 18,346 |
| Other assets | | 523,489 | 336,525 | 11,270 |
| Deferred tax assets | | 13,510 | 15,570 | 291 |
| **Total non-current assets** | | **5,068,363** | **3,769,907** | **109,114** |
| Inventories | | 61,948 | 37,751 | 1,334 |
| Trade and other receivables, net | 9 | 2,442,796 | 2,220,726 | 52,590 |
| Net investment in leases, current installments | | 6,377 | 6,743 | 137 |
| Prepayments for current assets | | 144,039 | 150,627 | 3,101 |
| Restricted cash | 7 | 784,200 | 877,582 | 16,883 |
| Cash and bank balances | 7 | 538,901 | 628,745 | 11,602 |
| Other Investments | | 16,331 | 18,679 | 352 |
| **Total current assets** | | **3,994,592** | **3,940,853** | **85,999** |
| **Total assets** | | **9,062,955** | **7,710,760** | **195,113** |

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**Sify Technologies Limited**
**Unaudited Condensed Consolidated Interim Balance Sheet**
(In thousands, except share data and as otherwise stated)

| | Note | As at September 30, 2008 Rs. | As at March 31, 2008 Rs. | As at September 30, 2008 Convenience translation into US$ (Unaudited) |
|---|---|---|---|---|
| **Equity** | | | | |
| Share Capital | 10 | 441,018 | 441,018 | 9,494 |
| Share premium | 10 | 16,375,217 | 16,368,647 | 352,534 |
| Reserves | 10 | 162,170 | 149,250 | 3,491 |
| Accumulated deficit | 10 | (12,680,771) | (12,263,931) | (272,998) |
| **Total equity attributable to equity holders of the Company** | | **4,297,634** | **4,694,984** | **92,521** |
| Minority Interest | 10 | 226,389 | 199,907 | 4,875 |
| **Total Equity** | | **4,524,023** | **4,894,891** | **97,396** |
| **Liabilities** | | | | |
| Finance lease obligations, other than current installments | | 1,147 | 2,493 | 25 |
| Borrowings from Banks | 12 | 183,333 | | 3,947 |
| Employee benefits | 11 | 64,568 | 42,250 | 1,390 |
| Other liabilities | | 130,546 | 124,472 | 2,810 |
| **Total non-current liabilities** | | **379,594** | **169,215** | **8,172** |
| Finance lease obligations current installments | | 2,658 | 2,899 | 57 |
| Borrowings from banks | 12 | 342,980 | 156,426 | 7,384 |
| Bank Overdraft | 7 | 1,085,074 | 617,637 | 23,360 |
| Trade and other payables | | 2,241,573 | 1,501,336 | 48,258 |
| Deferred income | | 487,053 | 368,356 | 10,486 |
| **Total current liabilities** | | **4,159,338** | **2,646,654** | **89,545** |
| **Total liabilities** | | **4,538,932** | **2,815,869** | **97,717** |
| **Total equity and liabilities** | | **9,062,955** | **7,710,760** | **195,113** |

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements

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**Sify Technologies Limited**
**Unaudited Condensed Consolidated Interim Income Statement**
(In thousands, except share data and as otherwise stated)

| | Note | Quarter ended September 2008 Rs. | Quarter ended September 2007 Rs. | Quarter ended September 30, 2008 Convenience translation into US$ (Note 2(b)) | Half Year ended September 2008 Rs. | Half Year ended September 2007 Rs. | Half year ended September30, 2008 Convenience translation into US$ (Note 2(b)) |
|---|---|---|---|---|---|---|---|
| Revenue | 13 | 1,571,999 | 1,471,504 | 33,843 | 3,074,626 | 2,876,605 | 66,192 |
| Cost of goods sold and services rendered | 14 | (923,635) | (834,915) | (19,885) | (1,809,427) | (1,590,686) | (38,955) |
| Other income | | 15,081 | 11,903 | 325 | 33,585 | 23,454 | 723 |
| Selling, general and administrative expense | | (799,534) | (616,146) | (17,213) | (1,441,663) | (1,239,433) | (31,037) |
| Depreciation and amortisation expenses | | (121,574) | (127,309) | (2,617) | (233,369) | (247,725) | (5,024) |
| **Income/(loss) from operating activities** | | **(257,663)** | **(94,963)** | **(5,547)** | **(376,248)** | **(177,785)** | **(8,101)** |
| Finance Income | 17 | 31,952 | 41,717 | 688 | 65,257 | 84,255 | 1,405 |
| Finance Expenses | | (52,024) | (7,324) | (1,120) | (85,803) | (16,324) | (1,847) |
| **Net Finance Income** | | **(20,072)** | **34,393** | **(432)** | **(20,546)** | **67,931** | **(442)** |
| Share of profit of equity accounted investee (net of income tax) | 6 | 24,287 | 40,469 | 523 | 37,097 | 65,172 | 799 |
| **Profit before tax** | | **(253,448)** | **(20,101)** | **(5,456)** | **(359,697)** | **(44,682)** | **(7,744)** |
| Income tax (expense)/benefit | | (22,094) | (20,702) | (476) | (40,330) | (35,764) | (869) |
| **Profit for the year/period** | | **(275,542)** | **(40,803)** | **(5,932)** | **(400,027)** | **(80,446)** | **(8,613)** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Attributable to:** | | | | | | | |
| Equity holders of the Company | | (293,786) | (49,311) | (6,325) | (426,509) | (94,632) | (9,183) |
| Minority interests | | 18,244 | 8,508 | 393 | 26,482 | 14,186 | 570 |
| | | **(275,542)** | **(40,803)** | **(5,932)** | **(400,027)** | **(80,446)** | **(8,613)** |
| **Earnings per share** | 18 | | | | | | |
| Basic earnings per share | | (6.48) | (1.15) | (0.14) | (9.27) | (2.21) | (0.20) |
| Diluted earnings per share | | (6.48) | (1.15) | (0.14) | (9.27) | (2.21) | (0.20) |

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements

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**Sify Technologies Limited**
**Unaudited Condensed Consolidated Interim Statements of Recognised Income and Expenses**
(In thousands, except share data and as otherwise stated)

| | Note | Quarter ended September 2008 Rs. | Quarter ended September 2007 Rs. | Quarter ended September 30, 2008 Convenience translation into US$ (Note 2(b)) | Half year ended September 2008 Rs. | Half year ended September 2007 Rs. | Half year ended September 30, 2008 Convenience translation into US$ (Note 2(b)) |
|---|---|---|---|---|---|---|---|
| Foreign currency translation differences for foreign operations | | (295) | 178 | (6) | (2,967) | 204 | (64) |
| Defined benefit plan actuarial gains (losses) | | 1,203 | (310) | 26 | (2,414) | (1,609) | (52) |
| Change in fair value of available for sale security | | (133) | 42 | (3) | (1,548) | 42 | (33) |
| Share of gains and losses from associates accounted using the equity method | | (631) | (194) | (14) | (1,859) | (7,478) | (40) |
| **Income and expense recognised directly in equity** | | **144** | **(284)** | **3** | **(8,788)** | **(8,841)** | **(189)** |
| Profit for the period/year | | (275,542) | (40,803) | (5,932) | (400,027) | (80,446) | (8,613) |
| **Total recognised income and expense for the year / period** | 10 | **(275,398)** | **(41,087)** | **(5,929)** | **(408,815)** | **(89,287)** | **(8,802)** |
| **Total comprehensive** | | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| **income attributable to:** | | | | | | |
| Equity holders of the Company | (293,642) | (49,595) | (6,322) | (435,297) | (103,473) | (9,372) |
| Minority Interest | 18,244 | 8,508 | 393 | 26,482 | 14,186 | 570 |
| **Total recognised income and expense for the year / period** | **(275,398)** | **(41,087)** | **(5,929)** | **(408,815)** | **(89,287)** | **(8,802)** |

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements

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**Sify Technologies Limited**
**Unaudited Condensed Consolidated Interim Statement of Cash Flows**

| (In thousands, expect share data and as otherwise stated) | Half year ended September 2008 Rs. | Half year ended September 2007 Rs. | September 30, 2008 Convenience translation into US$ (Note 2(b)) |
|---|---|---|---|
| **Cash flows from / (used in) operating activities** | | | |
| Profit for the period | (400,027) | (80,446) | (8,613) |
| *Adjustments for:* | | | |
| Depreciation and amortization | 233,368 | 247,725 | 5,024 |
| Share of profit of equity accounted investee | (37,097) | (65,172) | (799) |
| Gain on sale of property, plant and equipment | (46) | 194 | (1) |
| Provision for doubtful receivables and advances | 94,354 | 80,668 | 2,031 |
| Stock compensation expense | 31,377 | 29,323 | 676 |
| Net finance expenditure / (income) | 20,546 | (67,931) | 442 |
| Income tax expense | 40,330 | 35,764 | 869 |
| Unrealized (gain)/ loss on account of exchange differences | (1,720) | 5,072 | (37) |
| | **(18,915)** | **185,197** | **(408)** |
| Change in trade and other receivables | (411,612) | (634,609) | (8,861) |
| Change in inventories | (24,197) | (7,889) | (521) |
| Change in other assets | (128,627) | (27,626) | (2,770) |
| Change in trade and other payables | 359,735 | 530,163 | 7,745 |
| Change in employee benefits | 19,905 | 11,175 | 429 |
| Change in deferred revenue | 118,679 | 99,113 | 2,555 |
| | (85,032) | 155,524 | (1,831) |
| Income taxes paid | (44,235) | (65,041) | (952) |
| **Net cash (used in) / from operating activities** | **(129,267)** | **90,483** | **(2,783)** |
| **Cash flows from / (used in) investing activities** | | | |
| Acquisition of property, plant and equipment | (864,988) | (407,426) | (18,621) |
| Expenditure on intangible assets | (71,325) | (7,439) | (1,536) |
| Proceeds from sale of property, plant and equipment | 623 | 172 | 13 |
| Net investment in leases | 3,486 | 8,589 | 75 |
| Finance income received | 126,945 | 53,711 | 2,733 |
| Short term investments | | (20,315) | |
| **Net cash used in investing activities** | **(805,259)** | **(372,708)** | **(17,336)** |

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**Sify Technologies Limited**
**Unaudited Condensed Consolidated Interim Statement of Cash Flows**

| (In thousands, except share data and as otherwise stated) | Half year ended September 2008 Rs | 2007 Rs | September 30, 2008 Convenience translation into US$ (Note 2(b)) |
|---|---|---|---|
| **Cash flows from / (used in) financing activities** | | | |
| Proceeds from issue of share capital (including share premium) | | 4,664 | |
| Proceeds from / (repayment) of borrowings | 369,888 | (770,357) | 7,963 |
| Finance expenses paid | (85,563) | (16,578) | (1,842) |
| Repayment of finance lease liabilities | (1,587) | (1,572) | (34) |
| **Net cash from / (used) in financing activities** | **282,738** | **(783,843)** | **6,087** |
| **Net decrease in cash and cash equivalents** | **(651,788)** | **(1,066,068)** | **(14,032)** |
| Cash and cash equivalents at April 1 | 888,690 | 3,070,157 | 19,132 |
| Effect of exchange fluctuations on cash held | 1,125 | (2,065) | 24 |
| **Cash and cash equivalents at period/year end** | **238,027** | **2,002,024** | **5,124** |
| Supplementary information | | | |
| Additions to property plant and equipment represented by finance lease obligations | | 2,832 | |

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements

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**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 quarter ended September 30, 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 March 30, 2009.

**b. Functional and presentation currency**

Items included in the financial statements in each of the Group s entities 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 quarter ended September 30, 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 September 30, 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.46.45. 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 September 30, 2008 or at any other date.

**c. 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. 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.

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.

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**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. There amendment does not have a significant impact on the Group.

**4. Property, plant and equipment**

| | Cost | | | | Accumulated depreciation | | | | Carrying |
|---|---|---|---|---|---|---|---|---|---|
| **Particulars** | **As at April 1, 2008** | **Additions** | **Disposals** | **As at September 30, 2008** | **As at April 1, 2008** | **Depreciation for the period** | **Deletions** | **As at September 30, 2008** | **amount as at September 30, 2008** |
| Building | 769,663 | | | 769,663 | 120,924 | 13,739 | | 134,663 | 635,000 |
| Plant and machinery | 3,683,632 | 747,908 | 2,830 | 4,428,710 | 2,526,445 | 133,503 | 2,830 | 2,657,118 | 1,771,592 |
| Computer equipments | 438,597 | 39,491 | 100 | 477,988 | 297,049 | 36,810 | 31 | 333,828 | 144,160 |
| Office equipment | 116,691 | 15,263 | 304 | 131,650 | 83,928 | 6,702 | 304 | 90,326 | 41,324 |
| Furniture s and fittings | 422,939 | 53,707 | 1,528 | 475,118 | 339,750 | 21,091 | 1517 | 359,324 | 115,794 |
| Vehicles | 9,174 | | 904 | 8,270 | 3,846 | 1,528 | 407 | 4,967 | 3,303 |
| **Total** | **5,440,696** | **856,368** | **5,666** | **6,291,399** | **3,371,942** | **213,373** | **5,089** | **3,580,226** | **2,711,173** |
| Add: Construction in Progress | | | | | | | | | 268,621 |
| **Total** | | | | | | | | | **2,979,794** |

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| | Cost | | | | Accumulated depreciation | | | | Carrying |
|---|---|---|---|---|---|---|---|---|---|
| Particulars | As at April 1, 2007 | Additions | Disposals | As at March 31, 2008 | As at April 1, 2007 | Depreciation for the year | Deletions | As at March 31, 2008 | amount 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 equipments | 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** | | | | | | | | | **2,181,785** |

**Leased Assets**

The Group s leased assets include certain buildings and motor vehicles. As at September 30, 2008 the net carrying amount of buildings and vehicles is Rs. 268,586 (September 30, 2007: 143,308; March 31, 2008: Rs. 271,125) and Rs. 3,302 (September 30, 2007: Rs. 7,719; March 31, 2008: Rs.5,328) respectively.

**Construction in progress**

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

**5. Intangible assets**

Intangible assets comprise the following:

| | As at September 30, 2008 | As at March 31, 2008 |
|---|---|---|
| Goodwill | 50,438 | 50,796 |
| Other intangible assets | 132,026 | 131,511 |
| **Total** | **182,464** | **182,307** |

The amount of Goodwill as at September 30, 2008 and March 31, 2008 has been allocated to the Online Portals services cash generating unit.

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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 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 September 30, 2008 | As at March 31, 2008 |
|---|---|---|
| Total Assets | 7,401,054 | 7,893,663 |
| Total Liabilities | 5,679,943 | 6,290,602 |
| Shareholders equity | 1,721,111 | 1,603,061 |
| Total Liabilities and Shareholders equity | 7,401,054 | 7,893,663 |

**Statement of Operations**

| | Three months ended | | Half year ended | |
|---|---|---|---|---|
| | September 30, 2008 | September 30, 2007 | September 30, 2008 | September 30, 2007 |
| Revenues | 449,841 | 534,906 | 847,278 | 943,402 |
| Net Profit | 81,364 | 135,886 | 124,277 | 218,331 |

**7. Cash and cash equivalents**

Cash and cash equivalents as at September 30, 2008 amounted to Rs. 1,324,101 (Rs. 2,003,024 as at September 30, 2007; Rs. 1,507,327 as at March 31, 2008). This includes cash-restricted of Rs. 785,200 (Rs. 14,333 as at September 30, 2007; Rs. 878,582 as at March 31, 2008), representing deposits held under lien against the working capital facilities availed and the bank guarantees given by the Group towards future performance obligations.

| | As at September 30, 2008 | As at March 31, 2008 |
|---|---|---|
| *Non current* | | |
| Against future performance obligation | 1,000 | 1,000 |
| *Current* | | |
| Restricted-deposits held under lien against term loans / overdraft facilities | 784,200 | 877,582 |
| Cash and bank balances | 538,901 | 628,745 |

| | | |
|---|---|---|
| Cash and cash equivalents | 1,323,101 | 1,506,327 |
| Bank overdrafts | (1,085,074) | (617,637) |
| Cash and cash equivalents in the statement of cash flows | 238,027 | 888,690 |

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**8. Lease prepayments**

| | As at September 30, 2008 | As at March 31, 2008 |
|---|---|---|
| Towards land | 550,631 | 553,051 |
| Towards buildings | 301,546 | 15,858 |
| | **852,177** | **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 amortised over the lease term in accordance with the pattern of benefits provided.

In respect of buildings, prepayments made towards buildings accounted for as operating leases are amortised over the lease term in accordance with the pattern of benefits provided. In case prepayments are made towards buildings accounted for as finance leases, such prepayments are capitalized as Leasehold 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 September 30, 2008 | As at March 31, 2008 |
|---|---|---|
| (i) Trade receivables, net | 1,894,045 | 1,694,542 |
| (ii) Other receivables including deposits | 548,751 | 526,184 |
| | **2,442,796** | **2,220,726** |

Trade receivable as at September 30, 2008, September 30, 2007 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 September 30, 2008 | As at March 31, 2008 |
|---|---|---|
| Due from customers | 2,049,401 | 1,777,858 |
| Less: Allowance for doubtful receivables | 155,356 | 83,316 |
| **Balance at the end of the period / year** | **1,894,045** | **1,694,542** |

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

| | September 30, 2008 | March 31, 2008 |
|---|---|---|
| Balance at the beginning of the year | 83,316 | 101,624 |
| Add : Additional provision | 94,354 | 131,954 |
| Less : Bad debts written off | 22,314 | 150,262 |
| **Balance at the end of the period / year** | **155,356** | **83,316** |

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**10. Capital and reserves**
**Reconciliation of movement in Capital and reserves**
**Attributable to equity holders of the company**

| articulars | 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 | Retained Earnings / (Accumulated deficit) | Total | Minority interest | Tota equit |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **alance at pril 1, 008** | **441,018** | **16,368,647** | **149,398** | **(153)** | **1,085** | **(1,080)** | **(9,669)** | **(12,254,262)** | **4,694,984** | **199,907** | **4,894,89** |
| otal cognized come and pense | | | | (2,967) | (2,414) | (1,548) | (1,859) | (426,509) | (435,297) | 26,482 | **(408,81** |
| hare-based yments | | | 31,377 | | | | | | 31,377 | | 31,37 |
| thers | | 6,570 | | | | | | | 6,570 | | 6,57 |
| **alance at eptember , 2008** | **441,018** | **16,375,217** | **180,775** | **(3,120)** | **(1,329)** | **(2,628)** | **(11,528)** | **(12,680,771)** | **4,297,634** | **226,389** | **4,524,02** |

| 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 | Retained Earnings / (Accumulated deficit) | Total | 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 | | | | 204 | (1,609) | 42 | (7,478) | (94,632) | (103,473) | 14,186 | (89,287) |
| Share-based payments | | | 29,323 | | | | | | 29,323 | | 29,323 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Stock options exercised | 198 | 4,466 | | | | | | | 4,664 | | 4,664 |
| **Balance at September 30, 2007** | **428,201** | **16,266,562** | **130,863** | **(112)** | **1,335** | **42** | **3,315** | **(12,351,945)** | **4,469,420** | **183,951** | **4,662,212** |

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**11. Employee benefits**

| | As at September 30, 2008 | As at March 31, 2008 |
|---|---|---|
| Gratuity payable | 18,966 | 8,592 |
| Compensated absences | 45,602 | 33,658 |
| | **64,568** | **42,250** |

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

| | As at September 30, 2008 | As at March 31, 2008 |
|---|---|---|
| **Change in projected benefit obligation** | | |
| Projected benefit obligation at the beginning of the period / year | 27,332 | 20,785 |
| Service cost | 6,034 | 8,533 |
| Interest cost | 1,519 | 1,639 |
| Actuarial (gain)/ loss | 3,298 | 2,393 |
| Benefits paid | (1,973) | (6,018) |
| **Projected benefit obligation at the end of the period / year** | **36,210** | **27,332** |
| **Change in plan assets** | | |
| Fair value of plan assets at the beginning of the period / year | 18,741 | 8,423 |
| Expected return on plan assets | 836 | 957 |
| Actuarial (gain) / loss | (359) | (423) |
| Employer contributions | | 15,801 |
| Benefits paid | (1,972) | (6,018) |
| **Fair value of plan assets at the end of the period / year** | **17,244** | **18,740** |
| Present value of projected benefit obligation at the end of the period / year | 36,210 | 27,332 |
| Funded status of the plans | 17,244 | 18,740 |
| **Funded status net of liability recognised in the balance sheet** | **18,966** | **8,592** |

**The components of net gratuity costs are reflected below:**

| | Half year ended | Half year ended |
|---|---|---|

| | September 30, 2008 | September 30, 2007 |
|---|---|---|
| Service cost | 6,034 | 4,266 |
| Interest cost | 1,519 | 820 |
| Expected returns on plan assets | (836) | (478) |
| **Net gratuity costs** | **6,717** | **4,608** |

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**Financial Assumptions at Balance Sheet date**:

| | As at September 30, 2008 | As at March 31, 2008 |
|---|---|---|
| Discount rate | 8.75% 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.

| | As at September 30, 2008 | As at March 31, 2008 |
|---|---|---|
| **Historical information** | | |
| Present value of the defined benefit obligation | 36,210 | 27,333 |
| Fair value of plan assets | 17,244 | 18,741 |
| **Deficit in the plan** | **18,966** | **8,592** |
| Experience adjustment on plan liabilities | 530 | 1,489 |
| Experience adjustment on plan assets | (359) | (423) |

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

**Actuarial gains and losses recognised in equity**

| | As at September 30, 2008 | As at March 31, 2008 |
|---|---|---|
| Actuarial gain / (loss) | (3,658) | (1,859) |
| | **(3,658)** | **(1,859)** |

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. There amendment does not have a significant impact on the Group.

**12. Borrowings from banks**

| | As at September 30, 2008 | As at March 31, 2008 |
|---|---|---|
| *Non-Current* | | |
| Term loans | 183,333 | |
| | **183,333** | |
| *Current* | | |
| Term loans | 200,000 | |
| Loan against fixed deposits | 85,000 | 85,000 |
| Other working capital facilities | 57,980 | 71,426 |
| | **342,980** | **156,426** |

1. The Group has an outstanding balance towards term loan of Rs. 383,333 (Rs Nil as at 31 March 2008), from bankers to funding its purchase of fixed assets. This term loan is secured by fixed deposits and moveable fixed assets of the Group. The loan bears interest at 12.50% p.a and is repayable in 24 monthly installments.

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2. The Group has short term borrowings of Rs. 85,000 (Rs.85,000 as at 31 March 2008), from its bankers for working capital requirements. The borrowings are secured by fixed deposits held by the Group. The borrowings bear 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 are short term borrowings and bear interest ranging from 3.8%-4% p.a. Such facility generally is for a period that ranges from 90 to 120 days.

**13. Revenue**

| | Three months ended | | Half year ended | |
|---|---|---|---|---|
| | **September 30, 2008** | **September 30, 2007** | **September 30, 2008** | **September 30, 2007** |
| **Rendering of services** | | | | |
| Service revenue | 1,333,935 | 1,213,676 | 2,625,774 | 2,390,806 |
| Initial franchise fee | 8,699 | 13,048 | 16,872 | 26,327 |
| Installation service revenue | 74,208 | 77,518 | 128,963 | 149,593 |
| | **1,416,842** | **1,304,242** | **2,771,609** | **2,566,726** |
| **Sale of products** | 181,214 | 167,262 | 329,074 | 309,879 |
| **Total** | **1,598,056** | **1,471,504** | **3,100,683** | **2,876,605** |

**14. Cost of goods sold and services rendered**

The Group s cost of goods sold and services rendered numbers are before any depreciation or amortisation 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 amortisation 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**

| | Quarter Ended | | Half year ended | |
|---|---|---|---|---|
| | **September 30, 2008** | **September 30, 2007** | **September 30, 2008** | **September 30, 2007** |
| Salaries and wages | 317,269 | 206,155 | 616,453 | 419,660 |
| Contribution to provident fund and other funds | 15,306 | 10,883 | 27,921 | 20,514 |
| Staff welfare expenses | 8,301 | 8,047 | 18,641 | 15,555 |
| Employee Stock compensation expense (Refer to note 16) | 13,871 | 15,358 | 31,377 | 29,323 |
| | **354,747** | **240,443** | **694,392** | **485,052** |
| Attributable to Cost of goods sold and services rendered | 191,062 | 129,761 | 371,967 | 234,843 |
| | 163,685 | 110,682 | 322,424 | 250,208 |

Attributable to selling, general and administrative expenses

**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 quarter ended September 30, 2008 the Company has issued 10,000 options under ASOP 2007.

The fair value of share options granted during the quarter ended September 30, 2008 was estimated using the following assumptions:

1. Dividend Yield 0%

2. Assumed Volatility 55.62% - 56.91%

3. Risk free rate 3.45%

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 quarter ended September 30, 2008 is Rs.13,871, Rs.15,358 during the quarter ended September 30,2007.

**17. Net Finance income and expense**

| | Three months ended | | Half year ended | |
|---|---|---|---|---|
| | **September 30, 2008** | **September 30, 2007** | **September 30, 2008** | **September 30, 2007** |
| Interest income on bank deposits | 27,360 | 5.983 | 53,821 | 14,716 |
| Interest income from leases | 3,050 | 35,734 | 9,543 | 69,539 |
| Others | 1,542 | | 1,893 | |
| **Finance income** | 31,952 | 41,717 | 65,257 | 84,255 |
| Interest expense on financial liabilities leases | (132) | (200) | (271) | (361) |
| Bank charges | (17,338) | (7,064) | (27,605) | (11,749) |
| Other interest | (34,554) | (60) | (57,927) | (4,214) |
| **Finance expense** | **(52,024)** | **(7,324)** | **(85,803)** | **(16,324)** |
| **Net finance income / (expense) recognised in profit or loss** | **(20,072)** | **34,393** | **(20,546)** | **67,931** |

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### 18. Earnings per share

| | Quarter ended | | Half year ended | |
|---|---|---|---|---|
| | September 30, 2008 | September 30, 2007 | September 30, 2008 | September 30, 2007 |
| Net profit / (loss ) as reported | (293,786) | (49,311) | (426,509) | (94,632) |
| Weighted average number of shares Basic | 45,327,756 | 42,814,555 | 45,992,815 | 42,805,968 |
| Profit / (loss) per share | (6.48) | (1.15) | (9.27) | (2.21) |
| Weighted average number of shares Dilutive | 45,327,756 | 42,814,555 | 45,992,815 | 42,805,968 |
| Profit / (loss) per share | (6.48) | (1.15) | (9.27) | (2.21) |

### 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 September 30, 2008**

| | Corporate Network / Data Services | Internet access services A | Online portal services B | Consumer One (sub-total) A+B | Other Services | Total |
|---|---|---|---|---|---|---|
| Total Segment Revenue | 1,090,394 | 298,184 | 50,375 | 348,559 | 133,046 | 1,571,999 |
| Segment Expenses allocated | (746,810) | (346,475) | (54,648) | (401,123) | (92,478) | (1,240,411) |
| **Segment Operating Income** | **343,584** | **(48,291)** | **(4,273)** | **(52,564)** | **40,568** | **331,588** |
| Unallocated Corporate expenses | | | | | | (480,932) |
| Depreciation and Amortisation | | | | | | (121,574) |
| Foreign exchange gain / (loss) | | | | | | (1,808) |

| | |
|---|---|
| Other income / (expense), net | 15,081 |
| Net Interest income | (20,072) |
| Equity in profit of associate | 24,287 |
| Minority Interest | (18,244) |
| Income Taxes | (22,094) |
| **Net Profit/(loss)** | **(293,768)** |

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**Three months ended September 30, 2007**

| | Corporate Network / Data Services | Internet access services A | Online portal services B | Consumer One (sub-total) A+B | Other Services | Total |
|---|---|---|---|---|---|---|
| Total segment revenue | 923,512 | 404,664 | 49,723 | 454,387 | 93,605 | **1,471,504** |
| Segment Expenses allocated | (585,679) | (373,647) | (77,252) | (450,899) | (82,213) | **(1,118,791)** |
| **Segment Operating Income** | **337,834** | **31,017** | **(27,529)** | **3,488** | **11,392** | **352,713** |
| Unallocated corporate expenses | | | | | | (331,584) |
| Depreciation and Amortisation | | | | | | (127,309) |
| Foreign exchange gain / (loss) | | | | | | (675) |
| Other income / (expense), net | | | | | | 11,892 |
| Net Interest income | | | | | | 34,393 |
| Equity in profit of associate | | | | | | 40,469 |
| Minority Interest | | | | | | (8,508) |
| Income Taxes | | | | | | (20,702) |
| **Net Profit/(loss)** | | | | | | **(49,311)** |

**Half year ended September 30, 2008**

| | Corporate Network / Data Services | Internet access services A | Online portal services B | Consumer One (sub-total) A+B | Other Services | Total |
|---|---|---|---|---|---|---|
| Total Segment Revenue | 2,081,663 | 623,490 | 99,555 | 723,044 | 269,918 | **3,074,626** |
| Segment Expenses allocated | (1,383,462) | (704,120) | (112,064) | (816,184) | (199,832) | **(2,399,478)** |
| **Segment Operating Income** | **698,201** | **(80,630)** | **(12,509)** | **(93,140)** | **70,085** | **675,148** |
| Unallocated Corporate expenses | | | | | | (868,864) |
| Depreciation and Amortisation | | | | | | (233,369) |

| | |
|---|---|
| Foreign exchange gain / (loss) | 17,272 |
| Other income / (expense), net | 33,585 |
| Net Interest income | (20,546) |
| Equity in profit of associate | 37,097 |
| Minority Interest | (26,482) |
| Income Taxes | (40,330) |
| **Net Profit/(loss)** | **(426,509)** |

**Half year ended September 30, 2007**

| | Corporate Network / Data Services | Internet access services | Online portal services | Consumer One (sub-total) | Other Services | Total |
|---|---|---|---|---|---|---|
| | | A | B | A+B | | |
| Total Segment Revenue | 1,771,753 | 818,085 | 94,090 | 912,175 | 192,677 | **2,876,605** |
| Segment Expenses allocated | (1,103,892) | (755,500) | (155,277) | (910,777) | (167,048) | **(2,181,716)** |
| **Segment Operating Income** | **667,862** | **62,585** | **-61,187** | **1,398** | **25,629** | **694,889** |
| Unallocated Corporate expenses | | | | | | (628,164) |
| Depreciation and Amortisation | | | | | | (247,725) |
| Foreign exchange gain / (loss) | | | | | | (20,019) |
| Other income / (expense), net | | | | | | 23,235 |
| Net Interest income | | | | | | 67,930 |
| Equity in profit of associate | | | | | | 65,172 |
| Minority Interest | | | | | | (14,186) |
| Income Taxes | | | | | | (35,764) |
| **Net Profit/(loss)** | | | | | | **(94,632)** |

**20. Capital Commitments**

Contracts pending to be executed on capital account as at September 30, 2008 and not provided for Rs.135,728 (net of advances Rs. 382,989),[as at September 30, 2007 Rs.44,212 (net of advances Rs. 119,786); 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.464,500 (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. 50,833 (USD 1.1 million) as at September 30, 2008.

**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 current reporting period.

b) The Group has outstanding financial and performance guarantees for various statutory purposes and letters of credit totalling Rs.1,044,487 , Rs. 645,327 and Rs, 773,961 as at September 30, 2008, September 30, 2007 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.

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**22. 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 intend to file a motion for preliminary approval of a proposed settlement between all parties, including the Group and its former officers and directors. 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 September 30, 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.

**23. Related parties**

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

| | Half year ended | Half year ended | Year ended |
|---|---|---|---|

| | September 30, 2008 | September 30, 2007 | March 31, 2008 |
|---|---|---|---|
| **Transactions with related parties** | | | |
| Payments to Directors (Fees for consultancy services) | 60 | 60 | 240 |
| Sale of services (see note 1 below) | 6,473 | | |
| Purchase of goods | | | 3,796 |
| **Balance due to / receivable from related parties** | | | |
| 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 (a company in which Mr. Ananda Raju Vegesna, Executive Director is interested) towards property lease.

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**24. Financial risk management**

The Groups financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements 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.

Credit risk is managed through credit approvals, establishing credit limits and continuously monitoring the credit worthiness of the customers to which the Company grants credit in the normal course of the business.

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, as also to investments made in Mutual Funds (MF). In managing this, 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 entities 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 damage to the Group s reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses, 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 Company is also in the process of negotiating additional facilities with Banks for funding its requirements. Subsequent to the balance sheet date, the Company has revised some of its long term commitments such as the ELCOT land arrangement etc 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.

**25. Subsequent Events**

**a. Acquisition of Minority Interest in Subsidiary**

During January 2008, the Board of Directors of Sify approved the merger of its subsidiary, Sify Communications Limited with the Company. The Boards of each of Sify and Sify Comm determined that a merger would produce cost savings efficiencies and, as a combined entity, benefit all shareholders. The Board then submitted the proposed merger to the shareholders and to the High Court of Madras for approval. In August 2008, while approval for the merger was pending, the Indian government proposed new regulations regarding the delivery of internet services and was expected to announce changes to the policy governing the spectrum for the delivery of wireless data. The Board reviewed these regulatory changes and determined that it would be in the best interest of each company to remain as separate entities, as opposed to combining the entities as contemplated by the proposed merger. The Company submitted a petition to the High Court of Madras to withdraw the merger, and such petition was approved.

In October 2008, the Company again evaluated the feasibility of a merger between Sify and Sify Comm and the Board of Directors of the Company at their meeting held on November 24, 2008 approved the merger of Sify Comm with retrospective effect from April 1, 2008, subject to approval by the Shareholders, the Honourable High Court and other statutory authorities. The Board considered the deterioration of the Indian and global economy, and its effect on the Company s performance during the first half of fiscal 2009 as well as the impact of a prolonged economic downturn on the Company during the third and fourth 2009 fiscal quarters. Additionally, the government regulations were not effected by the Indian government as proposed in August 2008. The Board evaluated these issues and determined that a combined entity would provide cost savings and increased cash flow, and strengthen the Company s ability to borrow additional funds, if necessary. Accordingly, the Board of Sify determined that the merger should again proceed and sought shareholder approval, and submitted the merger to the High Court of Madras for approval.

**b. Surrender of leasehold land**

The Company had during the year ended March 31, 2008 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. Subsequent to the balance sheet date, the Company had discussions with ELCOT to consider the option of surrendering 11.42 acres of land out of the total land allotted. Consequent to such requests made, ELCOT has, subsequent to the balance sheet date, refunded to the Company a sum of Rs.374,576 representing proportionate sum of refundable security deposit. In March 2009, the Company has made a request for refund of the security deposit relating to the balance 5.55 acres of land.

Under the arrangements with ELCOT, the Company has made payments amounting to Rs 10,450 towards costs for setting up common infrastructure. Consequent to such request to surrender land to the ELCOT, the Company has made applications in March 2009 for refund of the costs paid for setting up common infrastructure.

**26. Company entities**

| **Particulars** | **Country of incorporation** | **% of Ownership interest** | |
|---|---|---|---|
| **Significant subsidiaries** | | **September 30, 2008** | **September 30, 2007** |
| Sify Communications Limited | India | 74 | 74 |
| Sify International Inc | US | 100 | 100 |
| Sify Networks Private Limited | India | 100 | 100 |
| India World Communications Limited * | India | | 100 |
| Sify Americas Inc * | US | | 100 |
| Globe Travels Inc * | US | | 100 |
| **Associates** | | | |
| MF Global-Sify securities India Private Limited | India | 29.85 | 29.85 |