SIFY TECHNOLOGIES LTD
Form 20-F
October 13, 2011

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

Or

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the fiscal year ended March 31, 2011.

Or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the transition period from _____ to _____

o **SHELL COMPANY PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

Date of event requiring this shell Company report _____

Commission file number 000-27663

Sify Technologies Limited

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation at Registrant s name into English)

Chennai, Tamil Nadu, India

(Jurisdiction of incorporation or organization)

Tidel Park, 2nd Floor
4, Rajiv Gandhi Salai
Taramani, Chennai 600 113 India
(91) 44-2254-0770, Fax (91) 44 -2254 0771

(Address of principal executive office)

M.P.Vijay Kumar, Chief Financial Officer, (91) 44-2254-0770; vijaykumar.mp@sifycorp.com
Tidel Park, 2nd Floor, 4, Rajiv Gandhi Salai, Taramani, Chennai 600113 India

(Name,Telephone,Email and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act

Title of each class	Name of each Exchange on which registered
American Depository Shares, each represented by one Equity Share, par value Rs.10 per share	Nasdaq Global Market

Securities registered or to be registered pursuant to Section 12(g) of the Act

Title of each class	Name of each Exchange on which registered
None	Not Applicable

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act

Not Applicable
(Title of class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

178,351,498 Equity Shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o **No** þ

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o **No** þ

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	**Accelerated filer þ**	Non-accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

US GAAP o	**International Financial Reporting Standards as issued by the International Accounting Standard Board** þ	Other o

If this is an annual report, indicate by check mark whether the registrant is a shell Company (as defined in Rule 12b-2 of the Exchange Act).:

Yes o No **þ**

Table of Contents

Item	Page
Currency of Presentation and Certain Defined Terms	1
Forward-Looking Statements	2
PART I	
Item 1. Identity of Directors, Senior Management and Advisers	3
Item 2. Offer Statistics and Expected Timetable	3
Item 3. Key Information	3
Item 4. Information on the Company	24
Item 4A. Unresolved Staff Comments	39
Item 5. Operating and Financial Review and Prospects	39
Item 6. Directors, Senior Management and Employees	61
Item 7. Major Shareholders and Related Party Transactions	67
Item 8. Financial Information	70
Item 9. The Offer and Listing	72
Item 10. Additional Information	73
Item 11. Quantitative and Qualitative Disclosures About Market Risk	88
Item 12. Description of Securities Other Than Equity Securities	89
PART II	
Item 13. Defaults, Dividend Arrearages and Delinquencies	90
Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds	90
Item 15. Controls and Procedures	90
Item 16A. Audit Committee Financial Expert	93
Item 16B. Code of Ethics	93
Item 16C. Principal Accountant Fees and Services	94

Item 16D. Exemptions from the Listing Standards for Audit Committees 94

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers 94

Item 16F. Change in Registrant s Certifying Accountant 94

Item 16G. Corporate Governance 95

PART III

Item 17. Financial Statements 96

Item 18. Financial Statements 96

Item 19. Exhibits 198

Exhibit 8.1
Exhibit 12.1
Exhibit 12.2
Exhibit 13.1
Exhibit 13.2
Exhibit 15.1
Exhibit 15.2
Exhibit 15.3

Table of Contents

Currency of Presentation and Certain Defined Terms

Unless the context otherwise requires, references in this annual report to we, us, the Company, Sify or Sa Infoway 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 h already obtained registration certificates in India. All other trademarks or trade names used in this Annual Report on Form 20-F for the year ended March 31, 2011 (the Annual Report) are the property of their respective owners. In this Annual Report, references to $, 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 are to our fi year ended March 31 of such year. References to the Group mean Sify technologies Limited and its subsidiaries. References to equity shares refer to our Indian Equity Shares, which are not traded on an exchange in India or the United States. References to ADS s refer to our American Depositary Shares, which are traded on the Nasdaq Global Market under the symbol SIFY.

For your convenience, this Annual 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 Annual Repor, all translations from Indian rupees to U.S. dollars contained in this Annual Report have been based on the reference rate in the City of Mumbai on March 31, 2011 for cable transfers in Indian rupees as published by the Reserve Bank of India (RBI), which was Rs. 44.65 per $1.00.

Our financial statements are presented in Indian rupees and prepared in accordance with English version of International Financial Reporting Standards as issued by the International Accounts Standards Board, or IFRS. In this Annual 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 corporate website, *www.sifycorp.com*, is not part of this Annual Report.

Table of Contents

Forward-Looking Statements

This Annual Report contains forward-looking statements , as defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on our current expectations, assumptions, estimates and projections about our Company, our industry, economic conditions in the markets in which we operate, and certain other matters. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as anticipate , believe , estimate , expect , intend , will , pro should and similar expressions. Those statements include, among other things, the discussions of our business strategy and expectations concerning our market position, future operations, margins, profitability, liquidity and capital resources. These statements are subject to known and unknown risks, uncertainties and other factors, which may cause actual results or outcomes to differ materially from those implied by the forward-looking statements. Important factors that may cause actual results or outcomes to differ from those implied by the forward-looking statements include, but are not limited to, those discussed in the Risk Factors section in this Annual Report. In light of these and other uncertainties, you should not conclude that the results or outcomes referred to in any of the forward-looking statements will be achieved.

We operate in rapidly changing businesses, and new risk factors emerge from time to time. We cannot predict every risk factor, nor can we assess the impact, if any, of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those projected in any forward-looking statements. All forward-looking statements included in this Annual Report are based on information available to us, and reflect management s beliefs, on the date hereof, and we do not undertake to update these forward-looking statements to reflect future events or circumstances. In addition, readers should carefully review the other information in this Annual Report and in the our periodic reports and other documents filed with the United States Securities and Exchange Commission (SEC) from time to time.

Table of Contents

PART I

Item 1. Identity of Directors, Senior Management and Advisers.

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Selected Financial Data

Summary of Consolidated Financial Data

You should read the summary consolidated financial data below in conjunction with the Company s consolidated financial statements and the related notes, as well as the section entitled Operating and Financial Review and Prospects, all of which are included elsewhere in this Annual Report. The summary consolidated statements of income data for the five years ended March 31, 2011, 2010, 2009, 2008 and 2007 and the summary consolidated Statement of Financial Position as of March 31, 2011, 2010, 2009, 2008 and 2007, has been derived from our audited consolidated financial statements and related notes to the consolidated financial statements which were prepared and presented in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB). Historical results are not necessarily indicative of future results.

Table of Contents

Sify Technologies Limited
Consolidated Statement of Income

	Year ended March 31,					
(In thousands of Rupees, except share data and as otherwise stated)	**2011 Rs**	**2010 Rs**	**2009 Rs**	**2008 Rs**	**2007 Rs**	**2011 Convenience translation into US$ in thousands, except share and per share data (See Note1)**
Revenue	6,886,629	6,710,188	6,162,161	6,006,215	5,447,347	154,236
Cost of goods sold and services rendered	(4,209,430)	(4,096,538)	(3,613,349)	(3,419,122)	2,939,329	(94,276)
Other income	72,693	131,789	89,105	46,152	66,320	1,628
Selling, general and administrative expenses	(2,441,799)	(2,482,415)	(2,813,425)	(2,434,715)	(2,094,971)	(54,688)
Depreciation and amortization	(685,836)	(656,797)	(498,872)	(394,337)	(463,780)	(15,360)
Impairment loss on intangibles including goodwill	(1,857)	(47,269)	(15,200)			(42)
Income from legal settlement		561,120				
Profit / (loss) from operating activities	**(379,600)**	**120,078**	**(689,580)**	**(195,807)**	**15,587**	**(8,502)**
Finance income	45,698	27,994	122,565	161,783	154,192	1,023
Finance expenses	(258,622)	(293,873)	(251,660)	(57,682)	(25,550)	(5,792)
Net finance income / (expense)	**(212,924)**	**(265,879)**	**(129,095)**	**104,101**	**128,642**	**(4,769)**
Share of profit of equity accounted investee (net of income tax)	73,032	91,135	64,091	181,127	61,030	1,636
Profit / (loss) before tax	**(519,492)**	**(54,666)**	**(754,584)**	**89,421**	**205,259**	**(11,635)**
Income tax (expense) / benefit		81,479	(97,049)	(63,975)	66,113	
Profit / (loss) for the year	**(519,492)**	**26,813**	**(851,633)**	**25,446**	**271,372**	**(11,635)**

Attributable to:						
Equity holders of the Company	(519,492)	17,027	(900,574)	(4,696)	240,841	(11,635)
Non-controlling interest		9,786	48,941	30,142	30,531	
	(519,492)	**26,813**	**(851,633)**	**25,446**	**271,372**	**(11,635)**
Earnings / (loss) per share						
Basic earnings /(loss) per share	(8.20)	0.33	(20.77)	(0.11)	5.64	(0.18)
Diluted earnings/(loss) per share	(8.20)	0.33	(20.77)	(0.11)	5.63	(0.18)

Table of Contents

Particulars
(Rupees in thousands, except share and per share data)

(Rupees in thousands, except share and per share data)	March 31,					Convenience translation into US$ in thousands, except share and per share data (see note 2)
	2011 Rs	2010 Rs	2009 Rs	2008 Rs	2007 Rs	2011
Balance Sheet data:						
Cash and cash equivalents including restricted cash	543,097	878,698	1,710,798	1,507,327	3,071,157	12,163
Net current assets	(36,354)	(46,814)	(175,993)	1,294,199	2,435,290	814
Total assets	9,238,371	9,345,824	9,145,555	7,710,760	7,321,891	206,906
Total equity attributable to equity shareholders of the Company	4,665,792	4,171,092	3,851,693	4,694,984	4,538,906	104,497
Cash Flow Data						
Net cash provided by (used in):						
Operating activities	225,359	759,802	(371,556)	(839,869)	116,262	5,047
Investing activities	(730,650)	(896,683)	(1,174,156)	(756,300)	(708,316)	(16,364)
Financing activities	551,700	(354,486)	968,797	(585,200)	847,939	(12,356)

Notes

1. The convenience translation to U.S. Dollars was performed at the reference rate in the City of Mumbai for cable transfers as published by Reserve Bank of India on March 31, 2011 of Rs.44.65 per $1.00, 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 this rate or at all.

2. Reference to shares and per share amounts refer to our equity shares. Our outstanding equity shares include equity shares held by a depository underlying our ADSs. Effective September 24, 2002, one ADS represented one equity share.

Table of Contents

Exchange Rates

Our functional currency is the Indian rupee. The exchange rate between the rupee and the U.S. dollar has changed substantially in recent years and may fluctuate substantially in the future. Our exchange rate risk primarily arises from our foreign currency revenues, receivables and payables.

The following table sets forth the high and low exchange rates for the previous six months and is based on the reference rate in the City of Mumbai on business days during the period for cable transfers in Indian rupees as published by the Reserve Bank of India (RBI).

Month	High Rs.	Low Rs.
September 2011	49.67	45.90
August 2011	46.13	44.05
July 2011	44.69	43.95
June 2011	45.10	44.61
May 2011	45.38	44.30
April 2011	44.68	44.04

The following table sets forth, for the fiscal years indicated, information concerning the number of Indian rupees for which one U.S. dollar could be exchanged based on the reference rate in the City of Mumbai on business days during the period for cable transfers in Indian rupees as published by the Reserve Bank of India (RBI). The column titled Average in the table below is the average of the last business day of each month during the year.

Fiscal Year Ended March 31	Period end Rs.	Average Rs.	High Rs.	Low Rs.
2011	44.65	45.58	47.57	44.03
2010	45.14	47.36	50.53	44.94
2009	50.95	45.91	52.06	39.89
2008	40.02	40.13	43.05	38.48
2007	43.10	45.12	46.83	42.78

On March 31, 2011, the reference rate in the City of Mumbai for cable transfers in Indian rupees as published by RBI was Rs.44.65.

On October 10, 2011, the reference rate in the City of Mumbai for cable transfers in Indian rupees as published by RBI was Rs.49.07.

Capitalization and indebtedness

Not applicable.

Reasons for the offer and use of proceeds

Not applicable.

Table of Contents

Risk Factors

This Annual Report contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth in the following risk factors and elsewhere in this Annual Report.

Risks Related to our Company and Industry

We may incur losses in the future and we may not achieve or maintain profitability.

We have a net loss of Rs. 519.49 million ($11.64 million) for the year ended March 31, 2011 with an accumulated deficit of Rs.13,607 million ($304.75 million) as at March 31, 2011. We may in the future incur additional net losses and suffer negative operating cash flows. We expect to increase our expenditures as we continue to expand our services, promote our brand, and invest in the expansion of our infrastructure. We have incurred and in the future may incur expenses in connection with investments in data centers and infrastructure. Accordingly, we will need to generate significant additional revenues in order to become profitable. Our business model is not yet proven in the consumer space, and we cannot assure you that we will improve our profitability or that we will not incur operating losses in the future. If we are unable to become profitable and continue to sustain losses, we will be unable to build a sustainable business and our results of operations will be adversely affected. In this event, the price of our ADSs and the value of your investment may decline.

Our profits may be impacted consequent to the withdrawal of incentive for exports availed under the Serve from India Scheme on account of changes in Indian Government policy.

The Government of India had introduced the Served from India Scheme (the Scheme) in order to accelerate growth in export of services so as to create a powerful and unique Served from India brand, instantly recognized and respected world over.

Under the Scheme, all service providers (the exporter of various services) are entitled to a customs duty credit called Duty credit scrip at 10% of the foreign exchange earned during the financial year. A service provider will be eligible for such duty credit scrip only on satisfaction of two conditions: (a) the service provider should export services; and (b) the service provider should earn foreign exchange. This duty credit may be used for settling the customs duty payable to the Government of India on the import of any capital goods including spares, office equipment and professional equipment, office furniture and consumables, provided it is part of their main line of business.

The new Foreign Trade (2009-2014) policy announced by The Commerce Ministry of Government of India, on August 27, 2009 has explicitly excluded the telecom Sector, which is the sector in which we operate, from the purview of Served From India Scheme (SFIS). As a result of this new policy document, we are not eligible for the export incentive on Foreign Exchange earnings from all existing business streams other than E-learning and Infrastructure management services prospectively.

The loss of credits from the above scheme may adversely impact the financial condition and operating results. Effective August 2009, this benefit was withdrawn for our exports under ILD/NLD license, which has adversely affected our results of operations.

The global economic environment, increased pricing pressure and decreased utilization rates could negatively impact our revenues and operating results.

Spending on technology products and services in most parts of the world has been rising for the past several years. However, there was a decline in the growth rate of global IT purchases due to the economic slowdown and we believe the market may not recover until 2012.

With regard to the domestic Indian economy, pricing and competition continue to be under pressure. Lead times for orders or contracts have become much longer, as we have longer credit periods. These factors have affected the growth in demand for our corporate connectivity and consumer services.

Overseas economic performance also has a bearing on our Infrastructure and e-Learning businesses segments. Currency fluctuations will also lead to variations in revenue. The NLD/ILD business and eLearning may be affected in terms of prices and growth.

Table of Contents

Reduction in IT spending and extended credit terms arising from or related to the economic slowdown, and any resulting pricing pressures, reduction in billing rates, increased credit risk may adversely impact our revenues, gross profits, operating margins and results of operations.

Currency fluctuations may affect the results or our operations or the value of our ADSs.

The exchange rate between the rupee and the U.S. dollar has changed significantly in recent years and may continue to fluctuate substantially in the future.

We use derivative financial instruments, such as foreign exchange forward and option contracts, to mitigate the risk of changes in foreign exchange rates on accounts receivable and payable and forecast cash flows denominated in US dollar. As of March 31, 2011, we do not have any outstanding option contracts. We may not purchase derivative instruments for a sufficient amount to adequately insulate ourselves from foreign currency exchange risks, and over the past year, we have incurred significant losses as a result of exchange rate fluctuations that have not been offset in full by our hedging strategy.

For the year ended March 31, 2011, we have recognized a gain of Rs.12.94 million ($0.29 million) on foreign exchange translations and we have not recognized any gains on our forward and option contracts. If foreign exchange currency markets continue to be volatile, such fluctuations in foreign currency exchange rates could materially and adversely affect our results of operations in future periods. Also, the volatility in the foreign currency markets may make it difficult to hedge our foreign currency exposures effectively and make them expensive.

Further, the policies of the Reserve Bank of India (RBI) may change from time to time which may limit our ability to hedge our foreign currency exposures adequately. On August 2, 2011, the RBI issued Comprehensive Guideline on Derivatives to the banks/dealers with regard to suitability and appropriateness policy for offering derivative products to users. In addition, a high-level committee appointed by the Reserve Bank of India had recommended that India move to increased capital account convertibility, and proposed a framework for such increased convertibility. Full or increased capital account convertibility, if introduced, could result in increased volatility in the fluctuations of exchange rates between the rupee and US dollar. Our US customers may leave us exposed to fluctuation in revenues based on currency fluctuations.

We may encounter legal confrontations as the Information Technology Act 2000 lacks specificity as to issues on online processes and/or Internet.

We believe that the Information Technology Act of 2000, (As amended by IT (Amendment) Act 2008 (the ITA), an Indian regulation, does not address all areas of online processes or the Internet. In exercise of the powers conferred by ITA 2000, the Government of India issued rules in April 2011 called Information Technology rules with stringent privacy norms for Internet Service Providers and the intermediary who is handling sensitive personal information. The ITA has mandated the service providers to maintain transactions, receipts, vouchers in specific formats. The records should be produced for inspection and audit by a government nominated agency or person. The Government of India is authorized to audit security and privacy protection measures. We are exposed to risks relating to unauthorised access, non-compliance of regulations by our franchisees for the cybercafés. Such events may negatively affect our reputation, and violations of the Information Act may result in fines, litigation or cause us to incur legal costs, which may adversely affect our business and results of operations.

Intense competition in our businesses could prevent us from improving our profitability and we may be required to further modify the rates we charge for our services in response to new pricing models introduced by new and existing competition which would significantly affect our revenues.

Our corporate network/data services compete with well-established companies, including Bharti Airtel, Tata Communications Limited or TCL, Reliance Infocomm, HCL Infinet, Tata Teleservices, Tulip Telecom Limited and the government-owned telecom companies, Bharat Sanchar Nigam Limited or BSNL, Mahanagar Telephone Nigam Limited or MTNL.

A significant number of competitors have entered India s Internet service provider industry. The large players, especially the state run telecommunication companies, may enjoy significant competitive advantages over us, including greater financial resources, which could allow them to charge prices that are lower than ours in order to attract subscribers. These factors have resulted in periods of significant reduction in actual average selling prices for consumer Internet Service Provider, or ISP, services. We expect the market for Internet access and other connectivity

services to remain extremely price competitive. Increased competition may result in operating losses, loss of market share and diminished value in our services, as well as different pricing, service or marketing decisions. In addition, competition may generally cause us to incur unanticipated costs associated with research and product development. Additionally, we believe that our ability to compete also depends in part on factors outside our control, such as the availability of skilled employees in India, the price at which our competitors offer comparable services, and the extent of our competitors responsiveness to their clients needs. We cannot assure you that we will be able to successfully compete against current and future competitors, or that we will not lose key employees or customers to such competitors, which may adversely affect our business and results of operations.

Table of Contents

Margin squeeze may affect the results or our operations.

Our margins have been stagnant recently due to competitive pricing pressure. Competition will continue to increase with the entry of new competitors into the enterprise service category. However, these competitors generally would prefer to operate with a few global customers who have business interest in India. They may attract customers for managed hosting services with their capability of superior network and competitive pricing. We expect the market for such services to remain extremely price competitive. Increased competition may result in the reduction of profit margin which would impact our results of operations.

Procuring power at lower costs for data centers by the competitors may put us at a disadvantage in terms of pricing for our data center operations.

The single largest operating cost in data centers is electrical power, and if a competitor were to have a source of power at a significantly lower cost, it could be a disadvantage to us. While all data centres are now located in proximity to, or at the edge of major urban centers such as Mumbai, inexpensive land and labor allow companies to locate new data centres in remote locations. We may neither be in a position to develop data centers at remote locations where power is cheap nor procure power at cheaper rates for our data centres. If our competitors procure power at lower cost, they may have an advantage over us with respect to pricing. Our inability to offer competitive pricing may result in loss of customers and will impact our business and result of operations.

We have added a number of new lines of business in the past years, including the operation and licensing of public Internet cafés, as well as the provision of broadband services, security services, e-learning software development services, managed network services and infrastructure management services.

The risks we face in developing Internet service market include our inability to:

continue to develop and upgrade our technology;

maintain and develop strategic relationships with business partners;

offer compelling online services and content;

We cannot assure you that we will successfully address the risks or difficulties described above. Failure to do so could lead to an inability to attract and retain corporate customers for our network/data services and subscribers for our Internet access services as well as the loss of advertising revenues.

Despite our best efforts to optimize costs, our future operating results could fluctuate in part because our expenses are relatively fixed in the short term while future revenues are uncertain, and any adverse fluctuations could negatively impact the price of our ADSs.

Our revenues, expenses and operating results have varied in the past and may fluctuate significantly in the future due to a number of factors, many of which are outside our control. A significant portion of our investment and cost base is relatively fixed in the short term. Our revenues for the foreseeable future will depend on many factors, including the following:

the range of corporate network/data services provided by us and the usage thereof by our customers;

the number of subscribers to our ISP services and the prevailing prices charged.

advertising revenue generated by our online portal services.

Table of Contents

the timing and nature of any agreements we enter into with strategic partners of our corporate network/data services division;

services, products or pricing policies introduced by our competitors;

capital expenditure and other costs relating to our operations;

the timing and nature of our marketing efforts;

our ability to successfully integrate operations and technologies from any acquisitions, joint ventures or other business combinations or investments;

the introduction of alternative technologies; and

technical difficulties or system failures affecting the telecommunication infrastructure in India, the Internet generally or the operation of our websites.

We plan to continue to expand and invest in network infrastructure. Many of our expenses are relatively fixed in the short-term. We cannot assure you that our revenues will increase in proportion to the increase in our expenses. We may be unable to adjust spending quickly enough to offset any unexpected revenues shortfall. This could lead to a shortfall in revenues in relation to our expenses and adversely affect our revenue and operating results.

You should not rely on yearly comparisons of our results of operations as indicators of future performance and operating results may be below the expectations of public market analysts and investors. In this event, the price of our ADSs may decline.

Security breaches could damage our reputation or result in liability to us.

Our facilities and infrastructure must remain secure, and be perceived by our corporate and consumer customers to be secure, because we retain confidential customer information in our database. Despite the implementation of security measures, our infrastructure may be vulnerable to physical break-ins, computer hacking, computer viruses, programming errors or similar disruptive problems beyond our control. If a person circumvents our security measures, he or she could jeopardize the security of confidential information stored on our systems, misappropriate proprietary information or cause interruptions to our operations. We may be required to make significant additional investments and efforts to protect against or remedy security breaches. Unauthorized disclosure of sensitive or confidential client and customer data, whether through breach of our computer systems, systems failure or otherwise, could damage our reputation and adversely affect our business and results of operations.

The security services that we offer in connection with our business customers networks cannot assure complete protection from computer viruses, break-ins and other disruptive problems and the occurrence of these problems could result in claims against us or liability on our part. These claims, regardless of their ultimate outcome, could result in costly litigation and could damage our reputation and hinder our ability to attract and retain customers for our service offerings.

We face a competitive labor market for skilled personnel and therefore are highly dependent on our existing key personnel and on our ability to hire additional skilled employees.

Our success depends upon the continued service of our key personnel including our senior management team, including our Chairman, Raju Vegesna. Each of our employees may voluntarily terminate his or her employment with us. Our success also depends on our ability to attract and retain additional highly qualified technical, marketing and sales personnel. The labor market for skilled employees in India is extremely competitive, and the process of hiring employees with the necessary skills is time consuming and requires the diversion of significant resources. We may not be able to continue to retain or integrate existing personnel or identify and hire additional personnel in the future. The loss of the services of key personnel or the inability to attract additional qualified personnel, could disrupt the implementation of our business strategy, upon which the success of our business depends.

The failure to keep our technical knowledge confidential could erode our competitive advantage.

Our technical know-how is not protected by intellectual property rights such as patents, and is principally protected by maintaining its confidentiality. We rely on trade secrets, confidentiality agreements and other contractual arrangements. As a result, we cannot be certain that our know-how will remain confidential in the long run. Employment contracts with certain of our employees who have special technical knowledge about our products or our business contain a general obligation to keep all such knowledge confidential. In addition to the confidentiality provisions, these employment agreements typically contain non-competition clauses.

Table of Contents

If either the confidentiality provisions or the non-competition clauses are unenforceable, we may not be able to maintain the confidentiality of our know-how. In the event that confidential technical information or know-how about our products or business becomes available to third parties or to the public, our competitive advantage over other companies in the wireless based IP/VPN industry could be harmed which could have a material adverse effect on our current business, future prospects, financial condition and results of operations.

Compliance with new and changing corporate governance and public disclosure requirements adds uncertainty to our compliance policies and increases our costs of compliance.

Changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, including the Dodd Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), Sarbanes-Oxley Act of 2002, new SEC regulations and Nasdaq Stock Market rules are creating uncertainty for companies like ours. These new or changed laws, regulations and standards may lack specificity and are subject to varying interpretations. Their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such governance standards.

Further, during 2011, there has been an increased focus on corporate governance by the U.S. Congress and by the SEC in response to the recent credit and financial crisis in the United States. As a result of this increased focus, additional corporate governance standards have been promulgated with respect to companies whose securities are listed in the United States, including by way of the enactment of the Dodd-Frank, and more governance standards are expected to be imposed on companies whose securities are listed in the United States in the near future.

Indian regulatory authorities are increasingly focused on standards of accounting, auditing, public disclosure and corporate governance and may impose new regulations that are lead to increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

In addition, it may become more expensive and/or more difficult for us to obtain director and officer liability insurance due to increase in premium rates. Further, our board members, Chief Executive Officer, and our Chief Financial Officer could face an increased risk of personal liability in connection with their performance of duties and our SEC reporting obligations. As a result, we may face difficulties attracting and retaining qualified board members and executive officers, which could harm our business. If we fail to comply with new or changed laws or regulations, our business and reputation may be harmed.

We may inadvertently fail to comply with local laws of other countries in connection with the negotiation and execution of operational agreements.

As part of our international business, we may negotiate with and enter into contracts with strategic partners, clients, suppliers, employees and other third parties in various countries. We may inadvertently fail to comply with their laws may result in lawsuits or penalties, which could adversely affect our business or results of operations.

Our financial results are impacted by the financial results of entities that we do not control.

We have a significant, non-controlling minority interest in MF Global Sify Securities India Private Limited (formerly known as Man Financial Sify Securities India Private Limited) that is accounted for under IFRS using the equity method of accounting. Under this method, we generally are obligated to report as share of profit of equity accounted investee a pro rata portion of the net income after tax of any such Company in our statement of operations even though we do not control the other Company, subject to limitations in the case of losses that exceed our cost of investment. Thus, our reported results of operations can be significantly increased or decreased depending on the results of MF Global Sify Securities India Private Limited or other companies in which we may make similar investments even though we may have only a limited ability to influence these activities.

Our inter-city network is leased from other service providers and is dependent on their quality and availability.

We have provided inter-city connectivity for our connectivity customers through lease arrangements rather than through capital investment in assets for connectivity business. Our ability to offer high quality telecommunications services depends, to a large extent, on the quality of the networks maintained by other operators, and their continued availability, neither of which is under our control. However, the abundance of supply of inter-city connectivity provides us with the ability of switching to companies offering better services. Although we always use more than one service provider where required, there can be no assurance that this dependence on external parties would not affect

our network availability. Any prolonged loss of network availability could adversely affect our business and results of operations.

Table of Contents

The legal system in India does not protect intellectual property rights to the same extent as the legal system of the United States, and we may be unsuccessful in protecting our intellectual property rights.

Our intellectual property rights are important to our business. We rely on a combination of copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect our intellectual property.

Our efforts to protect our intellectual property may not be adequate. We hold no patents, and our competitors may independently develop similar technology or duplicate our services. Unauthorized parties may infringe upon or misappropriate our services or proprietary information. In addition, the laws of India do not protect proprietary rights to the same extent as laws in the United States, and the global nature of the Internet makes it difficult to control the ultimate destination of our services. For example, the legal processes to protect service marks in India are not as effective as those in place in the United States. The misappropriation or duplication of our intellectual property could disrupt our ongoing business, distract our management and employees, reduce our revenues and increase our expenses. In the future, litigation may be necessary to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Any such litigation could be time-consuming and costly.

We could be subject to intellectual property infringement claims as the number of our competitors grows and the content and functionality of our websites or other service offerings overlap with competitive offerings. Our defenses against these claims, even if not meritorious, could be expensive and divert management s attention from operating our Company. If we become liable to third parties for infringing their intellectual property rights, we could be required to pay a substantial damage award and forced to develop non-infringing technology, obtain a license or cease selling the applications that contain the infringing technology. We may be unable to develop non-infringing technology or obtain a license on commercially reasonable terms, or at all.

Our current infrastructure and its scalability may not accommodate increased use while maintaining acceptable overall performance.

Currently, only a relatively limited number of customers use our corporate network, our Internet service provider services and our Internet portal. We must continue to add to our network infrastructure to accommodate additional users, increasing transaction volumes and changing customer requirements. We may not be able to project accurately the rate or timing of increases, if any, in the use of our websites or upgrade our systems and infrastructure to accommodate such increases. Our systems may not accommodate increased use while maintaining acceptable overall performance. Service lapses could cause our users to use the online services of our competitors, and numerous customer defections may adversely affect our results of operations.

Our increasing work with governmental agencies may expose us to additional risks.

We are increasingly bidding for work with governments and governmental agencies for data centers. Projects involving governments or governmental agencies carry various risks inherent in the government contracting process, including the following:

- Such projects may be subject to a higher risk of reduction in scope or termination than other contracts due to political and economic factors such as changes in government, pending elections or the reduction in, or absence of, adequate funding;

- Terms and conditions of government contracts tend to be more onerous than other contracts and may include, among other things, extensive rights of audit, more punitive service level penalties and other restrictive covenants. Also, the terms of such contracts are often subject to change due to political and economic factors;

- Government contracts are often subject to more extensive scrutiny and publicity than other contracts. Any negative publicity related to such contracts, regardless of the accuracy of such publicity, may adversely affect our business or reputation;

- Participation in government contracts could subject us to stricter regulatory requirements, which may increase our cost of compliance; and

Such projects may involve multiple parties in the delivery of services and require greater project management efforts on our part. Any failure in this regard may adversely impact our performance.

Table of Contents

In addition, we operate in jurisdictions in which local business practices may be inconsistent with international regulatory requirements, including anti-corruption and anti-bribery regulations prescribed under the U.S. Foreign Corrupt Practices Act (FCPA), which, among other things, prohibits giving or offering to give anything of value with the intent to influence the awarding of government contracts. Although we believe that we have adequate policies and enforcement mechanisms to ensure legal and regulatory compliance with the FCPA, and other similar regulations, it is possible that some of our employees, subcontractors, agents or partners may violate any such legal and regulatory requirements, which may expose us to criminal or civil enforcement actions, including penalties. If we fail to comply with legal and regulatory requirements, our business and reputation may be harmed.

We do not plan to pay dividends in the foreseeable future.

We have not paid cash dividends to date because of the accumulated losses in the previous years. We may not pay a cash dividend in the near future in anticipation of meeting the fund requirements for facilitating future expansion plans of the Company. Investors who purchase our ADS may not see immediate returns.

Risks Related to the ADSs and Our Trading Market

The interests of our significant shareholder, Mr Raju Vegesna, our Chairman and Chief Executive Officer may differ from your interests.

Effective as of October 30, 2010, upon the consummation of the private placement to an entity controlled by Mr Raju Vegesna, our Chief Executive Officer and Chairman of the Board of Directors of the company, Mr Raju Vegesna beneficially owns approximately 86.3% of our outstanding equity shares. Mr P.S.Raju serves on our Board of Directors as a nominee of Infinity Capital Ventures, LP, an entity controlled by Mr Raju Vegesna. As a result, Mr Raju Vegesna will be able to exercise control over many matters requiring approval by our Board of Directors and / or shareholders, including the election of directors and approval of significant corporate transactions, such as a sale of our company. Under Indian law, a simple majority is sufficient to control all shareholder action except for those items, which require approval by a special resolution. If a special resolution is required, the number of votes cast in favour of the resolution must not be less than three times the number of votes cast against it. Examples of actions that require a special resolution include:

altering our Articles of Association;

issuing additional shares of capital stock, except for pro rata issuances to existing shareholders;

commencing any new line of business; and

commencing a liquidation.

Circumstances may arise in which the interests of Mr Raju Vegesna could conflict with the interests of our other shareholders or holders of our ADSs. Mr. Vegesna, or the entities that he controls, could delay or prevent a change of control of our Company even if a transaction of that sort would be beneficial to our other shareholders, including the holders of our ADSs. This concentrated control will limit your ability to influence corporate matters and, as a result, we may take actions that our ADS holders do not view as beneficial. As a result, the market price of our ADS could be adversely affected.

An investor in our ADSs may not be able to exercise preemptive rights for additional shares and may thereby suffer dilution of such investor s equity interest in us.

Under the Companies Act, 1956, or the Indian Companies Act, a Company incorporated in India must offer its holders of equity shares preemptive rights to subscribe and pay for a proportionate number of shares to maintain their existing ownership percentages prior to the issuance of any new equity shares, unless such preemptive rights have been waived by three-fourths of the shares voting on the resolution to waive such rights.

Holders of ADSs may be unable to exercise preemptive rights for equity shares underlying ADSs unless a registration statement under the Securities Act of 1933, as amended, or the Securities Act, is effective with respect to such rights or an exemption from the registration requirements of the Securities Act is available. To the extent that holders of ADSs are unable to exercise preemptive rights granted in respect of the equity shares represented by their ADSs, their

proportional interests in us would be reduced.

Table of Contents

ADS holders may be restricted in their ability to exercise voting rights.

At our request, Citibank N.A, (the *Depository*) will mail to holders of our ADSs any notice of shareholders meeting received from us together with information explaining how to instruct the Depository to exercise the voting rights of the securities represented by ADSs. If the Depository receives voting instructions from a holder of our ADSs in time, relating to matters that have been forwarded to such holder, it will endeavor to vote the securities represented by such holder s ADSs in accordance with such voting instructions. However, the ability of the Depository to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities on deposit. We cannot assure that the holders of our ADSs will receive voting materials in time to enable such holders to return voting instructions to the Depository. Securities for which no voting instructions have been received will not be eligible to vote.

Under Indian law, subject to the presence in person at a shareholder meeting of persons holding equity shares representing a quorum, all resolutions proposed to be approved at that meeting are voted on by a show of hands unless a shareholder present in person and holding at least 10% of the total voting power or on which an aggregate sum of not less than Rs.50,000 has been paid-up, at the meeting demands that a poll be taken. Equity shares not represented in person at the meeting, including equity shares underlying ADSs for which a holder has provided voting instructions to the Depository, are not counted in a vote by show of hands. As a result, only in the event that a shareholder present at the meeting demands that a poll be taken will the votes of ADS holders be counted. Securities for which no voting instructions have been received will not be voted on a poll. Accordingly, you may not be able to participate in all offerings, transactions or votes that are made available to holders of our equity shares.

As a foreign private issuer, we are not subject to the SEC s proxy rules, which regulate the form and content of solicitations by United States-based issuers of proxies from their shareholders. To date, our practice has been to provide advance notice to our ADS holders of all shareholder meetings and to solicit their vote on such matters through the Depository, and we expect to continue this practice. The form of notice and proxy statement that we have been using does not include all of the information that would be provided under the SEC s proxy rules.

The market price of our ADSs has been and may continue to be highly volatile.

The market price of our ADSs has fluctuated widely and may continue to do so. Many factors could cause the market price of our ADSs to rise and fall. Some of these factors include:

- perception of the level of political and economic stability in India;
- actual or anticipated variations in our quarterly operating results;
- announcement of technological innovations;
- conditions or trends in the corporate network/data services, Internet and electronic commerce industries;
- the competitive and pricing environment for corporate network/data services and Internet access services in India and the related cost and availability of bandwidth;
- the perceived attractiveness of investment in Indian companies;
- acquisitions and alliances by us or others in the industry;
- changes in estimates of our performance or recommendations by financial analysts;
- market conditions in the industry and the economy as a whole;
- introduction of new services by us or our competitors;
- changes in the market valuations of other Internet service companies;

announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;

our failure to integrate successfully our operations with those of any acquired companies;

Table of Contents

additions or departures of key personnel; and

other events or factors, many of which are beyond our control.

The financial markets in the United States and other countries have experienced significant price and volume fluctuations, and the market prices of technology companies, particularly Internet-related companies, have been and continue to be extremely volatile with negative sentiment prevailing. Volatility in the price of our ADSs may be caused by factors outside of our control and may be unrelated or disproportionate to our operating results, which may adversely affect the value of your investment and the price of our ADS s.

An active or liquid market for the ADSs is not assured.

We cannot predict that an active, liquid public trading market for our ADSs will continue to exist. Although ADS holders are entitled to withdraw the equity shares underlying the ADSs from the Depository at any time, there is no public market for our equity shares in India or the United States. The loss of liquidity could increase the price volatility of our ADSs.

The future sales of securities by us or existing shareholders may reduce the price of our ADSs.

Any significant sales of our equity shares or ADSs or a perception that such sales may occur might reduce the price of our ADSs and make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. We may issue additional equity shares to raise capital and to fund acquisitions and investments, and the parties to any such future transactions could also decide to sell them.

The current capital and credit market conditions may adversely affect our access to capital, the cost of capital, and ability to execute our business plan.

Access to capital markets is critical to our ability to operate. We may require additional financing in the future for the development of our business. Declines and uncertainties in the global capital markets over the past year have severely restricted raising new capital and have affected companies ability to continue to expand or fund new projects. If these economic conditions continue or become worse, our future cost of equity or debt capital and access to the capital markets could be adversely affected. Our ability to obtain future financing will depend on, among other things, our financial condition and results of operations as well as the condition of the capital markets or other credit markets at the time we seek financing. In addition, an inability to access the capital markets on favorable terms due to our low stock price, or upon our delisting from the Nasdaq Global Market if we fail to satisfy a listing requirement, could affect our ability to execute our business plan as scheduled.

We can give no assurance as to the availability of such additional capital or, if available, whether it would be on terms acceptable to us. In addition, we may continue to seek capital through the public or private sale of securities, if market conditions are favorable for doing so. If we are successful in raising additional funds through the issuance of equity securities, stockholders will likely experience substantial dilution. If we are unable to enter into the necessary financing arrangements or sufficient funds are not available on acceptable terms when required, either due to market fluctuations or regulations imposed by the Indian governmental authorities, we may not have sufficient liquidity and our business may be adversely affected.

We may be required to list our Equity Shares on an Indian stock exchange. If we were to list our Equity Shares on an Indian stock exchange, conditions in the Indian securities market may require compliance with new and changing regulations framed by Securities Exchange Board of India, listing requirements of stock exchange, corporate governance, accounting and public disclosure requirements which might add uncertainty to our compliance policies and increases our costs of compliance.

The Ministry of Finance of the Government of India (MoF) issued a press release dated March 31, 2006, making amendments to the Issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depository Receipt Mechanism) Scheme 1993 (the Scheme). The amendments included a statement that unlisted companies which had accessed FCCBs, ADR/GDRs in terms of guidelines of May 22, 1998 and are not making profit, be permitted to comply with listing condition on the domestic stock exchanges within three years of having started making profit. Further, the press release states that no fresh issues of FCCBs, ADR/GDRs by such companies will be permitted without listing first in the domestic exchanges. These regulatory requirements may adversely affect our ability to raise further capital for funding the ongoing and future expansion plans of the company, as we are unable to raise capital in

the United States or elsewhere offshore until we are listed in India.

We may be required by the Government of India to list on Indian stock exchange. We may not be able to comply with any timeline for listing and other standards imposed on us, and we are uncertain as to the consequences to us of any non-compliance. If we were to list our equity shares on an Indian stock exchange, we have to comply with changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, including the SEBI rules and regulations and stock exchange listing requirements which may create uncertainty for companies like ours. These new or changed laws, regulations and standards may lack specificity and are subject to varying interpretations. Their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such governance standards.

Table of Contents

Risks Related to Investments in Indian Companies

We are incorporated in India, and a significant majority of our assets and employees are located in India. Consequently, our financial performance and the market price of our ADSs will be affected by changes in exchange rates, interest rates, Government of India policies, including taxation policies, as well as political, social and economic developments affecting India.

Changes in the policies of the Government of India could delay the further liberalization of the Indian economy and adversely affect economic conditions in India generally, which could impact our business and prospects.

Since 1991, successive Indian governments have pursued policies of economic liberalization, including significantly relaxing restrictions on the private sector. Nevertheless, the role of the central and state governments in the Indian economy as producers, consumers and regulators has remained significant. The rate of economic liberalization could change, and specific laws and policies affecting technology and telecom companies, foreign investment, exchange rate regime and other matters affecting investment in our securities could change as well. A significant change in India s economic liberalization and deregulation policies could adversely affect business and economic conditions in India generally, and our business in particular.

Regional conflicts in South Asia could adversely affect the Indian economy, disrupt our operations and cause our business to suffer.

South Asia has, from time to time, experienced instances of civil unrest and hostilities among neighboring countries, including between India and Pakistan. In recent months, Pakistan has been experiencing significant instability and this has heightened the risks of conflict in South Asia. Military activity or terrorist attacks in the future could influence the Indian economy by disrupting communications and making travel more difficult and such political tensions could create a greater perception that investments in Indian companies involve higher degrees of risk. This, in turn, could have a material adverse effect on the market for securities of Indian companies, including our equity shares and our ADSs, and the market for our services.

Terrorist attacks or a war could adversely affect our business, results of operations and financial condition.

Terrorist attacks, such as the attacks of July 25, 2008 in Bangalore, the attacks of November 26 to 29, 2008 in Mumbai, the attack at New Delhi High Court on September 7, 2011 and other acts of violence have the potential to affect us or our clients. In addition, such attacks may destabilize the economic and political situation in India. Furthermore, such attacks could cause a disruption in the delivery of our services to our clients, and could have a negative impact on our business, personnel, assets and results of operations, and could cause our clients or potential clients to choose other vendors for the services we provide. Terrorist threats, attacks or war could make travel more difficult, may disrupt our ability to provide services to our clients and could delay, postpone or cancel our clients decisions to use our services.

The markets in which we operate are subject to the risk of earthquakes, floods and other natural disasters.

Some of the regions that we operate in are prone to earthquakes, flooding and other natural disasters. In the event that any of our business centers are affected by any such disasters, we may sustain damage to our operations and properties, suffer significant financial losses and be unable to complete our client engagements in a timely manner, if at all. Further, in the event of a natural disaster, we may also incur costs in redeploying personnel and property. In addition, if there is a major earthquake, flood or other natural disaster in any of the locations in which our significant customers are located, we face the risk that our customers may incur losses, or sustained business interruption and/or loss which may materially impair their ability to continue their purchase of products or services from us. A major earthquake, flood or other natural disaster in the markets in which we operate could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Table of Contents

We are subject to foreign investment restrictions under Indian law that limit our ability to attract foreign investors which, together with the lack of a public market for our equity shares, may adversely impact the value of our ADSs.

Currently, there is no public trading market for our equity shares in India or elsewhere nor can we assure you that we will take steps to develop one. Our equity securities are only traded on Nasdaq through the ADSs. Under prior Indian laws and regulations, our Depository could not accept deposits of outstanding equity shares and issue ADRs evidencing ADSs representing such equity shares without prior approval of the Government of India. The Reserve Bank of India has announced fungibility regulations permitting, under limited circumstances, the conversion of ADSs to equity shares and the reconversion of equity shares to ADSs provided that the actual number of ADSs outstanding after such reconversion is not greater than the original number of ADSs outstanding. If you elect to surrender your ADSs and receive equity shares, you will not be able to trade those equity shares on any securities market and, under present law, likely will not be permitted to reconvert those equity shares to ADSs.

If in the future a market for our equity shares is established in India or another market outside of the United States, those shares may trade at a discount or premium to the ADSs. Under current Indian regulations and practice, the approval of the Reserve Bank of India is not required for the sale of equity shares underlying ADSs by a non-resident Indian to a resident India as well as for renunciation of rights to a resident of India, unless the sale of equity shares underlying the ADSs is through a recognized stock exchange or in connection with the offer made under the regulations regarding takeovers. Since exchange controls still exist in India, the Reserve Bank of India will approve the price at which the equity shares are transferred based on a specified formula, and a higher price per share may not be permitted. Holders who seek to convert the rupee proceeds from a sale of equity shares in India into foreign currency and repatriate that foreign currency from India will have to obtain Reserve Bank of India approval for each transaction. We cannot assure you that any required approval from the Reserve Bank of India or any other government agency can be obtained.

The Government of India may change its regulation of our business or the terms of our license to provide Internet access services, Voice over Internet Protocol (VoIP) and VPN services without our consent, and any such change could decrease our revenues and/or increase our costs, which would adversely affect our operating results.

Our business is highly regulated as per extant telecom policy of the Government of India (the GOI). Our ISP license issued in the year 1998 runs for a term of 15 years. If we are unable to renew the ISP license for any reason, we will not be able to carry on the said business beyond license term, which may adversely affect our business or results of operations.

The GOI has right to revoke, terminate or suspend or take over entire operations for reasons such as national security or similar reasons without compensation to us. In view of increasing cyber threats and attacks, the GOI may require telecom licensees (including ISPs) at their costs to provide monitoring facility across its network, and facilities for capture and retention of data in terms of traffic flow, usage details, etc. This would result in significant increase in costs and possible lesser usage due to perceived invasion of privacy by customers.

Certain government departments have been making queries whether use of Session Initiation Protocol, or SIP, terminal to make calls to phones abroad is permissible within ISP license. We believe that such overseas phone calls are permitted, since, SIP terminal is a computer as defined in Information Technology Act, 2000. We may have to make a significant investment as capital outlay in SIP terminals to make it a PC-equivalent, if the government authorities issue regulations governing SIP usage contrary to our beliefs, which would have a material effect on our results of operations.

In the event that the Government of India or the Government of another country changes its tax policies in a manner that is adverse to us, our tax expense may materially increase, reducing our profitability.

The statutory corporate income tax rate in India was 30% during fiscal 2010 and was subject to a 7.5% surcharge, 2% education tax and 1% secondary and higher education tax, resulting in an effective tax rate of 33.22%. For fiscal year 2011, the statutory corporate income tax rate is still 30% and subject to a 5% surcharge and 2% education tax and 1% secondary and higher education taxes resulting in an effective tax rate of 32.45%. We cannot assure you that the surcharge will be in effect for a limited period of time or that additional surcharges will not be implemented by the Government of India. We may be subject to tax claims by the Government of India against us in the future. Defending these claims would be expensive, time consuming and may divert our management s attention and resources from our

operations.

Risks Related to the Internet Market in India

Our success will depend in large part on the increased use of the Internet by consumers and businesses in India. However, our ability to exploit the Internet service provider and other data service markets in India is inhibited by a number of factors. If India s limited Internet usage does not grow substantially, our business may not succeed.

Table of Contents

The success of our business depends on the acceptance of the Internet in India, which may be slowed or halted by high bandwidth costs and other technical obstacles in India.

Bandwidth, the measurement of the volume of data capable of being transported in a communications system in a given amount of time, remains expensive in India, especially when compared to many countries where bandwidth penetration is quite high. Although prices for international and domestic leased lines were substantially reduced recently, they are still high due to, among other things, capacity constraints and lack of competition. If the cost of bandwidth is not further reduced, or increases significantly, our business and results of operations will be adversely affected.

We may fail to exploit the market for WiMax services because of lack of access to spectrum.

The ability to provide fast and easy connectivity across cities will be a competitive advantage in future as more companies look to provide connectivity to their offices. WiMax, or wireless digital communications, gains significance for ubiquitous connectivity in cities, which will enable fast connectivity in the last mile to the service provider s network. We have not participated in the spectrum auction for WiMax, given the high prices.

The Department of Telecommunications, or DoT, has auctioned and allocated Broadband Wireless Access (BWA) spectrum to three operators per circle, which may limit the competition and competitive advantage for the consumer. Our inability to secure BWA at cost-effective prices may adversely affect our business and results of operations,, as our competitors with greater financial resources obtain spectrum for BWA services.

We may be compelled to surrender the spectrum that was allotted to us earlier.

The Government of India has asked us to surrender 2.3GHz range of spectrum allotted to us in 2003 and the same was auctioned as BWA spectrum. The Government also has asked the company to make payment for 3.3GHz spectrum from the date of allotment or to surrender the same. The other range of spectrum that we won, 5.7 GHz, is also close to capacity utilization and will need to be augmented in future. Enterprise connectivity will need licensed bands of spectrum for assured quality and security, so the non-availability of spectrum would materially adversely affect our business and results of operations. In the event of the surrender of the spectrum 2.3 GHz and 3.3 GHz, it may hamper our future plans for expansion of services may be adversely affected, and there are no assurances that we will be able to obtain additional replacement spectrum.

We may lose our broadband services to retail segment to competitors, and we do not control the delivery of broadband services to the homes of our customers.

Our broadband business depends upon Cable Television Operators (CTOs) for delivery of services. This has proved difficult, leaving large areas uncovered and open to the competition representing a significant opportunity loss. In future, as competitors launch WiMax services, they will have extensive connectivity and will be able to offer broadband services everywhere without constraints. This will severely curb our ability to compete and may adversely affect our business and results of operations.

The future of broadband services to home may revolve around WiMax wireless capability. Since WiMax capability is to be brought under the 3G spectrum in the near future, we may not be able to compete with our larger, more well-financed competitors, and such competitors may gain market share and our customers may terminate their engagements with us. Our brand s perception therefore, is directly impacted by an external party over whom we have little or no control in the matter of service delivery, and our customers may attribute usage problems to us rather than their CTOs.

Our connectivity business may stagnate with a declining contribution.

In the connectivity business, realization will be lower year on year based on the market conditions. Every year when annual contracts come up for review, customers contract for more bandwidth or more links at a lower overall unit price. This is offset somewhat by lower bandwidth costs, which we negotiate with our service providers. This impacts us in two ways: first, despite an increase in sales volume, we may not see a commensurate rise in revenues; and secondly, margins in our business are continually shrinking. Therefore, our revenue from our connectivity business may stagnate with declining bandwidth costs.

We may not be able to retain and acquire customers for our data centers.

In the field of Internet data center services, competition from data center operators may attract customers away from us or make it more difficult for us to attract new customers. If competitors are successful in the market, it could be

difficult for us to retain and/or acquire customers. Furthermore, once customers cease using our services and choose another service provider, it may be difficult for us to reacquire them in future, or may require substantial costs to reacquire such customers, and we despite such customer acquisition spending, we may be unsuccessful in retaining such customers.

Table of Contents

In order to improve our competitiveness, we are developing data centers at NOIDA- Delhi. If we are unable to attract adequate customers to these centers, we will not be able to achieve the revenues initially anticipated, which could have an adverse effect on our future results of operations and financial condition.

Our datacenters may not be competitive enough in terms of green features.

We may fail to convert our existing Datacenters and/or build new Datacenters under the LEED (Leadership in Energy and Environmental Design) Commercial Interior (CI) programme of United States Green Building Council (USGBC). LEED certification is an internationally recognized programme and is considered one of the highest standards for energy efficient constructions. The datacenter uses several green features such as site ecology, water conservation, smart energy meters and equipments, reduction of CO2 emissions, high recycle content, effective waste management and eco-friendly interiors. Increased demand for green datacenter may hamper our marketing of our existing datacenters that are not LEED certified.

We may lose relevance and revenues if we do not position our business models in line with current and future technology trends.

Technology trends, such as cloud computing and software-as-a-service, allow new business models that could replace current lines of business unless we are aware of them and positioning ourselves to take advantage of the transition.. The markets for our service are characterized by rapidly changing technology, evolving industry standards, emerging competition and frequent introduction of new services. We may not successfully identify new opportunities, develop and bring new services to market in a timely manner. Unless we are able to adopt and deploy these advances in technology and infrastructure, we may lose our competitive position in the marketplace, which would adversely affect our revenues and may lead to increased customer attrition, as our customers switch to providers that utilize such information technology infrastructure.

We may fail to augment our skills and capability to best manage our services over Internet Protocol and data networks.

We have been able to build a reputation and maintain our lead because of our expertise and capability with the delivery and management of services over Internet Protocol and data networks. As the competition builds up their capability and experience, if we do not augment our skills and capabilities to keep our qualitative lead over them, we are at the risk of losing market share. Infrastructure such as networks are considered by customers as a commodity, and the only differential that we offer is our ability to manage and monitor services over them in a superior manner.

It may not be possible for us to retain our brand equity if we do not resort to huge investments for brand development.

Our competitors offering similar services are all large telecom companies who make substantial investments in building their brand image across their services. Conversely, we are focused on IT infrastructure services over data telecom networks and we believe that we enjoy the reputation of a specialist in these services. However, if we do not build up awareness as well as our brand and reputation over time, the sheer weight of investments in brand development by the larger telecommunication providers will dilute our brand recognitions and competitive advantages.

We may not meet the selection criteria set for high value contracts by the Governments.

As we participate in bidding for large Government of India contracts, as well as business from large corporations, we increasingly come under scrutiny for the net assets value of our balance sheet as well as lack of profitability. Unless we increase capacity quickly and become profitable, we could be excluded from major government projects because we fail to meet their selection criteria, which would adversely affect our business and results of operations.

The success of our business depends on our software development of our capability.

As we offer our enterprise application services to an increasing base of large corporations, we run the risk of not being able to meet their needs for scaling and sophistication in future if we do not build the capacity to develop applications software to meet with future needs. We may not have adequate resources to develop our capability as a result of emerging sophistication required for such services. The failure to develop such resources may adversely affect our business and results of operations.

We may fail to offer end-to-end managed services to sustain our position.

The telecommunications market is evolving towards service providers who offer end-to-end managed services that include managing everything down to desktops. If we are to continue to lead the market, we need to extend our library of services to ensure that our portfolio of services helps graduate the market to managed services where we can maintain leadership. It may be difficult for us to offer end-to-end managed services to sustain our leadership in managed services without significant capital expenditures which expenses would adversely affect our cash position and results of operations.

Table of Contents

We may not get repeat corporate orders to optimize the capacity utilisation.

As we expand the network to small cities and towns, there is an operational cost involved in both the establishment and operation of these nodes. While the expansion is facilitated by a corporate order, we have to subsequently get additional business for capacity utilization in these nodes to make them profitable. If we are not able to do this rapidly by scaling up the business through these towns, we run the risk of overcapacity on the network in new areas, which results in a higher cost structure and margins.

Absence of policy support will hamper Internet and Data Services.

We have, and continue to be, subject to Indian regulations regarding the VPN license requirements, including the percentage of foreign holdings to offer VPN services as well the need for NLD/ILD licenses to offer VPN services and carrier voice services. The growth and development data and internet sector is dependent on a policy support of Department of Telecommunications Regulatory changes, as well the as continuing lack of policy initiatives to vitalize the data and Internet sector continue to be a risk.

We cannot influence enabling policies that facilitate the growth and development of data and Internet connectivity in India. The absence of policy support for internet and data services may hamper the growth of such services in future, which would adversely affect our business and results of operations.

Constant improvement of technology standards/ skills and evolving tools and applications are essential to sustain our position in remote management of IT infrastructure.

We are relatively unknown outside India, and in comparison to other established IT players which have a large base of customers. If we are not able to constantly upgrade our technology standards and skills, and if we are unable to scale for critical mass in the near term, our competitive position would be adversely affected.

Management of IT infrastructure is dependent on sophisticated tools and applications to remotely monitor the IT infrastructure and assets of customers. If we are unable to retain our competitive advantages in terms of the evolving tools & applications, or the maturity of our processes, we may lose customers and be at a competitive disadvantage compared with our larger competitors.

The continued recession in the United States affects sales of our e-Learning and IMS services.

The continued economic recession and uncertainty in the United States may cause reduced demand for our eLearning products, as our customers may reduce their training budgets and programming. Additionally, we may not be able to acquire new customers due to the poor economy. A prolonged period of reduced customer demand for our eLearning services may adversely affect our business and results of operations.

Emergence of Enterprise Software Suites may hamper our growth in eLearning stream.

The emergence of competitors such as Oracle, IBM, SAP, SumTotal and SABA offering enterprise software suites for eLearning for large organizations to develop their own learning programs could be a threat to our business in future. We may lose our business to our competitors, and if we are unable to acquire new customers or retain our existing customers, our revenues and results of operations may suffer.

We may not be able to grow our business if online advertising in our markets does not expand.

Our business strategy depends on the anticipated growth of online advertising in our markets and the growth of our revenues depends on increased revenues generated by online advertising. Online advertising is an evolving business and our ability to generate advertising revenues will (among others) depend on:

- our ability to attract and retain advertisers at profitable rates in light of intense competition;
- our ability to generate and continue to grow a large community of users with demographics attractive to advertisers;
- advertisers acceptance of the Internet as an effective and sustainable medium;
- the effectiveness of our advertising delivery, tracking and reporting systems; and
- our ability to adapt, including technologically, to new forms of Internet advertising

Table of Contents

Different pricing models are used to sell online advertising, and it is difficult to predict which, if any, of the models will emerge as the industry standard. This makes it difficult to project our future advertising rates and revenues. A reduction in traffic on our website may cause new advertisers not to enter into contracts with us and could cause existing advertisers not to renew their contractual arrangements with us, each of which, in turn, would reduce our potential advertising revenues. Additionally, any development of Internet software that blocks advertisements before they appear on a user s screen may hinder the growth of online advertising and could materially and adversely affect our ability to grow our online advertising revenues and our business. Also, a slowdown in economic growth, and in particular a slowdown in the growth of companies that advertise on the Internet, may result in a reduction in our advertising revenues.

Our contracts with advertising customers do not commit them to continue to provide us with a specific volume of business and can typically be terminated by them with or without cause, with little or no advance notice and without penalty. Additionally, our contracts with advertising customers are usually limited to a specific project and/or for a specific time period and not any future work. There are also a number of factors, other than our performance, which are not within our control, that could cause the loss of advertising customers. Early termination of material contracts or non-renewal of an expired material contract could have a material adverse effect on our business and our future financial performance

If we do not continue to develop and offer compelling content, products and services, our ability to attract new customers or maintain the engagement of our existing consumers could be adversely affected.

In order to increase advertising revenues, we need to continue to increase the number of users of our sports, recipes and entertainment video contents through our websites. In order to attract consumers and generate increased engagement on our website portals, we believe we must offer compelling content, products and services. If we are not able to attract and keep new users in a constantly evolving user base, we are likely to lose page views, and advertisers may reduce or cease publishing advertisements in our websites. It is important for us to provide necessary contents through our websites to attract more users. However, acquiring, developing and offering new content, products and services, as well as new functionality, features and enhanced performance of our existing content, products and services, may require significant costs and time to develop. In addition, consumer tastes are difficult to predict and subject to rapid change.

As a result of increased competition, it will be difficult for us to attract new users if we do not provide dynamic content to attract website visitors and attract new advertisers. If we are unable to increase our website views and advertising revenues, our results of operations will be affected. Even if we successfully develop and offer compelling content, products and services, we may not be able to attract new consumers and maintain or increase our existing customers use of our products and services.

The viability of our cyber café services depends on the success of the franchisees to generate or sustain adequate profitability.

The cyber café chain is a franchised model whose success depends on the success of the franchisees. In the last two years, operating costs have increased steeply, particularly rent for retail premises, eroding the margins of franchisees and making the business unattractive. We may be unable to modify or develop a business model that will provide additional revenues from these cafés to ensure continued profitability of the cyber cafes.

Our cybercafés may not fetch premium prices due to competition from unorganized sector.

Users view cyber cafés for Internet access as a utility, and are unwilling to pay for a premium service. Most of our competition for cybercafé customers is from the unorganized sector with low rates that have become the industry norm. Our premium pricing of products/services offered through cybercafés is viewed as being more expensive. In view of the lower pricing prevailing in the market, we may lose revenue from cybercafés and our profitability may be impacted.

Heightened security concerns for cybercafés issued by the governments will discourage franchisees to operate such cybercafés.

The Government s rules and regulations for operating cyber cafes have become more and more stringent in the face of rising terrorism and the use of emails to threaten key government officials and others. In addition, state level regulations differ in levels of compliance required of both the café operator and users. This is discouraging franchisees from entering the business and users for the risk of being harassed for using such facilities. This may lead to a

decrease of cybercafés and may impact our revenues and result of operations.

Table of Contents

The expected growth for broadband services to retail segment may come down.

As the economy slows down and the consumer confidence erodes, the sale of personal computers has dropped significantly during the previous [two] year[s]. We believe that a reduction in consumer confidence and the sale of consumer goods is likely to result in a drop in demand for broadband services until the cycle is reversed, as consumers delay or reduce their discretionary spending and personal computer usage. If this trend continues, reduced broadband usage may impact our revenue and result of operations. The market penetration rates of personal computers and online access in India are far lower than such rates in the United States. Alternate methods of obtaining access to the Internet, such as satellite internet and wireless internet are steadily becoming popular in metro centers and slowly replacing the wire line internet. There can be no assurance that the number or penetration rate of personal computers in India will increase rapidly. This may impact our ability to increase our revenue and may affect our results of operations.

Our pricing for broadband services to retail segment may not be competitive.

Service providers such as BSNL are frequently reducing rates so the Average Revenue Per User (ARPU) is constantly coming down. We have to continually respond with promotions and value added services to compete with such service providers. If we are unable to compete on pricing terms with our competitors, we may lose customers and fail to attract new customers, which may adversely impact our revenue and results of operations.

The high cost of accessing the Internet in India limits our pool of potential customers and restricts the amount of revenues that our Internet access services division might generate.

The growth of our consumer services is limited by the cost to Indian consumers of obtaining the hardware, software and communications links necessary to connect to the Internet in India. If the costs required to access the Internet do not significantly decrease, most of India s population will not be able to afford to use our services. Any long term absence of affordability to access internet at reasonable cost may adversely affect our business and results of operations.

The success of our business depends on the acceptance and growth of electronic commerce in India, which is uncertain, and, to a large extent, beyond our control.

Many of our existing and proposed services are designed to facilitate electronic commerce in India. The e-commerce in India is at a very early stage as compared to western world. The market potential for e-commerce is yet to be exploited. Demand and market acceptance for these services by businesses and consumers, therefore, are still remain uncertain. Many Indian businesses have deferred purchasing Internet access and deploying electronic commerce initiatives for the following reasons:

inconsistent quality of service;

the need to deal with multiple and frequently incompatible vendors;

inadequate legal infrastructure relating to electronic commerce in India;

a lack of security of commercial data, such as credit card numbers; and

very few Indian companies accepting credit card numbers over the Internet.

If usage of the Internet in India does not increase substantially and the legal infrastructure and network infrastructure in India are not developed further, we may not realize any benefits from our investment in the development of electronic commerce services.

Table of Contents

Risks Related to the Internet

Our business may not be compatible with delivery methods of Internet access services developed in the future.

We face the risk that fundamental changes may occur in the delivery of Internet access services in India. Currently, Internet services are accessed primarily by computers and are delivered by modems using telephone lines. As the Internet is becoming accessible by cellular telephones, personal data assistants, television set-top boxes and other consumer electronic devices, and becomes deliverable through other means involving digital subscriber lines, coaxial cable or wireless transmission mediums, we will have to develop new technology or modify our existing technology to accommodate these developments. Our pursuit of these technological advances, whether directly through internal development or by third-party license, may require substantial time and expense. We may be unable to adapt our Internet service business to alternate delivery means and new technologies may not be available to us at all. We provide wireless connectivity on the 5.7 GHz spectrum allotted to us by the Wireless Planning Commission. The spectrum allocation may be inconsistent with industry standards. The current capacity may be insufficient to offer a breadth of services. The Government may issue instructions to release the spectrum that we hold. High cost of spectrum acquisition may be inconsistent with our revenue and cost models. We may not keep up with the pace of change that takes place in wireless technologies. The launch of DTH (Direct to Home) relay by service providers such as Tata Teleservices, Reliance, Dishnet and Sun TV may weaken the presence of Cable TV Operators (CTOs) in providing connectivity to homes through cables. Due to such competition, we may lose business from the CTOs for providing internet services through cables.

We are subject to quality of service (QOS) guidelines issued by TRAI. Failure to comply with one or more guidelines may expose us into fines/penalties.

TRAI has issued the following guidelines to the ISPs for improving the quality of service:

All Internet service providers shall provide adequate information to subscribers regarding Internet/broadband services being offered and marketed by them.

All Internet service providers shall provide information regarding contention ratios or the number of users competing for the same bandwidth, adopted by them to provide Internet/broadband service in their tariff plans submitted to TRAI, manual of practice, call centers and on their websites

All Internet service providers shall quarterly publish contention ratio for different Internet/broadband services on their website to facilitate subscribers to take informed decision.

All Internet service providers must use the contention ratios better than specified ratios for different services to ensure sufficient bandwidth for providing good quality of service to their subscribers.

Fixing up a contention ratio, may put standalone ISPs, like ours, at a disadvantage as cost of delivery of Internet bandwidth may increase. Telecom companies offering similar internet services are tempted to offer significantly lower prices and incentives as they own the last mile and at the same time by bundling telephony along with Internet enhance their otherwise idle last mile. Under such circumstances, it will be very difficult for us to compete with big Telcos which can offer broadband services by cross subsidising with voice/other services.

In the event of our failure to comply with one or more of the above guidelines, we may expose ourselves to fines/penalties.

We may be liable to third parties for information retrieved from the Internet.

We could become liable if confidential information is disclosed inappropriately on or through our websites. Others could also sue us for the content and services that are accessible from our websites through links to other websites or through content and materials that may be posted by our users in chat rooms or bulletin boards. The laws in India relating to the liability of companies which provide Internet services, like ours, for activities of their users, are still relatively unclear. Investigating and defending these claims is expensive, even if they do not result in liability Allegations of impropriety, even if unfounded, could damage our reputation, disrupt our ongoing business, distract our management and employees, reduce our revenues and increase our expenses.

23

Table of Contents

Item 4. Information on the Company

History and Development

We were incorporated on December 12, 1995 in Andhra Pradesh, India as Satyam Infoway Private Limited, a Company under the Indian Companies Act, 1956 to develop and offer connectivity-based corporate services in India. Until December 2002, we were a majority-owned subsidiary of Satyam Computer Services Limited, an Indian information technology services Company traded on the New York Stock Exchange and the principal Indian stock exchanges. We changed our name from Satyam Infoway Limited to Sify Limited in January 2003 and from Sify Limited to Sify Technology Limited in October 2007. We completed our initial public offering of ADSs in the United States in October 1999. We listed our ADS on the Nasdaq Global Market on October 19, 1999. In February 2000, we completed our secondary offering of ADS in the United States.

Sify Software Limited (Formerly Sify Networks Private Limited), Sify Technologies (Singapore) Pte. Ltd., and Sify International Inc. are our wholly owned and controlled subsidiaries.

The address of our principal executive office is Tidel Park, 2nd Floor, 4, Rajiv Gandhi Salai, Taramani, Chennai 600 113 India, and our telephone number is 91-44-2254-0770. Our agent for Investors Relations in the United States is Grayling Global, phone +1-646-284-9400. Our website address is www.*sifycorp.com* and the information contained in our website does not constitute a part of this Annual Report.

From December 1995 through 1997, we focused on the development and testing of our private data network. In 1997, we began forming strategic partnerships with a number of leading technology and electronic commerce companies, including UUNet Technologies, in order to broaden our service offerings to our corporate customers. In March 1998, we obtained network certification for conformity with Indian and international network operating standards from the Technical Evaluation Committee of India. In April 1998, we began offering private network services to businesses in India. Our initial services included electronic data interchange, e-mail and other messaging services, virtual private networks and related customer support.

We started development of *www.sify.com*, our online portal, and other related content sites for news, travel, finance, health and shopping with the goal of offering a comprehensive suite of websites offering content specifically tailored to Indian interests worldwide.

On November 6, 1998, the Indian government opened the Internet service provider (ISP) market to private participation. Capitalizing on our existing private data network, we launched our Internet service provider business, Sify*Online* (formerly known as Satyam*Online*), on November 22, 1998 and became the first private national Internet service provider in India. We began offering Sify*Online* Internet access and related services to India s consumer market as a complement to the network services offered to our business customers. Our Sify*Online* service was the first in India to offer ready-to-use CD-ROMs enabling online registration and immediate usage.

In March 2000, we launched our network of public Internet cafés called *iways* to cater to the needs of Indians who do not have access to the Internet. In September 2000, we commenced our hosting services from our India s first Tier-III data center at Vashi, Mumbai to provide co-location and managed services to our clients. In June 2001, we obtained permission to provide wireless connectivity on the 5.7 GHz spectrum from the Wireless Planning Commission. This enabled us to convert all our *iways* from Integrated Services Digital Network, or ISDN, connectivity on the last mile to wireless connectivity. This technology also enabled us to commence our high-speed/broadband access to homes, which began in March 2003. To enable quicker access to homes, we developed a model of partnering with Cable Television Operators, or CTOs, who already interface with households for providing cable television facilities to millions of households in India.

In April 2002, ISP s were permitted to provide restricted VoIP limited to outbound calls to International destinations and personal computer to personal computer calls in India. We started providing this service through our network of cybercafés, and later on through VoIP booths located in large commercial areas and corporate office complexes across major cities in India.

From the time we launched our corporate services in 1997, we have continually upgraded our technology to provide data services to corporate clients. We were the first Internet service provider in India to make our entire network IP-based and subsequently Multi Protocol Label Switching (MPLS)-enabled, which permitted us to continue to grow our corporate customer base. As of March 31, 2011, we provide data connectivity services to around 3000 corporate

clients in industries ranging from information technology, manufacturing, banking and financial services industry, pharmaceuticals, retail distribution and the government.

Table of Contents

Initial Public Offering and Subsequent Financing Transactions

In October 1999, we completed our initial public offering on the Nasdaq National Market and issued 4,801,250 ADSs at a price of $18.00 per ADS. We received proceeds of approximately $79.2 million, net of underwriting discounts, commissions and other offering costs. In connection with our initial public offering, we received the benefit of exemptions from the Nasdaq corporate governance rules relating to shareholder meeting quorum, solicitation of proxies and shareholder approval for issue of shares other than in a public offering under Nasdaq rules. We will continue to avail of the exemptions from the Nasdaq corporate governance rules.

In February 2000, we completed a secondary offering and issued 467,175 ADSs at a price of $320.00 per ADS. We received proceeds of approximately $141.2 million, net of underwriting discounts, commissions and other costs.

In October 2002, we agreed to sell an aggregate of 7,558,140 ADSs to SAIF for consideration of $13.0 million and to sell an aggregate of 2,034,883 equity shares to VentureTech for consideration of $3.5 million. This transaction was approved by our shareholders at our Extraordinary General Meeting held on December 9, 2002. In December 2002, we completed the sale of the ADSs to SAIF and the sale of 2,034,883 equity shares to VentureTech. In April 2003, we sold an additional 1,017,442 equity shares to VentureTech. In July 2003, we sold an additional 1,017,441 ADSs to an affiliate of Venture Tech.

On November 10, 2005, Infinity Capital Ventures, LP (Infinity Capital) acquired 11,182,600 ADS of our Company from Satyam Computer Services Limited (Satyam) for US $5.60 per share in cash through a Sponsored ADR Programme arranged by the Company. The total purchase price for the Satyam shares was approximately US $62.6 million.

In a separate transaction, also on November 10, 2005, Infinity Capital entered into a Subscription Agreement with us pursuant to which, upon the terms and subject to the conditions set forth therein, Infinity Capital agreed to purchase from us approximately 6.7 million newly-issued equity shares or ADSs at a purchase price of US $5.60 per share in cash. The total purchase price for the newly issued shares was approximately US $37.5 million. This transaction was approved by our shareholders at our Extraordinary General Meeting held on December 23, 2005. In January 2006, we completed the transaction. Also on November 10, 2005, Sify, Infinity Capital and Mr. Raju Vegesna entered into a Standstill Agreement pursuant to which, upon the terms and subject to the conditions set forth therein, Infinity Capital agreed not to purchase more than 45% of our fully diluted equity. The Board of Directors waived the above clause in the standstill agreement passed through a Board resolution dated January 22, 2008.

Following the transactions, Mr. Raju Vegesna of Infinity Capital was appointed as the Chairman of our Board of Directors. Mr. P. S. Raju is the second nominee of Infinity Capital to our Board of Directors.

On March 24, 2008, the Company entered into a Subscription Agreement with Infinity Satcom Universal Private Limited (Infinity Satcom Universal), a private limited Company in India which is controlled by Ananda Raju Vegesna and brother of Raju Vegesna, Chairman and Managing Director, for issuance of 12,817,000 Equity Shares of the Company with face value of Rs.10/- per share at a premium of Rs.165/-. It was approved by the Company s shareholders at the Extraordinary General Meeting held on, March 17, 2008.

On March 24, 2008, we received a sum of Rs 112.14 million (comprising of Rs 12.81 million towards face value and Rs 99.33 million towards securities premium). Subsequently, Infinity Satcom Universal communicated to the Company that they would focus their attention on the business of Sify Communication Limited (erstwhile subsidiary) and hence shall not contribute the balance money towards the subscription of 12,817,000 Equity Shares on call. On August 29, 2008, the Board of Directors, forfeited the shares allotted and the application monies collected (Rs. 112.14 million including sums towards capital and premium).

On October 30, 2010, we consummated the issuance and sale of 125,000,000 of our equity shares in a private placement to Raju Vegesna Infotech & Industries Private Limited, our promoter group, and an entity affiliated with our Chairman and Chief Executive Officer, Mr Raju Vegesna. See note 42 in the notes to the financial statements in this Annual Report.

Acquisition of Minority Interest in Subsidiary

In January 2008, our Board of Directors of Sify approved the merger of our subsidiary, Sify Communications Limited (Sify Comm) with our 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.

Table of Contents

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. 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. The Honourable High Court approved the merger on 26th June, 2009. In connection with such merger the Company has issued 10.53 million equity shares to Infinity Satcom Universal Private Limited, a 26% stake holder in the erstwhile Sify Communications Limited prior to merger.

On July 15, 2009, Infinity Satcom Universal Private Limited has acquired 4,000,000 shares of the Company from Infinity Capital LP, USA in a private transaction.

Principal Capital Expenditures

In fiscal 2011, 2010 and 2009, we spent Rs 795.29 million ($US 17.81), Rs 979.74 million and Rs.1336.16 million respectively, on capital expenditures. As of March 31, 2011, we had contractual commitments of approximately Rs.132.20 million (US $2.96 million) for capital expenditure towards the acquisition of property, plant and equipment. These commitments included approximately Rs.64.38 million (US $1.44 million) in domestic purchases and Rs.65.82 million (US $1.47 million) in imports and overseas commitments for products and spares. All our capital expenditures were financed out of cash generated from operations, equity infusion and borrowings from banks.

Investment Strategy

In evaluating investment opportunities, we consider important factors, such as strategic fit, competitive advantage and financial benefit, through a formal net present value evaluation.

Sify Software Limited (formerly Sify Networks Private Limited)

In March 2004, we acquired E Alcatraz Consulting Private Limited, a Company engaged in the business of providing security services to corporate customers, for a consideration of Rs.32.7 million.

The Company did not have operations during the last three years. During October 2009, Sify Technologies transferred eLearning, Software Development and other related businesses, which are non-telecom businesses, to the subsidiary Company for a consideration of Rs.450 million, which was discharged by way of issue of 4.5 million ordinary shares in Sify Software Limited. Consequently, the name of the Company was changed to Sify Software Limited in order to reflect the activities relating to Software Development business.

Globe Travels, USA.

In April 2006, we acquired Globe Travels, USA engaged in the business of selling online airline tickets in the U.S. with a special focus on the U.S.-India sector along with its Indian outfit for a consideration of USD $2.50 million, apart from 125,000 stock options and some conditional earn out payments. We believe this acquisition marks Sify s entry into the online travel business, particularly e-ticketing. Further on account of continued decline in business, the company has ceased its travel business operations.

Due to the decline in business travels on account of global economic environment, the company tested impairment for goodwill and intangibles, and has recorded Rs. 1,857, Rs. 47,269 and Rs. 15,200 as impairment charge during the years 2010-11, 2009-10 and 2008-09 respectively.

Table of Contents

India World Communication Limited

India World Communications Limited filed an application with the Registrar of Companies, Tamil Nadu in 2008 for the winding up of its business under section 560 of the Indian Companies Act, 1956. The Registrar had struck off its name from the register. Hence, India World Communications Limited ceased to exist from the date of order of the ROC.

Sify International Inc

Sify International Inc incorporated in the United States of America (US) is a wholly owned subsidiary of Sify. Sify International registered a small revenue of USD $0.37 million and a profit of USD $0.03 million during the year 2010-11.

Business Overview

We are one of the largest integrated Internet, network and electronic commerce services companies in India, offering end-to-end solutions with a comprehensive range of services delivered over a common Internet backbone infrastructure. Our services enable our business and consumers to communicate, transmit and share information, access online content and conduct business remotely using our private data network or the Internet. Our Internet and network services include the following:

Corporate Network/Data Services. We offer end-to-end network services, hosting, application and security services that provide our corporate customers with comprehensive Internet and private network access. Our services enable our corporate customers to offer a full range of business-to-business and electronic commerce related services. We provide NLD (National Long Distance) and ILD (International Long Distance) services through our network. We carry voice traffic, both national and international, using the IP back-bone and deliver voice traffic to Direct Inter-connect Operators. We also provide managed infrastructure services and managed security services in all aspects of infrastructure services, network security and hosting, with digital certificates based authentication service and VPN solutions. We have launched system integration service during the year 2009-10. We are the first service provider in India to be ISO 9001:2000 certified in network operations, data center operations and customer relationship management.

Internet Access Services. We offer public Internet access to consumers through a retail chain of e-ports (formerly *iway)* cybercafés. We also have agreements with certain cable television operators through which we offer Internet access through cable. As of March 31, 2011, we had approximately 10 million retail Internet access subscribers.

Online Portal Services. We operate online portals, such as www.sify.com, www.samachar.com and www.sifymax.in, that function as principal entry points and gateway for accessing the Internet by providing useful web-related services and links. We also offer related content sites specifically tailored to Indian interests worldwide.

Others. We facilitate web based learning for various organizations by digitizing and uploading content to facilitate the same. We also provide remote infrastructure management services such as Data center management, Network management, Security management and Desktop management to support the clients from offshore command centers, on a 24 x 7 basis.

We began providing corporate network/data services to businesses in April 1998, and as of March 31, 2011 we had around 3000 corporate customers located principally in India. We launched our Internet service provider business in November 1998, becoming the first private Internet service provider to begin service after the Indian government opened the market to private competition. We also operate online portals, *www.sify.com*, *www.sifymax.in*, *www.samachar.com*, and related content sites specifically tailored for Indian interests worldwide. *Sify.com* is one of India s leading portals with services in areas such as news, travel, finance, health and shopping in addition to e-mail, chat and search. *SifyMax.in* is a broadband portal offering live streaming and on demand video and audio content, news clips, TV reality shows and highlights of cricket matches.

We are providing NLD (National Long Distance) and ILD (International Long Distance) services through our network from August 2008. We have made tie-ups with international and domestic carriers to carry their traffic into India. We carry voice traffic, both national and international, using the IP back-bone and deliver voice traffic to direct inter-connect operators.

During the year 2009-2010, following the merger of Sify Communications Limited with the Company, we obtained the approval of Department of Telecommunications for the transfer of NLD / ILD licences from Sify Communications to us.

We currently operate a large national private data network in India. Our network utilizes Internet protocol, which is an Internet industry standard for tracking Internet addresses, routing outgoing messages and recognizing incoming messages. In February 2002, we became the first Indian Company to be certified ISO 9001:2000 for network services, data center operations and customer relationship management. The ISO 9001:2000 certification from Det Norske Veritas (DNV), Netherlands under the RvA accreditation scheme provides recognition for self-defined benchmarks against international companies with respect to facilities, metrices, processes and practices. In fiscal year 2003, our Enterprise Solutions division was also certified ISO 9001:2000 for provisioning of corporate VPN s, Internet bandwidth, VoIP, and integrated security solutions including pre-sales, sales, order processing and project management.

Table of Contents

As of March 31, 2011, we operated 662 points of presence serving more than 625 towns and cities across India. Points of presence are telecommunications facilities located in a particular market which allow our customers to connect to the Internet through a local telephone call. Although our Internet service provider license permits us to establish and maintain our own direct connection to the international Internet, we no longer maintain satellite gateways. We provide international bandwidth by leasing capacity from large telcos.

We continue to seek to be the premier integrated Internet, network and electronic commerce solutions provider to businesses and consumers in India. We believe that demand for our services is significant in India and growing rapidly as businesses and consumers seek alternatives to the communications services offered by telecom providers that were formerly controlled by the Government of India. We intend to continue to focus on providing superior network performance and high levels of customer service and technical support to increase our customer base and maximize customer satisfaction.

Industry Overview

Development of the Internet. We believe that the large and increasing number of home and office computers linked to the Internet, advances in network design, increased availability of Internet-based software and applications, the emergence of useful content and electronic commerce technologies, and convenient, fast and inexpensive Internet access will continue to drive Internet growth and usage in the near future.

Special Communications Needs of Businesses. As the Internet is now easily available and more reliable, businesses are increasingly utilizing the Internet for functions critical to their core business strategies, such as sales and marketing, customer service and project coordination. The Internet presents a compelling profit opportunity for businesses by enabling them to reduce operating costs, access valuable information and reach new markets. To maintain a significant presence on the Internet, businesses typically purchase Internet access services and establish a website. Internet access provides a Company with its basic gateway to the Internet, allowing it to transfer e-mail, access information and connect with employees, customers and suppliers. A website provides a Company with a tangible identity and an interactive presence on the Internet. Many corporations are also converting their legacy information systems and databases to web-enabled systems.

The Opportunity in India. The resulting internet service remains inferior to service in developed countries. At the same time, however, the Indian economy continues to modernize and expand, particularly in sectors such as software development that are dependent on a reliable communications network. The growth of these industries is leading to an increasing base of personal computers and wired and wireless homes and businesses in India with a resulting increased demand for Internet services. We believe these trends, which mirror those in more mature economies, will continue to develop in India.

We believe that the ability to exploit the Internet service provider and other data service markets in India is currently inhibited by the government policies and regulatory controls on the provision of Internet based services. Generally, bandwidth remains very expensive in India, despite falling prices for international and domestic leased lines and the recent emergence of private players, and liberalization measures have brought an increase in supply and a consequent downtrend in prices respectively. Ceilings for bandwidth prices are set by the DoT and the Telecom Regulatory Authority of India, or TRAI, plays the advisory role to the DoT.

We expect the growth in personal computers and Internet users to increase the demand for Internet content directed towards domestic Indian consumers as well as the amount of electronic commerce in India.

We believe that private market participants historically have not been able to exploit the market opportunities in India because the regulatory environment in India largely prevented any competition with the national government-controlled telecom providers. Until November 1998, the only Internet service provider permitted in India was Tata Teleservices, which began providing Internet access on August 15, 1995. On November 6, 1998, the government opened the Indian Internet service provider market to private competition and granted Internet service provider licenses. The licensees include cable television operators and joint ventures between local companies and large international telecom providers. Internet service provider licenses are granted for 15 years, with only nominal license fees. Currently, pricing of Internet service is not regulated by the Government of India, although it has the power to do so through policy directives. However, the interconnection charges between service providers are regulated by the TRAI.

28

Table of Contents

Sify Business Model

We believe that the growth of the Internet and other network services in India has been inhibited by relatively high costs for certain market segments and poor user experiences caused by an inadequate telecommunications infrastructure and slow network connection speeds. We are committed to expanding and enhancing our private network backbone and to providing high quality technical support to attract users to our services. We believe that our services provide our customers with the ability to exchange information, communicate and transact business over the Internet with speed, efficiency, reliability and security superior to other Internet service providers.

Key advantages of the Sify business model include:

End-to-end network solutions for business customers. We provide our business customers with a comprehensive range of Internet, connectivity, security and consulting, hosting and managed service solutions complemented by a broad base of web-based business applications. Our corporate services range from dedicated Internet access, virtual private networks, security, web implementation, electronic commerce solutions and web hosting. Our end-to-end solutions enable our corporate customers to address their networking and data communication needs efficiently without having to assemble products and services from different value-added resellers, Internet service providers and information technology firms.

National private Internet protocol network backbone and Wireless delivery on the last mile. We operate a large national Internet protocol data network in India. As of March 31, 2011, we owned and operated 662 points of presence serving more than 625 towns and cities across India. Our network provides the platform to deliver Internet access and the backbone to provide a full range of corporate network/data services to consumers. A significant portion of our last mile delivery for corporates, and almost the entire e-port cybercafé network and hi speed / broadband delivery to homes, is on the wireless mode, thereby enabling us to implement and deliver superior services compared to the wire line medium.

Internet content and electronic commerce websites customized for the Indian market. We view the Indian market as a series of specific market segments with unique cultural and topical interests, rather than an extension of a homogeneous, worldwide Internet market. We have assembled a team of India-based employees familiar with the local culture, language and business environments in our markets to develop Internet content and electronic commerce websites tailored for the Indian market. We regularly incorporate new and original third-party content suited to our local and regional audiences to enhance our customers online experience and to attract new users both within India and abroad. As a result of our local market knowledge, we are able to place contents in our websites which will attract more users to our websites and to create brand awareness for our Sify*Online* access service.

Managed Infrastructure services and Managed Security Services. We have customer engagements in all aspects of infrastructure services, networks security and hosting, with digital certificates based authentication service. We have experience in providing information assurance and compliance certification in accordance with frameworks such as Committee of Sponsoring Organizations of the Treadway Commission (COSO) / Control Objectives for Information and related Technology (COBIT). We believe that our managed infrastructure and security services utilise our experience and skill sets to provide constant value to our customers, better service levels and reduced costs. We constantly look at ways to efficiently manage customer assets remotely thus providing focused superior service at lower cost.

Table of Contents

Strategy

Our goal is to become the premier integrated Internet, network and electronic commerce solutions provider to businesses and consumers in India. Our principal business strategies to accomplish this objective are discussed below:

Invest in the continued enhancement and expansion of our network infrastructure to support customer growth, enter into new markets and accommodate increased customer usage. We intend to continue to increase the capacity and geographic reach of our network in order to support subscriber growth, enter new markets and accommodate increased customer usage. We are committed to using proven technologies and equipment and to providing superior network performance. Our network is based on Internet Protocol, or IP, and we are the first Indian service provider to have made our network Multi Protocol Label Switching (MPLS) compliant. As of March 31, 2011, we have acquired adequate capacity of bandwidth lines, all from major telecommunications companies, which ensures that there is an assured supply of bandwidth service being provided to Sify s customers without any disruptions. We have also leased intercity links from multiple suppliers including BSNL, Bharti, and Power Grid corporation, such that each one of our nodes is accessible from at least two other nodes, if not by two long distance operators. We believe that as the size and capacity of our network infrastructure grows, its structure and national coverage will create economies of scale. Being vendor neutral, we are able to procure bandwidth in a cost effective manner. Over the past five years we have designed and built four data centers in Mumbai, Chennai, Bangalore and Airoli. We intend to invest in additional data centers, and are currently building a data center at Noida near New Delhi.

Increase penetration in our existing markets by expanding awareness of the Sify brand name to capitalize on our first mover advantage in India. We intend to capitalize on our first-to-market advantage in India to establish national service and a brand name in advance of other private competitors. As of March 31, 2011, we had approximately 0.3 million retail Internet subscribers and 1,860 operative cybercafés, of which 6 were owned by us and 1,854 were franchised. Approximately 99% of these *e-ports* are on broadband, which provides the user with significantly faster access speeds. Our marketing strategy includes print and radio advertising, direct mailing campaigns targeting personal computer owners and operating cybercafés. We are also actively promoting our broadband services to homes through cable television operators. As of March 31, 2011, we have more than 1,685 cable television operators across 203 cities in India. We believe that increased focus by GOI on delivery of broadband services, availability of broadband content, reduced cost of personal computers coupled with increased purchasing capacity of the middle class in India will drive this business forward in the future. We are also continuously working on better alternative technologies to overcome the last mile challenges and to offer superior connectivity to homes.

Expand our services with new technologies to enable our customers to use the Internet more effectively. We continually seek to expand the breadth of our service offerings with new technologies. We have previously introduced a number of other services, including VoIP, video conferencing, e-mail designed for regional Indian dialects, a user customized portal site and micro-payments.

Provide more value added services by leveraging on the rapid growth of wireless Internet and mobile services in India and strengthen our Internet portal with more content tailored to Indian interests worldwide. Our portals *www.sify.com* and *www.samachar.com*, function as initial gateways to the Internet, the user s starting point for web browsing and other Internet services, for our consumer Internet service provider subscribers and cybercafé users. We believe that our portals are media rich and user friendly, and the portals are interactive websites offering hyperlinks to a wide variety of websites and services, including our own websites. Our websites cater to a variety of Indian interests within and outside of India. To achieve our goal of developing the premier Internet portal focused on the Indian market, we intend to continue to expand and improve the quality of *www.sify.com*, and are developing

additional content oriented towards topical and cultural interests of Indians worldwide.

Expand our customer distribution channels through strategic alliances to take advantage of the sales and marketing capabilities of our strategic partners. We intend to continue to expand our customer acquisition channels, for both our consumer Internet access and corporate network/data services. We have arrangements with leading personal computer manufacturers to bundle our Sify*Online* Internet access service with the sale of their personal computers in India.

Pursue selective strategic investments, alliances and acquisitions to expand our customer base, increase utilization of our network and add new technologies to our service mix. We believe that our growth can be supplemented by selective acquisitions of complementary businesses. We may seek to expand our market presence in our corporate network business through the acquisition of web hosting, data center, web implementation and/or systems integration companies serving India, the United States or other markets. We will also consider acquisitions of Internet service providers that have a significant or growing customer base in our current or targeted markets.

Expand into international markets for providing managed network services. Our network and application level support can be provided remotely with a minimum of on-site presence. We are seeking to provide these services to international markets. The tools utilized to provide these services were developed in-house on Linux/open source platforms, and we plan to upgrade these tools in the future to meet customer requirements. We expect our expertise in network management, to enable us to perform these services to international customers at lower costs. We also intend to provide managed security solutions, including monitoring and vulnerability assessment, in addition to managed firewall and intrusion detection services.

Table of Contents

Superior end-user performance and customer support. We believe that we provide a high level of customer service, network performance and technical support to maximize customer satisfaction. A significant number of our employees are engaged in our customer service or technical support departments, which operate 24-hours-a-day, seven-days-a-week. Our network engineers continually monitor network traffic and congestion points to deliver high quality consistent network performance. Our backend processes are ISO 9001:2000 compliant for network operations, data center operations and customer care. Our strategy of providing superior network performance and customer service is designed to result in significant customer growth from referrals and industry recognition.

Service Offerings

Corporate network/data services. Our corporate network/data services division addresses the network, security and application services needs of Indian enterprises by leveraging our national Tier 1 IP network infrastructure. The services include a comprehensive range of Internet protocol based Virtual Private Network, or IPVPN, offerings, including intranets, extranets and remote access applications to both small and large corporate customers. There is a strong focus on industry verticals such as IT/ITES (IT enabled services), banking and financial services industry (BFSI), government, manufacturing, pharmaceutical and FMCG. We were the one of the first service provider in India to provide MPLS-enabled IPVPN s on its entire network. We have entered into a strategic partnership with leading Telcos for providing last mile connectivity to customers. Our entire network is MPLS enabled with built in redundancy with world class design and service standards.

SecureConnect (TM) is our comprehensive offering of secure, reliable and scalable IPVPN solutions that meet both mission- critical data networking and converged voice, video and data connectivity needs. It offers a variety of intranet and extranet configurations for connecting offices, remote sites, traveling employees and business partners, whether in India or abroad. Our platform of services includes:

SiteConnect (TM) which offers site-to-site managed MPLS-enabled IPVPN solutions for securely connecting regional and large branch offices within India to the corporate Intranet.

GlobalSite Connect, an international site-to-site managed MPLS-enabled IPVPN solution, is used for securely connecting international branch offices to the corporate offices. It provides connectivity anywhere in the world through Sify s alliances and partnerships with global overseas service providers such as Global Crossing (GC), Asia Net.Com (ANC), and PCCW Global to name a few.

ExpressConnect, which offers a premium range of high-performance Internet bandwidth solutions for connecting regional offices, branch offices and remote locations to the corporate network. These solutions complement our SiteConnect range of MPLS enabled IPVPN solutions, provide high-speed bandwidth in those situations where basic connectivity and cost are the top concerns.

RoamConnect, is our national and international remote access VPN, which is used for securely connecting employees, while they are traveling, to the corporate intranet. RoamConnect features single number access to SifyNet from anywhere in the country and provides access from anywhere in the world through Sify s alliances with overseas service providers such as Verizon, IPASS and Fiberlink.

PartnerConnect is our remote access VPN offering, for providing secure and restricted dial-up access to business partners such as dealers, distributors and suppliers to the corporate extranet.

In February 2002, we became the first Indian Company to be certified ISO 9001:2000 for network services, data center operations and customer relationship management. The ISO 9001:2000 certification from Det Norske Veritas (DNV), Netherlands under the RvA accreditation scheme provides recognition for self-defined benchmarks against international companies with respect to facilities, metrices, processes and practices. Our corporate network/data services were also certified 9000:2001 compliant for pre-sales, sales, project management and backend operations in September 2003.

We also offer a suite of security solutions, including security design, audit, procurement and integration. Our enterprise solutions portfolio includes a range of application services, such as enterprise class e-mail platforms, audio and video conferencing solutions and business web services. Contracts for these services are negotiated on an individual basis to provide specifically tailored network/data services to each customer.

Application Services. We offer value-added services to organisations such as website design, development, content management, search engine optimisation, including domain name management, secure socket layer (SSL) certificate for websites, and server space in required operating system and database. We provide state of the art messaging and collaboration services and solutions such as e-mail servers, LAN mail solutions, anti-spam appliances, bulk mail services, instant messaging, and also offer solutions and services to enable data & access security over the Internet. We also offer web-applications such as online merchandising with on-line payment gateways, sales force automation, supply chain management, intranet and extranets, workflow engine and knowledge management systems. We also provide infrastructure-based services on demand, including on-line testing engine and network management. On-line testing services include test management software, required servers and proctored examination facilities at Sify s e-port cybercafés. On-line exam engine offered allows a secure and flexible way of conducting examinations involving a wide range of question patterns.

Table of Contents

System integration, Security and Assurance Services. During the last fiscal year, we have launched system integration services to offer DC built and infrastructure sizing and supply. We offer a comprehensive suite of security solutions including security design, procurement and integration services for infrastructure security, vulnerability assessment and penetration testing. Implementation services include implementation of security products, such as firewalls, intrusion detection systems, content security, authentication tools and VPN services. We also provide assurance services covering Information systems(IS) Audit, Risk Assessment, and Business Continuity/Disaster Recovery Planning.

Data Centers. We operate India s first level 3 Internet Data Centers (IDC) two of which are located in Mumbai (Bombay), one each at Chennai (Madras) and Bangalore, which are designed to act as reliable, secure and scalable facilities to host mission-critical applications. We offer co-location services which allow customers to bring in their own rack-mountable servers and house them in shared racks, or they could hire complete racks, and even rent secure cages at the hosting facility as per their application requirements. We also offer a wide variety of managed hosting services, such as storage, back-up and restoration, performance monitoring and reporting hardware and software procurement and configuration, network configuration as well as spares and replacement. Our Fort Knox platform for security management of hosted servers offers Service Level Agreement (SLA)-based security services to protect servers. Our Infrastructure Data Management Services (IDMS) service provides specific services related to building data centers, leveraging on our proven expertise to build world-class infrastructure.

Cloud service. We launched recently on-demand hosting (cloud) services to end-customers with strategic a tie-up with global partner. We have joined the global program, designed for service-providers who offer on-demand cloud services giving them the option to rent software licenses on a monthly pay as you go basis. This model is aimed at helping Indian companies, both large and small, to safely tap computing capacity inside and outside their firewalls to help ensure quality of service for any application they want to run, internally or as a service.

On Demand Storage. We have recently launched innovative SLA driven utility-based On-Demand storage service to manage the complete lifecycle of enterprise information, from its inception to its final disposal. The fully managed, utility based, On-Demand, scalable storage platform is powered by global major in Data Systems. Sify s On-Demand storage service reduces the complexities of deploying and managing multiple storage tiers, and lowers operational costs by automating management with flexible need based pricing.

Digital Certification. In technical collaboration with Verisign, a leading provider of Internet trust services, we formed a subsidiary, Sify Communications Limited, to provide managed digital certificate-based authentication services in India. Sify Communications Limited was the principal affiliate of Verisign in India and was a member of Verisign s Global Affiliate Network. Sify Communications Limited was accredited as the first Certifying Authority for issuance of Certificate for Digital Signature by the Ministry of Information Technology, Government of India. Sify Communications Limited merged with Sify Technologies Limited during 2009-2010. Consequent upon the merger, Sify Technologies Limited now provides digital certificate- based authentication services which were provided by its erstwhile subsidiary, Sify Communications Limited.

Remote Management Services. This service provides continuous proactive management and support of customer operating systems, applications and database layers through deploying specialized monitoring tools and infrastructure experts to ensure that our customers infrastructure is performing optimally.

Our corporate network/data services division accounted for approximately, 70% 80% and 82% of our revenues in fiscal years 2009, 2010 and 2011 respectively. We believe that corporate services will continue to be the largest part of our business for the immediate future.

VOIP Services. We offer comprehensive VoIP services covering Managed Voice for Enterprises particularly in IT/ITES segment to meet their international business communications. As part of the service, our Hosted dialer platform is also provided to enable BPOs to use this infrastructure as a service.

*ILD Voice & hubbing, D*uring the year 2008, we have launched Voice NLD/ILD services under the Telecom licence. We provide high quality voice origination and termination services with interconnects directly with both mobile and fixed line operators in India. Currently we handle millions of minutes of global voice traffic for our enterprise and retail customers. Our MPLS enabled packet-switched network deploys a carrier class soft switch with redundancy to provide routing, as well as control, in real time. We have established strategic tie up with many global carriers. Our

voice services has grown well over the last two years and we have established credibility and repute. During the year 2009-10, based on the experience of voice services and success in the ILD India termination business, we have launched Hubbing business to leverage the experience.

Table of Contents

Internet Access Services. We offer public Internet access to consumers through a retail chain of e-ports (formerly *iway)* cybercafés. We also have agreements with certain cable television operators through which we offer Internet access through cable. As of March 31, 2011, we had approximately 0.1 million retail Internet access subscribers.

Our Internet access services for retail consumers include high-speed/broadband access to homes over cable, public Internet access from our network of e-ports (formerly *iway* cybercafés) and VoIP. Currently, we have also started offering the premium broadband connection, branded Platinum to the SOHO market segment and wireless service to homes at select cities.

Public Internet Access. We provide public Internet access to the large segment of the Indian population that does not own a personal computer through our network of e-ports (formerly *iway* cybercafés). We operate these cybercafés on a franchisee model on a B2C model and other on a B2B2C model, where Café buys connectivity from Sify and offers the same to the end customer. As of March 31, 2011, we had 1,860 operational e-ports (formerly *iways)* in 226 towns and cities.

In connection with our franchised e-ports (formerly *iways)*, we grant each franchisee a non-exclusive license to operate the cybercafé using our logo, brand and trade names. We enter into an agreement with the franchisee establishing the rights and obligations of each party. In connection with the establishment of a franchised e-port (formerly *iway)*, we receive an initial franchise fee that covers the following upfront services rendered by our Company:

The cybercafés e-ports are owned and operated by the franchisees. The franchisee procures the retail space, invests in furniture, interior decor, personal computers, point of sale signage and employs/trains the staff. The franchisee is responsible for the maintenance of the premises and interface with customers. We provide the complete back-end support, including bandwidth, the authentication/usage engine and the billing/collection system. The prices to be charged to the customers and the services that can be rendered are controlled by Sify. On average, these e-ports (formerly *iway*s) have about seven personal computers and operate in an area of about 250 square feet. All e-ports operate on a prepaid subscription model, and the end customer has the ability to browse from any of the e-ports using the roaming facility that we provide. The billing system allows us the option of charging different prices based on the services used, time of usage and the place of use. More than 99% of these cafés are connected through the wireless mode, on the 5.7 GHz or the 2.4 GHz spectrum, with a subscriber unit placed on the top of the building and connected to an access point in a tower that is within a 5 kilometre radius from this location. We believe the e-ports offer a superior browsing experience compared to other internet cafés that operate on either a leased line or an ISDN facility. Today, e-ports are being used for a multitude of services including VoIP, online examination centres, online games, e-distribution points and value added services such as IRCTC (an online passenger reservation site) and utility payments.

Sify e-port. The *iways* cyber café chain was re-branded as *sify e-port* . Sify e-port is today the largest chain of branded retail outlets in the country, empowering every user to reap the benefit of internet and its applications. As of March 31, 2011, we had approximately 1,860 operational e-ports. We have launched a model of *e-port Xpress* with a single PC with value added services as a kiosk chain offering services like travel ticket booking, bill payment, mobile recharge and e-commerce transactions in addition to internet browsing, chat, email and gaming.

The connectivity based model is seated on a cloud platform called *Sify Mylife* . *Sify Mylife* supports multiple VAS providers on a plug and play platform. This is also India s first consumer cloud offering. The advantage is that the platform is extendable to any number of VAS providers and is not binding in terms of usage.

Broadband Internet for SOHO / SMB Category: We at Sify understand the changes in requirements for different set of customers. The Small Office Home broadband Office (SOHO) segment which is large and continuously growing in India, has requirements which are different from the regular retail customers. our platinum broadband connection included a bundle of services which includes domain names, e mail Ids, static IP and a website builder along with wireless connectivity.

Voice over Internet Protocol. VoIP can be used in India for making International calls. We have leveraged on our extensive network of e-port*s to* offer VoIP. As of March 31, 2011, more than 500 of the e-ports had the capability to provide VoIP. We provide these services through standalone VoIP booths at various strategic locations in major cities. We use MPLS enabled technology that ensures voice clarity.

VoIP for home: In addition to offering VoIP services through e-ports and VoIP booths, we provide VoIP services for all home users. This product is called *Sifytalk* and is a PC 2 Phone prepaid product. By using the prepaid pack, the user will be able to make international calls from his PC to any international destinations. The user can use *Sifytalk* by connecting to any broadband connection.

Table of Contents

Broadband/High Speed Internet to Home: We believe that our Broadband Business Model, over the past few years, has emerged as the most unique and cost-efficient model for scaling up broadband across the country. It leverages our brand, marketing and technical abilities of Sify as an ISP and the strengths of cable operators in having right of way and the network required to connect customers at a marginal cost. Apart from the innovative night unlimited products, we have also launched a set of unique Double your speeds in night products. We believe that appealing price points and optimum value has been the key of all our offers.

We believe that the combination of cable to homes through cable operator and wireless services will enable us to successful operate as a broadband operator. We believe that our primary biggest strength as a broadband operator lies in our marketing. We have built our reputation through our focused and targeted investment and business development strategy. Due to our relations with cable operators, we can utilize our substantial network available to provide our service on cable networks and also offer broadband services to SME and SOHO.

We have recently introduced Direct Renewal Facility , which allows our broadband subscriber to renew his connection at anytime of the day or night from the comfort of his home. Users whose validity has expired or pack amount is not available can login and re-charge their account. The subscriber gets full freedom to recharge according to the needs, convenience and at any time of the day-the recharge amount can be paid conveniently within three days from the time of recharge. Based on Voice over Internet Protocol, this facility will be available to our Broadband subscribers as a Closed User Group service.

Our Internet access services division accounted for approximately 18 %, 11 % and 6% of our revenues in fiscal years 2009, 2010 and 2011 respectively.

Internet Access Services. BSNL, MTNL the leading PSU Telecom brands together hold about 70% of the broadband subscribers in India. We expect the market for broadband Internet services to grow more rapidly in the future due to additional telecom providers emerging as competitors. We expect the market for consumer Internet access to remain extremely price competitive as late market entrants attempt to acquire customers.

There is no single significant competitor in the cybercafé space. Currently, the market is highly fragmented and dominated by individual entrepreneurs who own Internet cafés, with a few personal computers connected to the Internet through a leased line or ISDN line. With considerably lower overheads, these individuals are able to offer Internet access at lower rates. We compete by offering faster browsing speeds, improved overall ambience at our e-ports, convenient billing systems and a host of value added services ranging from entertainment and travel to utility payments.

Online Portal Services. We operate online portals, such as www.sify.com, www.samachar.com, that function as principal entry points and gateway for accessing the Internet by providing useful web-related services and links. We also offer related content sites specifically tailored to Indian interests worldwide.

Sify.com provides a gateway to the Internet by offering communication and search tools such as email, chat, travel, online portfolio management and channels for personal finance, astrology, lifestyle, shopping, movies, sports and news.

The finance channel of Sify http://sify.com/finance/ covers the entire spectrum of equity markets, business news, insurance, mutual funds, loans, SME news and a host of paid and free financial services.

The sports channel http://sify.com/sports/ covers the entire gamut of Indian and international sports with special focus on cricket.

We also host WWE updates as a standalone service http://wwe.sify.com/ for users.

The food channel www.bawarchi.com focuses on Indian recipes and cooking and is especially popular among non-resident Indians (NRIs) audiences with over 90% of its content being user generated

Our NRI news portal, www.samachar.com, focuses on Indian news and allows NRIs to stay connected to India by aggregating news from across all popular newspapers and other news portals. This portal provides a range of news in English and five Indian languages. Apart from Samachar we have another

India targeted news channel http://sify.com/news/ which offers national and international general, political and offbeat news.

Table of Contents

The online shopping mall http://shopping.sify.com/, stocks products from India s leading brands and products. We believe that it offers competitive prices and a secure and convenient method of payment. Users can buy using their credit or debit card, pay cash on delivery or send a check.

Movies channel on Sify http://sify.com/movies/ is one of the key channels which offer updates from Bollywood/ Hollywood and all regional film industries. The content includes movie reviews, industry news, video galleries, photo galleries, downloads (photos) etc.

Games channel of Sify http://games.sify.com/ offers multiple scoring non scoring games. Games include cricketing games, racing games, football specific games etc.

Our online portal services division accounted for approximately 3%, 2 % and 2% respectively, of our revenues in fiscal years 2009, 2010 and 2011 respectively. The decrease in revenue from portal services is on account of drop in corporate orders and value added services.

Corporate Customers

We have established a diversified base of corporate customers in a variety of data intensive industries, including information technology enabled services (ITES), banking financial services and Insurance (BFSI), publishing, retail, pharmaceuticals and manufacturing. Our corporate customer base has grown to over 3000 customers. The increased scope of the services we offer, particularly the provision of broadband services to our existing customers and International IPVPN services along with the increased reach of our network, has increased our market base.

Customer Service and Technical Support

We believe that excellent customer support is critical to our success in attracting and retaining subscribers. We currently provide customer service and technical support via a local telephone call in most of the cities in which we have a point of presence. Our web-based help desk and MIS system provide online information to our clients. Subscribers can also e-mail their questions directly to a customer service and technical support address at our Company. Our customer service and technical support staff handles all questions regarding a subscriber s account and the provision of our services and is available 24-hours-a-day, seven-days-a-week.

Sales and Marketing

Corporate Offerings. The principal focus of our sales and marketing staff is to acquire new customers and maintain cordial relationship with the existing corporate customers. We seek to penetrate this market through trade publication ads, industry trade shows and seminars for the benefit of industry associations and potential customers. As of March 31, 2011, we had employees dedicated to sales and marketing exclusively for our corporate offerings.

Consumer Offerings. A key element of our business strategy is to increase our brand awareness and market penetration among consumers through a number of means including an expanded advertising campaign focused primarily on print advertising, direct mail and free software to consumers who become subscribers.

To increase Internet access and use of our websites by personal computer buyers, we have entered into arrangements with leading personal computer manufacturers to have our Internet access software bundled with their computers sold in India.

Technology and Network Infrastructure

We operate a national IP / MPLS data network with 662 points of presence serving more than 625 cities and towns across India. We operate our network facilities and customer service operations, which gives us greater control over the utilization and quality of our network. We have designed and built our network using advanced technologies and equipment which will enable us to continue to expand the geographic range of our network, integrate improved data processing technologies and enhance speed and capacity with little or no disruption to our customers.

Services Offered: We offer the following services to our Enterprise and consumer customers using our network.

Internet access services,

IP/ MPLS Virtual private networks,

Internet based Voice services

35

Table of Contents

Geographic Coverage. Through our national network of points of presence, our business and consumer customers are able to access their application through our network in India via our wireless local loop, local leased lines or a local phone call on dial-up or through our cybercafé chain. We have 662 points of presence, or POPs. These points of presence, or primary nodes, reside at the core of a larger Internet protocol network with a Star and meshed topology architecture. Each point of presence contains data communications equipment housed in a secure facility owned, leased or operated on an infrastructure co-location basis by our Company. The last mile connecting to the customer can be a leased line, ISDN or point-to-multipoint radio link in the 5.7, 2.5 or 3.3 gigahertz range which we have licensed from the Wireless Planning Commission. We also use 2.4 ghz radios, which do not require an operating license, in some locations. Our larger corporate customers access the point of presence directly through leased lines or wireless links.

Network Architecture. We ensure network reliability through several methods and have invested in proven technologies. We use Cisco routers to route traffic between nodes interconnected using a high speed interface. Most of our applications and network verification servers are manufactured by IBM, Sun and Hewlett-Packard.

The primary nodes on the backbone network are connected by multiple high-speed fiber optic lines that we lease from long distance operators. The secondary nodes are connected by lower speed leased lines. A number of nodes are accessible from at least two other nodes, if not, by two long distance operators, allowing us to reroute traffic in the event of failure on one route. We reduce our exposure to failures on the local loop by usually locating our points of presence within range of service providers switching equipment and purchasing connectivity from multiple providers. To further maximize our network uptime, we are almost completely connected on fiber optic cables to the switching points of our service providers from our POPs.

In addition to a fundamental emphasis on reliability and security, our network design philosophy has focused on compatibility, interoperability, scalability and quality of service. We use Internet protocol with Multi Protocol Label Switching, or MPLS, to transmit data, thus ensuring that our network is completely interoperable with other networks and systems and that we may port any application onto our network. The modular design of our network is fully scalable, allowing us to expand without changing the network design or architecture, thus ensuring little or no service disruption.

Network Operations Center. We maintain a network operation center located in Chennai (Madras) and a backup secondary facility in Mumbai (Bombay). The Chennai facility houses our central network servers as well as our network staff which monitors network traffic, service quality and equipment at all our points of presence to ensure a reliable Internet service. These operation centers are staffed 24-hours-a-day, seven-days-a-week. We have backup power generators and software and hardware systems designed to prevent network downtime in the event of system failures. In the future, we may add additional facilities to supplement or add redundancy to our current network monitoring capability.

Data Centre Infrastructure. We operate four level 3 Internet Data Centres, two in Mumbai, one each at Chennai and Bangalore. We offer managed hosting, security and infrastructure management services from these facilities. These data centres are completely integrated with our IP / MPLS network which provides seamless connectivity for our customers from their premise to their applications hosted in the data centers. The data centers conform to the Level 3 standards to cater to the security consideration of our customer servers.

Competition

General. We face competition in each of our markets and expect that this competition will intensify as the markets in India for corporate network/data services, Internet access services and online content develop and expand. We compete primarily on the basis of service, reliability and customer support. Price and ease of use are also competitive factors.

Corporate Network/Data Services. Our competitors for many private network services include government services companies that have built and operate their own private data networks. For Internet access, our main competitors are Bharti, Reliance and Tata, and our main competitors for domestic VPN includes terrestrial network providers, such as Bharti, Reliance and Tata Indicom, and satellite communications agencies, such as Bharti BT (which recently bought Comsat Max) and HCL Comnet. For international MPLS VPN, our main competition is from MCI, AT&T and Bharti BT.

Internet Access Services. BSNL & MTNL, the leading PSU Telecom brands together hold about 70% of the broadband subscribers in India. The land phone penetration is used to build on the base for broadband connections. We expect the market for consumer Internet access to remain extremely price competitive as late market entrants attempt to acquire customers.

Table of Contents

There is no single significant competitor in the cybercafé space. Currently, the market is highly fragmented and dominated by individual entrepreneurs who own Internet cafés, with a few personal computers connected to the Internet through a leased line or ISDN line. With considerably lower overheads, these individuals are able to offer Internet access at lower rates. We compete by offering faster browsing speeds, improved overall ambience at our e-ports, convenient billing systems and a host of value added services ranging from entertainment and travel to utility payments.

Online Portal Services. There are several other companies in India that have developed websites, including rediff.com. Our major competitors include In.com, Google, Indiatimes.com and Yahoo.co.in. All the above mentioned portals are competing for a share of the online services market in India, which is dominated by online advertising, mobile telephone short code revenues and e-commerce. We are the leaders in the online market. However, we lag behind our competitors in mobile telephony short code and e-commerce services.

Most of our online portal competitors enjoy the following advantages:

Larger production and technical staff;

Greater name recognition and larger marketing budgets and resources; and

Substantially greater financial, technical and other resources.

To be competitive, we must constantly innovate and introduce new services to the market quickly. We also need to keep pace with rapidly changing technology in this area. Increased competition could result in loss of market share, reduced prices or reduced margins, any of which could adversely affect our business.

Intellectual Property

Our intellectual property rights are important to our business. We rely on a combination of copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect our intellectual property. We have filed approximately 200 trademark and service mark applications in India for registering our product and service offerings.

Our efforts to protect our intellectual property may not be adequate. We hold no patents, and our competitors may independently develop similar technology or duplicate our services. Unauthorized parties may infringe upon or misappropriate our services or proprietary information. In addition, the laws of India do not protect proprietary rights to the same extent as laws in the United States, and the global nature of the Internet makes it difficult to control the ultimate destination of our services. For example, the legal processes to protect service marks in India are not as effective as those in place in the United States. The misappropriation or duplication of our intellectual property could disrupt our ongoing business, distract our management and employees, reduce our revenues and increase our expenses. In the future, litigation may be necessary to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Any such litigation could be time-consuming and costly.

We could be subject to intellectual property infringement claims as the number of our competitors grows and the content and functionality of our websites or other service offerings overlap with competitive offerings. Defending against these claims, even if not meritorious, could be expensive and divert management s attention from operating our Company. If we become liable to third parties for infringing their intellectual property rights, we could be required to pay a substantial damage award and forced to develop non-infringing technology, obtain a license or cease selling the applications that contain the infringing technology. We may be unable to develop non-infringing technology or obtain a license on commercially reasonable terms, or at all.

We also rely on a variety of technologies that are licensed from third parties. We use software developed by these and other companies to perform key functions. These third-party licenses may not be available to us on commercially reasonable terms in the future. The loss of any of these licenses could delay the introduction of software enhancements, interactive tools and other features until equivalent technology could be licensed or developed. Any such delays could materially adversely affect our business, results of operations and financial condition.

Government Regulation

Our business is subject to comprehensive regulation by the Ministry of Communications through the Telecom Commission and the DoT, pursuant to the provisions of the Indian Telegraph Act of 1885, or Telegraph Act, the India

Wireless Telegraphy Act, 1933, or Wireless Act, the Information Technology Act, 2000 or IT Act and the terms of our Internet service provider license issued by the DoT under which we operate. Pursuant to the Telegraph Act, the provision of any telecommunications services in India requires a license from the Government of India, obtained through the DoT. While the Telegraph Act sets the legal framework for regulation of the telecommunications sector and the Wireless Act regulates the possession of wireless telegraphy equipment, much of the supervision and regulation of our Company is implemented more informally through the general administrative powers of the DoT, including those reserved to the DoT and other governmental agencies under our license.

Table of Contents

In March 1997, the Government of India established the TRAI, an independent regulatory authority, under the provisions of the Telecom Regulatory Authority of India Act. The TRAI is an autonomous body consisting of a chairperson and at least two and not more than four members.

Under the Telecom Regulatory Authority of India Act, the functions of the TRAI are to:

- make recommendations on (i) the need and timing for the introduction of new service providers, (ii) the terms and conditions of licenses granted to service providers, (iii) the revocation of licenses for non-compliance, (iv) measures to facilitate competition and promote efficiency in the operation of telecommunications services so as to facilitate growth in such services, (v) technological improvements in the services provided by service providers, (vi) the type of equipment to be used by service providers, (vii) measures for the development of telecommunications technology and the telecommunications industry and (viii) the efficient management of the available spectrum;

- discharge the following functions: (i) ensure compliance of the terms and conditions of licenses, (ii) fix the terms and conditions of interconnectivity between service providers, (iii) ensure technical compatibility and effective interconnection between service providers, (iv) regulate revenue sharing arrangements between service providers, (v) establish standards of quality of service, (vi) establish time periods for providing local and long distance telecommunications circuits between service providers, (vii) maintain and keep for public inspection a register of interconnect agreements and (viii) ensure effective compliance of universal service obligations;

- levy fees and other charges at such rates and in respect of such services as may be determined by regulation; and

- perform such other functions as may be entrusted to it by the Government of India or as may be necessary to carry out the provisions of the Telecom Regulatory Authority of India Act.

The TRAI also has the authority to, from time to time, set the rates at which domestic and international telecommunications services are provided in India. The TRAI does not have authority to grant licenses to service providers or renew licenses, functions that remain with the DOT. The TRAI, however, has the following powers:

- to call on service providers to furnish information relating to their operations;

- to appoint persons to make official inquiries;

- to inspect the books of service providers; and

- to issue directives to service providers to ensure their proper functioning.

Failure to follow TRAI directives may lead to the imposition of fines. Decisions of the TRAI may be appealed to the Telecom Disputes Settlement and Appellate Tribunal.

In December 2004, the Government of India through DOT imposed new requirements on Internet Service Providers wishing to offer Internet Protocol Virtual Private Network (IP-VPN) services. Consequently, we applied for permission to offer IP-VPN services, and the DOT, Government of India issued a letter of intent to us on December 30, 2004 regarding amendment of our existing ISP license to include provision of IP-VPN services. In January 2005, we paid a Rs.100 million onetime entry fee and submitted a financial bank guarantee of Rs.10 million as required by the letter of intent.

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

As the NLD and ILD licenses were under the regime of Department of Telecommunications, the notification of the GOI dated 7 November 2005 was required to be complied with to obtain NLD and ILD licenses. The primary

condition set out in the notification among other conditions was that, the total composite foreign holding by the applicant should not exceed 74 %. Given that the foreign shareholding in Sify was higher than the aforesaid threshold limit, Sify Communications Limited (erstwhile subsidiary) decided to obtain the NLD and ILD licenses in its name and made necessary applications in this regard. To facilitate this, Sify divested its stake in Sify Communications Limited (erstwhile subsidiary) to the extent of 26% of its holding in Sify Communications Limited (erstwhile subsidiary), or 4.680 million shares, to Infinity Satcom Universal Private Limited, a related party, for a sale consideration of Rs.139,810 during the quarter ended December 31, 2005. Infinity Satcom Universal, a Company incorporated under the laws of India, was then owned by Ananda Raju Vegesna, who is the brother of Raju Vegesna, Chairman of Sify s Board of Directors and the principal of Infinity Capital Ventures, LP (Infinity Capital). Infinity Satcom is currently controlled by Raju Vegesna, Our Chief Executive Officer.

Table of Contents

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

Pursuant to the shareholders approval at the meeting held on 12th February, 2009 which was convened as per the Orders of the Honorable High Court of Judicature at Madras (Court) and its Order in Company Petition Nos. 30 and 31 of 2009 on 26th June 2009 sanctioning the Amalgamation Scheme, the assets and liabilities of Sify Communications Limited, whose principal business was providing IP-VPN services, corporate / individuals and consultancy services to companies / Firms intending to set-up security systems for e-commerce transactions, were transferred to and vested in the Company with effect from the appointed date viz. 1st April 2008 in accordance with the Amalgamation Scheme so sanctioned. Effective upon the merger, NLD and ILD licenses of Sify Communications Limited (erstwhile subsidiary) have been transferred to the Company to provide IP-VPN services. Immediately following the merger, Infinity Capital and Infinity Satcom Universal Private Limited held 26.06% and 27.24% of our outstanding equity shares, respectively. This has resulted in resident share holding of 27.24% post merger. Currently, Infinity Capital and Infinity Satcom hold approximately 8% of our outstanding shares.

Organizational Structure

We are not part of any group. A list of subsidiaries and relevant information about them is provided in Exhibit 8.1 to this Annual Report.

Property, Plant and Equipment

We own approximately 100,000 square feet corporate headquarters located in Chennai (Madras), India and an approximately 20,000 square feet regional office in Mumbai (Bombay). We have leased approximately 3,500 square feet network operations center in Chennai, a 27,000 square feet data center in Vashi, Mumbai, 95,250 square feet data center in Airoli and 46,600 square feet in Bangalore Data Centre. Our Chennai facility houses our central network servers as well as our network staff which monitors network traffic, service quality and equipment at all our points of presence, or POPs, to ensure a reliable Internet service. We have POPs in 625 towns/cities across India. Most of our POPs are staffed 24-hours-a-day, seven-days-a-week. Our POPs average approximately 750 square feet at each location. We have backup power generators and software and hardware systems designed to prevent network downtime in the event of system failures. In the future, we may add additional facilities to supplement or add redundancy to our current network monitoring capability. Our property, plant and equipment are pledged towards obtaining loans / working capital facilities from banks.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

The financial statements of the Company included in this Annual Report on Form 20-F have been prepared in accordance with English version of International Financial Reporting Standards as issued by International Accounting Standards Board. The information set forth in Operating and Financial Review and Prospects is also for the Company s three recent fiscal years. The discussion, analysis and information presented in this section should be read in conjunction with our financial statements included herein and the notes thereto.

Table of Contents

Operating Results

This information is set forth under the caption entitled Management s Discussion and Analysis of Financial Condition and Results of Operations below. Further, information relating to any governmental, economic policies or other factors which have materially affected, or could materially affect, directly or indirectly, the company s operations is set forth under the caption entitled Risk Factors above.

Liquidity and Capital Resources

This information is set forth under the caption entitled Management s Discussion and Analysis of Financial Condition and Results of Operations below.

Research and Development

This information is set forth under the caption entitled Management s Discussion and Analysis of Financial Condition and Results of Operations below.

Trend Information

This information is set forth under the caption entitled Management s Discussion and Analysis of Financial Condition and Results of Operations below.

Management s Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are one of the leading Internet service provider in India engaged in Internet, Networking and e-Commerce services. We provide integrated end-to-end solutions for both corporate customers and consumers, with a range of products and services delivered over a common Internet backbone infrastructure, such as, Internet, connectivity, security and consulting, hosting and managed service solutions; Internet access services to homes and through e-ports; online portal services and content offerings; web services, mass market products, e-learning software and infrastructure management services. Our clients rely on our solutions/products to enhance their business performance and/or secure their information systems.

Our professionals deliver high quality solutions by leveraging our delivery model through which we divide projects into components that we execute simultaneously at client sites and at our development centers in India. We seek to optimize our cost structure by maintaining the flexibility to execute project components where it is most cost effective. Our sales, marketing and business development teams are organized to focus on specific regions and market segments and this helps us to customize our service offerings to our client s needs. Our primary markets are India and to a limited extent in the US. We serve clients in financial services, manufacturing, telecommunications, retail, utilities, logistics and other industries.

Corporate network/data services

The demand for services / products of our corporate network/data services division is in the process of recovering from the economic slowdown. We have launched our NLD/ILD voice services in August 2008 and this stream has the potential to provide a sizable momentum to our business. The opening of our new data centre in Mumbai (Airoli) has facilitated us to enhance our position in the market. The bandwidth cost has reduced substantially during the period under review on account of market conditions. The reduction in bandwidth prices in India has led us to revise bandwidth rates to connectivity clients over the last few years and this trend is likely to continue in future. On account of prevailing market conditions, we experienced excessive pressure from our Corporate clients for price reduction in the current fiscal. Certain of our Hosting services clients may opt out for total outsourcing arrangements to reduce their operating costs and if this happens, our business may be affected. The reduced IT spending by our corporate clients exists during the last 12 to 18 months.

Table of Contents

Internet access services

Broadband business has been impacted due to severe competition from the existing operators. The customer base is reducing on account of competition. We have reduced our prices and have also launched flexible products.

There are changes in the regulatory environment. The Indian Government has introduced stringent KYC (Know Your Customer) norms on cybercafé users. The overall number of cybercafe s has declined in India due to regulatory norms, higher rental costs for the cybercafés run by the franchisees and the migration of cybercafe users to Home Broadband. To overcome this, we have launched connectivity based model which is seated on a cloud platform called *Sify Mylife* . *Sify Mylife* supports multiple VAS providers on a plug and play platform. This is also India s first consumer cloud offering. The advantage is that the platform is extendable to any number of VAS providers and is not binding in terms of usage.

Online portal services and content offerings

Advertising revenues continued to remain at same level despite spending by corporate clients and increased competition and an improvement in general market conditions.

Other services-Infrastructure Management Services

Market opportunity for remote infrastructure management services is growing. We wish to capitalize this trend by evaluating our pricing and engagement models. Market opportunity for remote infrastructure management services is growing. Sify over the last couple of years has been offering this service to global corporate. Sify enjoys higher brand equity in the international markets for consistency and quality of delivery. We wish to capitalize on this trend by evaluating our pricing and engagement models.

Other services-eLearning Services

As the business environment continues to be challenging in the international markets, there will be pricing pressures on pricing from customers and increased competition. We have introduced a learning infrastructure proposition on a services model. While the underlying need for eLearning products and services remains strong, there will be cutbacks and pressure on customer learning budgets. Our key customers have experienced contraction in their business due to global economic slowdown and there are positive signs for recovery. To compensate the business loss from such customers, we are adopting a new strategy of expanding our client base through new verticals, segments and geographies such as Europe, China and Japan, while improving cost efficiency with business process knowledge management.

There are numerous risks and challenges affecting the business. These risks and challenges are discussed in detail in the section entitled Risk Factors and elsewhere in this Annual Report.

As of March 31, 2011, we had 1,950 employees, as compared to approximately 1,885 employees as at March 31, 2010.

Revenues

Corporate network/data services

Our corporate network/data services revenues primarily include revenue from connectivity services, NLD/ILD services, and, to a lesser extent, revenues from the installation of the connectivity link and other ancillary services, such as e-mail, document management and domain registration. Generally, these elements are sold as a package consisting of all or some of the elements. We sell hardware and software purchased from third party vendors to our high value corporate clients. Our connectivity services include IPVPN services, Internet connectivity, last mile connectivity (predominantly through wireless), messaging services, security services and web hosting for businesses. We provide these services for a fixed period of time at a fixed rate regardless of usage, with the rate for the services determined based on the type of service provided, scope of the engagement and the Service Level Agreement, or SLA. Our web hosting service revenues are primarily generated from co-location services and connectivity services. Our security services revenues include revenue from consulting services, vulnerability assessment and penetration testing. We provide NLD (National Long Distance) and ILD (International Long Distance) services and carry voice traffic for Inter-connect Operators. Revenue is recognized based upon metered call units of voice traffic terminated on our network.

Internet access services

Internet access services revenues are generated from the Internet connectivity we provide to our retail customers through public access and home access services. Home access services are provided through broadband connectivity, which is provided through arrangements with CTOs. Our public access services are provided through franchised and company-owned cybercafés. Additionally, we generate revenue by providing Internet telephony services, allowing customers to make international telephone calls over the Internet. Our new launches include wireless connectivity to home customers at select cities and to small offices (SOHO).

Table of Contents

Online portal services and content offerings

Online portal services revenues include advertising revenues from the various channels of our Internet portal, www.sify.com. We enter into contracts with customers to serve advertisements in the portal, and we are paid on the basis of impressions, click-throughs or leads. Revenues also accrue from commissions earned on products and services rendered through *www.sifymall.com*, and also from value-added services that are rendered using our mobile telephone short code, 54545.

Other services

Other services include revenue from Infrastructure management services and e-learning. We remotely manage customer Infrastructure and network overseas under Infrastructure management services. We develop and upload content for e-learning to facilitate web-based learning in various organizations. We provide e-learning services on time-and-materials or on a fixed-price basis.

In Note 34 to our Consolidated Financial Statements in this Annual Report, we provide supplemental segment data, which provides separate revenue and operating income (loss) information for each of these business segments. This information is available in Item 18 Financial Statements of this Annual Report and is incorporated herein by reference.

We have been historically operating with three segments of business viz Corporate network/data services, Internet access services (including Online portal services and content offerings) and others (e-Learning and Infrastructure Management services). The Industry in which these segments compete has witnessed newer competitions, business models resulting in dynamic market changes. In order to leverage the versatility and the organizational capability, the Chief Operations Decision Maker (CODM) has evaluated options of integrating certain services to address customers across segments, achieve better marketability, flexibility and scale. Based on the management decision, certain changes to the business structure are made effective April 1, 2011. Consequently there would be a change in operating segments as below:

Enterprise Service: Connectivity and voice services will be offered as Network Services, while Data Center Hosting and Managed Services, along with System Integration, will comprise IT services. They will service both domestic and International clients from large corporate and mid-market customers.

Commercial and Consumer Service: The scope of the Consumer business is being expanded to include SOHOs and SMBs apart from the cybercafés, Portals and broadband-to-home services, offering network, IT services and applications through the Cloud.

Software Service: The application services and e-learning would from Software services. This business line will offer applications through the Cloud, primarily targeted at enterprise and international customers.

Expenses

Cost of goods sold and services rendered

Corporate network/data services

Cost of goods sold and services rendered for the corporate network/data services division consists of telecommunications costs necessary to provide services, customer support costs, and cost of goods in respect of communication hardware and security services sold, the cost of voice termination for voice and VoIP services and other direct costs. Telecommunications costs include the costs of international bandwidth procured from TELCOs and are required for access to the Internet, providing local telephone lines to our points of presence, the costs of using third-party networks pursuant to service agreements, leased line costs and costs towards spectrum fees payable to the Wireless Planning Commission or WPC for provision of spectrum to enable connectivity to be provided on the wireless mode for the last mile. Other costs include cost incurred towards our Annual Maintenance Contract (AMC), the cost of installation in connectivity business, the costs incurred in providing Hosting services, and the Document Management Services (DMS) costs for application services. In addition, the Government of India has imposed an annual license fee of 6% of the adjusted gross revenue generated from IP-VPN services and Voice services under the NLD/ILD license.

Table of Contents

Internet access services

Cost of goods sold and services rendered for the internet access services division consists of primarily recurring telecommunications costs necessary to provide service to subscribers, the cost of goods sold and services rendered include commission paid to franchisees and cable television operators, voice termination charges for VoIP services. The Government of India imposed an annual license fee of 6% of the adjusted gross revenue from the provision of VoIP services.

Online portal services and content offerings

Cost of goods sold and services rendered for the online portal services and content offerings includes the cost of procuring and managing content for the websites and cost of ringtones downloaded by using our mobile telephone short code 54545, the cost of procuring merchandise for e-commerce sales.

Selling, general and administrative expenses

Selling, general and administrative expenses consists of salaries and commissions for sales and marketing personnel, salaries and related costs for executive, financial and administrative personnel, sales, marketing, advertising and other brand building costs, travel costs, and occupancy and overhead costs.

Depreciation and amortization

We depreciate our tangible assets on a straight-line basis over the useful life of assets, ranging from three to eight years and, in the case of buildings, 28 years.

Impairment

The carrying amounts of the Group s non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset s recoverable amount is estimated. For goodwill, the recoverable amount is estimated each year at December 31.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination. Corporate assets for the purpose of impairment testing are allocated to the cash generating units on a reasonable and consistent basis.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit or group of units on a *pro rata basis.*

Inventories

Inventories comprising traded hardware and software are measured at the lower of cost (determined using first-in first-out principle) and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Deferred tax

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and associates to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill, as the same is not deductible for tax purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally

enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Table of Contents

Deferred taxation arising on investments in subsidiaries and associates is recognised except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred taxation arising on the temporary differences arising out of undistributed earnings of the equity method accounted investee is recorded based on the managment s intention. If the intention is to realise the undistributed earnings through sale, deferred tax is measured at the capital gains tax rates that are expected to be applied to temporary differences when they reverse. However, when the intention is to realise the undistributed earnings through dividend, the Group s share of the income and expenses of the equity method accounted investee is recorded in the statement of income, after considering any taxes on dividend payable by the equity method accounted investee and no deferred tax is set up in the Group s books as the tax liability is not with the group.

Stock compensation expense

A total of 5.73 million equity shares are reserved for issuance under our Associate Stock Option Plans (ASOPs). Our ASOP 2007 was adopted at the Eleventh Annual General Meeting held on September 24, 2007. As of March 31, 2011, we had outstanding an aggregate of 841,200, options (net of 81,801 options forfeited by employees) under our ASOP with a weighted average exercise price equal to approximately Rs.146.58 ($3.28) per equity share. The unamortized stock compensation expense related to these grants amounted to Rs 12.71 million as of March 31, 2011.

Results of Operations

The following table sets forth certain financial information as a percentage of revenues:

	Fiscal		
	2011	2010	2009
	%	%	%
Revenues	100	100	100
Cost of goods sold and services rendered	61.12	61.05	58.64
Other income/(expense)	1.06	1.96	1.44
Selling, general and administrative expenses	35.46	36.99	45.65
Depreciation and amortization expenses	9.96	9.79	8.34
Impairment loss on intangibles including goodwill	0.03	0.70	0.25
Income from legal settlement		8.36	
Profit /(loss) from operating activities	(5.51)	1.79	(11.19)
Finance income	0.66	0.42	1.99
Finance expenses	(3.76)	(4.38)	(4.08)
Net finance income/(Loss)	(3.10)	(3.96)	(2.09)
Share of profit of equity accounted investee	1.06	1.36	1.04
Profit before tax	(7.54)	(0.81)	(12.24)
Income tax (expense)/ benefit		1.21	(1.57)
Net profit/(loss) for the year	(7.54)	0.40	(13.81)

Results of year ended March 31, 2011 compared to year ended March 31, 2010

Revenues. We recognized Rs.6,886.63 million ($154.24 million) in revenues for the year ended March 31, 2011, as compared to Rs. 6,710.19 million for the year ended March 31, 2010, representing an increase of Rs.176.44 million ($3.96 million), or 2.63 %.

The revenues generated by our corporate network/data services businesses increased by Rs.336.65 million ($7.54 million), or 6.31 %, from 5,335.27 million for the year ended March 31, 2010 to Rs.5,671.92 million (US$127.03 million) for the year ended March 31,2011. The increase is attributable to increases in (i) Voice revenues of Rs.429.34 million ($9.62 million) due to increase in ILD services, (ii) Hosting services revenues of Rs.188.35 million ($4.22 million) as a result of new contracts for new capacities created. (iii) Connectivity revenues of Rs.0.79 million ($.02 million). The above increase is offset by a decrease of) (i)System Integration revenues of Rs. 181.70 million ($4.07 million) (ii) Hardware & Software sales of Rs.74.79 million ($1.67 million) and (iii) Application Services revenues of Rs.25.77 million ($0.58 million).

44

Table of Contents

Revenue from Consumer One services comprising of Internet Access services and Online Portal services, has decreased by Rs 318.41 million ($7.13 million) or 37.69 % from Rs 844.77 million for the year ended March 31, 2010 to Rs 526.36 million ($11.79 million) for the year ended March 31, 2011. This is caused by a drop of Rs 310.03 million ($6.94 million) or 43.42 % in the revenue from our Internet Access services and by Rs.8.37 million ($.19 million) or 6.4 % in revenue from Portal services.

Our Internet Access services accounted for Rs.403.90 million ($9.05 million) of revenues for the year ended March 31, 2011, as compared to Rs. 713.93 million for the year ended March 31, 2010, representing a decrease of Rs.310.03 million ($6.94 million), or 43.42%. Such decrease is primarily on account of (i) decrease of Rs. 178.81 million ($4.00 million) in broadband services revenue due to decrease in subscribers of the high speed Internet access to homes by 28% during the year, from 106,000 as of March 31, 2010 to 77,000 as of March 31, 2011 (ii) decrease of Rs. 116.58 million ($2. 61 million) in cybercafé revenues due to closure of active cybercafés caused by unexpected rent increases in the recent years incurred by the franchisees for cybercafe premises. (iii) decrease of Rs.18.06 million ($0.40 million) in voice revenues due to price reductions offered to our customers to retain the existing customers and/or attract new customers to combat competition and (iv) decrease of Rs.3.42 million ($0. 07 million) from other Internet Access services.

Our Online portal and content offerings division accounted for Rs.122.47 million ($2.75 million) of revenues for the year ended March 31, 2011, as compared to Rs. 130.84 million for the year ended March 31, 2010, representing a decrease of Rs.8.37 million ($.18 million), or 6.40%. This decrease was on account of (i) a drop by Rs15.88 million ($0.36 million) caused by a decline in Travels services. The above decrease is partially offset by increase of Rs.7.51 million ($0.17 million) in revenues from advertisement.

Revenues from our other services increased by Rs.158.20 million ($3.54 million) to Rs 688.35 million ($15.41 million) for the year ended March 31, 2011 from Rs 530.15 million or 29.84 % for the year ended March 31, 2010. This is driven by Rs 121.94 million ($2.73 million) or 42.17 % increase in the revenue from our IMS services and Rs.36.27 million ($0.81 million) or 15.05 % increase in the revenue from our E-learning services. The increase in IMS and E-learning services is on account of new customer and increased engagement from the existing customers.

Other income. Other income was Rs.72.69 million ($1.63 million) for the year ended March 31, 2011, compared to Rs. 131.79 million for the year ended March 31,2010, representing a decrease of Rs.59.01 million ($1.32 million) or 44.8% mainly on account of decrease in income derived from duty credit entitlements under the Served from India Scheme (issued by the Government of India) in respect of the foreign exchange earnings from export of services.

Cost of goods sold and services rendered. Cost of goods sold and services rendered was Rs.4,209.43 million ($94.27 million) for the year ended March 31, 2011, compared to Rs.4,096.54 million for the year ended March 31, 2010, representing an increase of Rs.112.89 million ($02.53 million), or 2.76%. This increase was due to (i) a Rs.163.86 million ($3.67 million) increase in Costs of Corporate Network and Data Services, and (ii) a Rs.162.88 million ($3.65 million) increase in International business costs. These increases have been partly offset by a (i) decrease of Rs.213.85 million ($4.79 million) in the Cost of Internet access services and online portals.

The cost of goods sold and services rendered by our corporate network / data services increased by Rs. 163.86 million ($3.67 million) from Rs 3,234.15 for the year ended March 31,2010 to Rs 3398.01 million ($76.10 million) for the year ended March 31, 2011, representing an increase of 5.07%, on account of (i) increase of Rs.401.31 million ($8.99 million) in carrier cost and interconnect charges due to increase in volume of minutes by 75%, (ii) increase of Rs. 79.74 million ($1.79 million) in manpower cost and (iii) increase of Rs.150.68 million ($3.37 million) in other direct costs. These increases have been offset by a decrease of (i) Rs.344.56 million ($7.72 million) in the cost of hardware due to decrease in System Integration business, (ii) Rs.95.71 million ($2.14 million) in the bandwidth costs due to reduction in price and Rs. 27.60 million ($.62 million) in the Royalty payments.

The cost of goods sold and services rendered by our Internet Access services decreased to Rs.358.91 ($8.04 million) for the year ended March 31,2011 from Rs.569.12 for the year ended March 31, 2010, representing a decrease of Rs.210.21 million ($4.71 million) or 36.93 %. The decrease is on account of (i) Rs.121.51 million ($2.73 million) decrease in the cost of revenue share paid to CTOs and franchisees due to reduction in volume of business, (ii) Rs.67.29 million ($1.51 million) in the bandwidth costs due to usage and price reduction and (iii) Rs.26.15 million ($0.58 million) on account of appropriate sizing in technology man power.

The cost of goods sold and services rendered by our portal business decreased by Rs.3.64 million ($0.08 million) from Rs.52.69 million for the year ended March 31, 2010 to Rs.49.05 million ($1.09 million) for the year ended March 31, 2011, representing a decrease of 7 %, due to a decrease of (i) Rs 12.1 million ($0.27 million) in bandwidth costs, (ii) Rs.2.2 million ($0.05 million) on account of reduction in content costs. The above decrease is partially offset by an increase of Rs.8.5 million ($0.19 million) in the Manpower cost.

Table of Contents

The cost of goods sold and services rendered by our e-learning and IMS services increased by Rs.162.88 million ($3.65 million) from Rs.240.65 million for the year ended March 31, 2010 to Rs.403.54 million ($9.04 million) for the year ended March 31, 2011, representing a increase of 67.65 %. The increase is on account of increase in direct cost by Rs.127.78 million ($2.86 million) and allocated technology manpower by Rs. 35.10 million ($0.78 million).

Selling, general and administrative expenses: Selling, general and administrative expenses were Rs.2,441.80 million ($54.69 million) for the year ended March 31, 2011, compared to Rs.2,482.41 million for the year ended March 31, 2010, representing a decrease of Rs.40.61 million ($0.91 million) or 1.64%. The decrease is primarily on account of decrease in (a) manpower costs by Rs. 146.19 million ($3.27 million) due to manpower right sizing (b) marketing and selling expenses by Rs 25.14 million ($.56 million) on account of cost effective marketing activities (c) legal and professional expenses by Rs 48.70 million ($1.09 million) due to reduction in legal costs (d) Rs52.95 million($1.19 million) in other costs including ESOP amortisation and other indirect costs. These decreases are partially offset by an increase of (i) Operating costs by Rs. 167.01 million($3.74 million) on account of commencement of operations and achieving full scale at new facility(ii) Rs.22.61 million($0.51 million) on account of travel expense and (iii) Rs.309.43 million ($6.93 million) in provision for doubtful debts against doubtful debtors and foreign exchange loss.

Depreciation and Amortization expenses: Depreciation and amortization expenses were Rs.685.84 million ($15.36 million) for the year ended March 31, 2011, compared to Rs. 656.78 million for the year ended March 31, 2010, representing an increase of Rs.29.04 million ($0.65 million), or (4.40%). The increase is attributable to an increase of Rs.29.04 million ($0.65 million) in depreciation due to addition of fixed assets.

Impairment loss: In May 2006, the Group acquired travel business for a consideration of US$2.5 million (Rs. 112,220) in cash along with an option to purchase 125,000 shares of Sify Technologies Limited and certain earn out payments aggregating to USD 0.5 million (Rs. 22,444). The assets acquired consist of system software, customer contracts and goodwill which collectively were considered as a cash generating unit (CGU) by management. The said business operates from India and United States.

During the year ended March 31, 2010, triggered by certain adverse market conditions such as decrease in revenue and increase in the cost of services, and other technological matters, the Group tested the carrying value of the above business for impairment. The recoverable amount of these intangibles including goodwill were determined based on the higher of the value in use (using discounted cash flow approach) and fair value less cost to sell. Fair value less cost to sell, being the higher of the two was determined as the recoverable amount of the CGU. Based on this assessment, the carrying value of the CGU was higher than its recoverable amount and as a result of the above, the group has recorded an impairment of the above intangibles including goodwill amounting to Rs 47,269 (US$987) and adjusted the carrying value of these intangibles accordingly. The above impairment relates to online portal services segment.

During the year ended March 2011, due to further decrease in revenue and continued losses in its travel business, the Group has tested the carrying value of the remaining intangibles and the recoverable amount of these intangibles were determined as Nil. Hence an impairment charge was recorded for Rs. 1,857 (US $42) equal to the carrying value of the remaining intangibles.

The above impairment charges relate to online portal services segment.

Net finance income / expense. The net finance expense was Rs.212.92 million ($4.77 million) for the year ended March 31, 2011, compared to an expense of Rs. 265.88 million for the year ended March 31, 2010, representing a decrease of Rs.52.96 million ($1.18 million), or (20.00 %). The finance income was Rs 45.70 million ($1.02 million) for the year ended March 31, 2011, compared to Rs.27.99 million for the year ended March 31,2010, representing an increase of Rs.17.71 million $.40 million). The finance expense was Rs.258.62 million ($5.80 million) for the year ended March 31, 2011, compared to Rs.293.87 million for the year ended March 31, 2010, representing a decrease of Rs.35.25 million ($0.79 million). This was caused by lesser utilization of borrowing limits due to availability of cash generated through internal accruals and equity infusion during the year.

Table of Contents

Share of profit of investment in associate. The share of profit of investment in associate was Rs.73.03 million ($1.64 million) for the year ended March 31, 2011, compared to Rs.91.14 million for the year ended March 31,2010, representing a decrease of Rs. 18.11 million ($0.41 million), or 19.87%. The decrease was due to unfavorable market conditions for MF Global Sify Securities India Private Limited.

Income tax expense. The income tax was Rs. Nil for the year ended March 31, 2011, compared to benefit of Rs.81.48 million for the year ended March 31, 2010. The benefit for the year ended March 31, 2010 was due to merger of Sify Communications Limited with the company.

Profit. The net loss for fiscal 2011 is Rs.519.49 million ($11.64 million) compared to a net profit of 26.81 million for fiscal 2010 and is attributable to (i) due to one time income from legal settlement amounting to Rs 561 million which was received during the year 2009-10. (ii) an increase in Cost of Goods and Services by 112.89 million ($2.53 million), (iii) an increase of Rs. 29.03 million ($.65 million) in depreciation and amortization, (iv) decrease of Rs.59.09 million ($1.32 million) in other income and

Results of year ended March 31, 2010 compared to year ended March 31, 2009

Revenues. We recognized Rs.6,710.19 million in revenues for the year ended March 31, 2010, as compared to Rs.6,162.16 million for the year ended March 31, 2009, representing an increase of Rs.548.02 million, or 8.89%.

The revenues generated by our corporate network/data services businesses increased by Rs.1030.06 million), or 23.93%, from Rs.4,305.21 million for the year ended March 31, 2009 to Rs.5,335.27 for the year ended March 31,2010. The increase is attributable to increases in (i) Voice revenues of Rs.615.40 million due to increase in ILD services, (ii) Hosting services revenues of Rs.262.74 million as a result of new contracts for new capacities created. (iii) S I revenues of Rs.448.55 million primarily due to launch SI services comprising of DC Build services, sizing and supply of hardware to customers (iv) Application services revenues of Rs.50.11 million due to increase in services like web services, Mail management, and online exams. The above increase is offset by a decrease of (i) connectivity revenues of Rs.316.88 million due to decrease in realization on account of bandwidth price reduction, competition (ii) Digital certification services revenues of Rs.23.86 million due to loss of customers and (iii) other services revenues of Rs.6.01 million.

Revenue from Consumer One services comprising of Internet Access services and Online Portal services, has decreased by Rs 460.74 million or 35.29 % from Rs 1,305.51 million for the year ended March 31, 2009 to Rs 844.77 million for the year ended March 31, 2010. This is caused by a drop of Rs 414.27 million or 36.72% in the revenue from our Internet Access services and by Rs.46.47 million or 26.21% in revenue from Portal services.

Our Internet Access services accounted for Rs.713.93 million of revenues for the year ended March 31, 2010, as compared to Rs. 1,128.20 million for the year ended March 31, 2009, representing a decrease of Rs.414.27 million), or 36.72% Such decrease is primarily on account of (i) decrease of Rs.245.21 million in broadband services revenues due to decrease in subscribers of the high speed Internet access to homes decreased by 35.59% during the year, from 165,000 as of March 31, 2009 to 106,000 as of March 31, 2010 (ii) decrease of Rs.134.23 million in cybercafé revenues due to closure of active cybercafés caused by unexpected rent increases in the recent years incurred by the franchisees for cybercafe premises, during the course of the year, the number of active cybercafés decreased from 1791 to 1,227 as of March 31, 2010 (iii) decrease of Rs.26.5 million in voice revenues due to price reductions offered to our customers to retain the existing customers and/or attract new customers to combat competition and (iv) decrease of Rs.8.32 million from Internet Access other services.

Our Online portal and content offerings division accounted for Rs.130.84 million of revenues for the year ended March 31, 2010, as compared to Rs. 177.31 million for the year ended March 31, 2009, representing a decrease of Rs.46.47 million, or 26.21%. This decrease was on account of (i) a drop by Rs24.70 million caused by a conscious reduction in corporate orders and (ii) a decrease of Rs.23.30 million in revenues from advertisement. The above decrease is partially offset by increase of Rs.1.53 million in revenues from travel services.

Corporate orders operate with small profit margins and large number of orders are required. Due to the slowdown in the economic environment, the margins on some of the orders were becoming unattractive. Management opted out of such orders resulting in lower volumes. The revenue from corporate orders decreased by Rs 24.70 million ($0.55 million) as compared to the previous year and did not have a material effect on the Company s revenues.

Revenues from our other businesses decreased by Rs.21.29 million to Rs 530.15 million for the year ended March 31, 2010 from Rs 551.44 million or 3.86 % for the year ended March 31, 2009. This is driven by Rs 43.92 million or 17.91% increase in the revenue from our IMS services and Rs.65.21 million or 21.30% decrease in the revenue from our E-learning services. The increase in IMS services is on account of new customer and increased engagement from the existing customers. The decrease in e learning is on account of deferred decisions on projects by U.S based customers.

Table of Contents

Other income. Other income was Rs.131.79 million for the year ended March 31, 2010, compared to Rs. 89.10 million for the year ended March 31,2009, representing an increase of Rs.42.69 million or 47.9% mainly on account of increase in income derived from duty credit entitlements under the Served from India Scheme (issued by the Government of India) in respect of the foreign exchange earnings from export of services. Increase in duty credit entitlement is primarily on account of increase in export revenues during the current year as compared to the previous year ended March 31, 2009.

Income from legal settlement. During the year, the Company received Rs 561,120 in connection with settlement of legal matters. The said receipt has been recorded as income from legal settlement in the consolidated statement of income during the year ended March 31, 2010.

Cost of goods sold and services rendered. Cost of goods sold and services rendered was Rs.4,096.54 million for the year ended March 31, 2010, compared to Rs. 3613.35 million for the year ended March 31, 2009, representing an increase of Rs.483.19 million, or 13.37%. This increase was due to (i) a Rs.603.39 million increase in carrier cost and interconnect charges payable to carriers, (ii) a Rs.356.60 million increase in Cost of hardware purchase These increases have been partly offset by a (i) decrease of Rs.265.40 million in bandwidth costs, (ii) a Rs.177.74 million decrease in revenue share paid to Franchisees, CTO s and TRAI, (iii) a Rs.64.6 million decrease in directly attributable personnel costs to the technology division, and (iv) a increase of Rs.30.57 million in other costs.

The cost of goods sold and services rendered by our corporate network / data services increased by Rs. 912.32 million from Rs.2,321.84 million for the year ended March 31,2009 to Rs 3,234.15 million for the year ended March 31, 2010, representing an increase of 39.29 %, on account of (i) increase of Rs.606.50 million in carrier cost and interconnect charges due to increase in volume of minutes, (ii) increase of Rs.378.13 million in the cost of hardware due to increase in System Integration business, (iii) increase of Rs.48.40 million in other direct costs. These increases have been offset by a decrease of (i) Rs. 122.12 million in bandwidth costs due to price reduction. (ii) Rs.15.29 million) in the revenue share paid to TRAI (iii) Rs.12.24 million in the revenue share payable to alliance partner on account of reduced engagement.

The cost of goods sold and services rendered by our Internet Access services decreased to Rs.569.12 million for the year ended March 31,2010 from Rs.969.64 million for the year ended March 31, 2009, representing a decrease of Rs.400.83 million or 41.31 %. The decreases is on account of (i) Rs.150.64 million in the cost of revenue share paid to CTOs and franchisees due to reduction in engagement, (ii) Rs.1.85 million in the cost of revenue share payable to TRAI on account of reduction in revenue (iii) Rs.9.18 million in the Voice termination costs due to a drop in the Voice minutes, (v) Rs.100.13 million on account of appropriate sizing in technology man power, (vi) Rs.131.18 million in bandwidth cost and (vii) Rs.3.69 million in other costs. (viii) Rs.3.85 million in cost of goods sold.

The cost of goods sold and services rendered by our portal business decreased by Rs.20.62 million from Rs.73.16 million for the year ended March 31, 2009 to Rs.52.69 million for the year ended March 31, 2010, representing a decrease 28.19 %, due to a decrease of (i) Rs.16.20 million in due to reduction in corporate orders, (ii) Rs.6.14 million on account of reduction in cost of payment gateways, (iv) Rs.6.00 million reduction in bandwidth cost (v) Rs.4.59 million on account of reduction in technology man power. The above decrease is is partially offset by an increase of Rs.3.12 million in the content costs.

The cost of goods sold and services rendered by our e-learning and IMS services decreased by Rs.8.02 million from Rs.248.67 million for the year ended March 31,2009 to Rs.240.65 million for the year ended March 31, 2010, representing a decrease of 3.22 %. The decrease on account of reduction in direct cost of Rs.19.67 million on account of decrease in other direct costs. The above decrease is offset by an increase of Rs.11.65 million on account of additional employees are deployed in projects.

Selling, general and administrative expenses: Selling, general and administrative expenses were Rs.2,482.41 million for the year ended March 31, 2010, compared to Rs. 2,813.42 million for the year ended March 31, 2009, representing a decrease of Rs. 331.01 million or 11.77%. The decrease is primarily on account of decrease in (a) manpower costs by Rs. 242.52 million due to manpower right sizing (b) facilities and other indirect expenses by Rs. 39.08 million due to optimization and integration of offices (c) marketing and selling expenses by Rs 125.76 million on account of cost effective marketing activities (d) legal and professional expenses by Rs 68.67 million due to reduction in legal costs

(e) Rs.234.95 million in other costs including travel, contract payments and other indirect costs. These increase is partially offset by an increase of (i) Operating costs by Rs. 196.42 million on account of an expansion to more locations, New Data Center facilities created in Mumbai (ii) Rs.11.95 million foreign exchange loss on account of rupee depreciation,(iii) Rs.37.64 million in provision for doubtful debts against doubtful debtors.

Table of Contents

Depreciation and Amortization expenses: Depreciation and amortization expenses were Rs.656.78 million for the year ended March 31,2010, compared to Rs.498.87 million for the year ended March 31,2009, representing an increase of Rs.157.91 million, or (31.65%). The increase is attributable to an increase of Rs.151.08 million in depreciation due to addition of fixed assets as well as an increase of Rs.20 million in amortization expense due to addition of system software.

Impairment loss: In May 2006, the Group acquired travel business for a consideration of US$2.5 million (Rs. 112,220) in cash along with an option to purchase 125,000 shares of Sify Technologies Limited and certain earn out payments aggregating to USD 0.5 million (Rs. 22,444). The assets acquired consist of system software, customer contracts and goodwill which collectively were considered as a cash generating unit (CGU) by management. The said business operates from India and United States.

During the year ended March 31, 2010, triggered by certain adverse market conditions such as decrease in revenue and increase in the cost of services, and other technological matters, the Group tested the carrying value of the above business for impairment. The recoverable amount of these intangibles including goodwill were determined based on the higher of the value in use (using discounted cash flow approach) and fair value less cost to sell. Fair value less cost to sell, being the higher of the two was determined as the recoverable amount of the CGU. Based on this assessment, the carrying value of the CGU was higher than its recoverable amount and as a result of the above, the group has recorded an impairment of the above intangibles including goodwill amounting to Rs 47,269 and adjusted the carrying value of these intangibles accordingly. The above impairment relates to online portal services segment.

Fair value less cost to sell was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

Cash flows were projected based on a 5 year business plan. Cash flows were arrived at as an excess of revenue over the related costs for the same period after giving due effect to non-cash charges and finance charges, if applicable, together with changes in working capital.

Management believes that this forecast period is justified due to the long term nature of the travel business.

The projected revenue growth included in the cash flow projections was 10% during the projected period. Management believes that this growth percentage was reasonable and is in line with the average trend of the industry.

The projected increase in cost was 5% for call center cost and 10% for administrative costs.

A pre-tax discount rate of 22.26% was applied in determining the recoverable amount of the cash generating unit. The discount rate was estimated based on an industry average weighted average cost of capital.

In view of the expected long term market conditions, a terminal year end growth rate of 2% is estimated.

The values assigned to the key assumptions represent management s assessment of future trends in the industry and are based on both external sources and internal sources.

Net finance income. The net finance expenses was Rs.265.88 million for the year ended March 31, 2010, compared to an expense of Rs.129.10 million for the year ended March 31, 2009, representing a increase of Rs.136.78 million, or (106.00 %). The finance income was Rs.27.99 million for the year ended March 31, 2010, compared to Rs.122.57 million for the year ended March 31,2008, representing a decrease of Rs.94.58 million caused by closure of bank deposits. The finance expense was Rs.293.87 million for the year ended March 31, 2010, compared to Rs.251.66 million for the year ended March 31, 2009, representing an increase of Rs.42.21 million caused by an increase in interest and bank charges on account of increased borrowings, and renewal / additional fund based working capital facilities and non-fund based limits.

Share of profit of investment in associate. The share of profit of investment in associate was Rs.91.14 million for the year ended March 31, 2010, compared to Rs.64.09 million for the year ended March 31,2009, representing a increase of Rs. 27.05 million, or 42%. The increase was due to better financial performance of MF Global Sify Securities India

Private Limited during the year.

Income tax expense. The income tax benefit was Rs.81.48 million for the year ended March 31, 2010, compared to expense of Rs. 97.05 million for the year ended March 31, 2009 due to merger of Sify Communications Limited (erstwhile subsidiary) with the company.

Profit. The net profit for fiscal 2010 is Rs.26.81 million compared to a net loss of Rs.851.63 million for fiscal 2009 and is attributable to (i) an decrease of Rs.331.01 million in selling, general and administrative expenses, (ii) an increase of Rs. 189.99 million in depreciation/amortization/impairment expenses, (iii) a increase of Rs.136.78 million from net finance expenses, (iv) a increase of Rs.27.05 million from the share of profit of equity accounted investee, (v) Income tax credit of Rs 81.48 million due to merger of Sify Communication Limited as against an income tax expenses of Rs. 97.05 million during the previous year and (vi) one time legal settlement of Rs 561.12 million.

Table of Contents

Results of year ended March 31, 2009 compared to year ended March 31, 2008

Revenues. We recognized Rs.6,162.16 million in revenues for the year ended March 31, 2009, as compared to Rs.6,006.22 million for the year ended March 31, 2008, representing an increase of Rs.155.94 million or 2.59 %.

The revenues generated by our corporate network/data services businesses increased by Rs.483.10 million or 12.64 %, from Rs.3,822.11 million for the year ended March 31, 2008 to Rs.4,305.21 million for the year ended March 31,2009. The increase is attributable to increases in (i) Voice services revenues of Rs.247.26 million due to new business, (ii) Hosting services revenues of Rs.137.50 million as a result of acquisition of new contracts and capacities sold from new data center, (iii) connectivity revenues of Rs.119.53 million due to increase in the sales from new and existing customers, including, (iv) Application services revenues of Rs.41.13 million primarily due to increased focus in DMS business, (v) Digital certification services revenues of Rs.14.33 million due to addition of new clients and renewal of repeat orders from the existing clients and (vi) other services revenues of Rs.3.06 million. The above increase is offset by a decrease in revenues from Hardware/Software sales of Rs.79.71 million caused by absence of bundled contract orders during the year under review.

Revenue from Consumer One services comprising of Internet Access services and Online Portal services, has decreased by Rs 450.48 million or 25.62 % from Rs 1,755.99 million for the year ended March 31, 2008 to Rs 1,305.51 million for the year ended March 31, 2009. This is caused by a drop of Rs 417.04 million or 26.99 % in the revenue from our Internet Access services and by Rs.33.44 million or 15.87 % in revenue from Portal services.

Our Internet Access services accounted for Rs.1,128.18 million of revenues for the year ended March 31, 2009, as compared to Rs.1,545.23 million for the year ended March 31, 2008, representing a decrease of Rs.417.04 million or 26.99% Such decrease is primarily on account of (i) decrease of Rs.163.25 million in broadband services revenues due to decrease in subscribers (ii) decrease of Rs.190.48 million in cybercafe revenues due to closure of active cybercafés caused by unexpected rent increases in the current year incurred by the franchisees for cybercafe premises and economic slow down, (iii) decrease of Rs.49.70 million in voice revenues due to price reductions offered to our customers to retain the existing customers and/or attract new customers to combat competition and (iv) decrease of Rs.13.61 million from Internet Access other services.

During the course of the year, the number of active cybercafés decreased from 2,165 to 1,791 as of March 31, 2009. The subscribers of the high speed Internet access to homes decreased by 24.65 % during the year, from 218,000 as of March 31, 2008 to 165,000 as of March 31, 2009. The cybercafés are owned and operated by the franchisees. The franchisee procures the retail space, invests in furniture, interior decor, personal computers, point of sale signage and employs/trains the staff. The franchisee is responsible for the maintenance of the premises and interface with customers. Sify provides the complete back-end support, including bandwidth, the authentication / usage engine and the billing / collection system. Sify has discretion in establishing prices and determines the service specifications. Sify also reserves the right to make any change, alteration, modification in the services, business exploitation model, revenue generation, models, charges, policies, specifications etc at its sole discretion and the same is binding on the franchisee. Under the terms of the agreement, Sify is required to pay a commission at approximately 70% of the revenue generated by the franchisees from internet usage at cybercafés. The revenue earned from internet usage at cybercafés is recognized based on usage by the customer on a gross basis with the corresponding commission being recorded as an expense. The aforesaid revenue recognition policy is based on the principles set out in IAS 18 Revenue .

Our Online portal and content offerings division accounted for Rs.177.33 million of revenues for the year ended March 31, 2009, as compared to Rs.210.77 million for the year ended March 31, 2008, representing a decrease of Rs.33.44 million or 15.87%. This decrease was on account of (i) a drop by Rs.26.44 million caused by reduction in corporate orders and (ii) a decrease of Rs.7.00 million in revenues from travel services caused by depressed aviation market for air traffic between US and India as well as on account of increased competition from the existing operators. Corporate orders operate with small profit margins and large number of orders are required. Due to the slowdown in the economic environment, the margins on some of the orders were becoming unattractive. Management opted out of such orders resulting in lower volumes. The revenue from corporate orders decreased by Rs 26.44 million as compared to the previous year and did not have a material effect on the Company s revenues.

Revenues from our other businesses increased by Rs.123.33 million from Rs 428.12 million for the year ended March 31, 2008 to Rs 551.45 million or 28.81 % for the year ended March 31, 2009. This is driven by Rs 74.14 million or 43.34 % increase in the revenue from our IMS services and Rs.49.19 million or 19.14 % increase in the revenue from our E-learning services. These increases are attributed to new projects and high volume of the business from the existing customers.

Table of Contents

Other income. Other income was Rs.89.10 million for the year ended March 31, 2009, compared to Rs.46.15 million for the year ended March 31,2008, representing an increase of Rs.42.95 million or 93.06%. Other income primarily comprises of income derived from duty credit entitlements under the Served from India Scheme (issued by the Government of India) in respect of the foreign exchange earnings from export of services. Increase in duty credit entitlement is primarily on account of increase in export revenues during the current year as compared to the previous year ended March 31, 2008.

Cost of goods sold and services rendered. Cost of goods sold and services rendered was Rs.3,613.35 million for the year ended March 31, 2009, compared to Rs. 3,419.12 million for the year ended March 31, 2008, representing an increase of Rs.194.23 million or 5.68%. This increase was due to (i) a Rs.156.78 million increase in bandwidth costs, (ii) a Rs.180.66 million increase in directly attributable personnel costs to the technology, (iii) a Rs.11.06 million increase in revenue share paid to TRAI. These increases have been partly offset by a decrease of Rs.154.27 million in other costs.

The cost of goods sold and services rendered by our corporate network / data services increased by Rs.258.91 million from Rs.2,062.92 million for the year ended March 31,2008 to Rs.2,321.83 million for the year ended March 31, 2009, representing an increase of 12.55 %, on account of (i) increase of Rs.156.92 million in carrier cost and interconnect charges due to increase in volume of business (ii) increase of Rs. 75.50 million in bandwidth costs due to increase in usage, (iii) increase of Rs.126.22 million in the employee cost due to increase in the number of employees deployed for domestic projects, (iv) increase of Rs.16.55 million in the revenue share paid to TRAI,(v) increase of Rs.44.12 million in the cost of software due to proportional increase in the sales of Sify secure, (vi) increase of Rs.11.01 million in the cost of hardware due to proportional increase in the sales of application services, (vii) increase of Rs.10.65 million in the royalty amount paid to Verisign due to increase in business and (viii) increase of Rs.2.75 million in the cost of site development. These increases have been offset by a decrease of (a) Rs. 119.42 million in the cost of hardware purchased for connectivity business due to slump in the business, (b) Rs.32.07 million in the cost of safedox (a tool to secure data) purchased due to reduced market requirements, (c) Rs.18.51 million in the revenue share paid to Power Grid Corporation of India Limited (PGCIL) due to reduction in the business (d) Rs.2.72 million in the cost of hardware incurred towards hosting business and (e) Rs. 12.09 million from others.

The cost of goods sold and services rendered for our corporate Internet Access services decreased from Rs.1,038.10 million for the year ended March 31,2008 to Rs.969.64 million for the year ended March 31, 2009, representing a decrease of Rs.68.46 million or 6.59 %, due to a decrease of (i) Rs.162.93 million in the cost of revenue share paid to CTOs due to reduction in business from Cable Television Operators (CTOs), (ii) Rs.3.16 million in the cost of revenue share paid to TRAI on account of reduction in the volume of business, (iii) Rs.15.22 million in the line maintenance charges due to reduction in tele-centers for whom Line Maintenance Charges are paid for the connection and maintenance of last mile, (iv) Rs.12.74 million in the Voice termination costs due to a drop in the Voice revenues, and (v) Rs.7.24 million in the revenue share paid to Games business due to drop in Gaming revenue. These decreases have been offset by an increase of (a) Rs.57.43 million in the technology man power resources, (b) Rs.72.31 million in bandwidth cost and (c) Rs.3.09 million in other costs.

The cost of goods sold and services rendered for our portal business decreased by Rs.47.84 million from Rs.121.00 million for the year ended March 31, 2008 to Rs.73.16 million for the year ended March 31, 2009, representing a decrease 39.53 %, due to a decrease of (i) Rs.18.45 million in cost of vouchers sold on account of a drop in corporate orders, (ii) Rs.25.04 million in the content costs due to contents sourced at lower costs from various sources (iii) Rs.0.68 million in the cost of payment gateways due to processing of lesser number of transactions caused by business reduction, (iv) Rs.0.68 million in bandwidth cost due to reduction in business and (v) Rs.2.99 million in man power resources.

The cost of goods sold and services rendered for other services increased by Rs.51.62 million from Rs.197.10 million for the year ended March 31,2008 to Rs.248.72 million for the year ended March 31, 2009, representing an increase 26.16 %, due to increase of (i) Rs.42.39 million in cost of direct associates due to additional employees deployed for project in IMS revenue stream,(ii) Rs.12.31 million in cost of direct associates due to additional employees deployed for e-learning projects. This increase has been impacted by a decrease of Rs.3.08 million in other costs.

Selling, general and administrative expenses: Selling, general and administrative expenses were Rs.2,813.42 million for the year ended March 31, 2009, compared to Rs.2,434.72 million for the year ended March 31, 2008, representing an increase of Rs. 378.70 million or 15.55%. The increase is primarily on account of increase in (a) manpower costs by Rs. 178.26 million due to annual wage increases given to the employees (b) facilities and other indirect expenses by Rs. 131.06 million due to increase in number of offices and increase in rent and maintenance charges for the existing offices, (c) Operating costs by Rs. 124.43 million on account of an increase in the size of operations in Network and DC services (d) marketing expenses by Rs 76.49 million on account of enlarged marketing efforts undertaken in connection with brand logo change and (e) Rs.28.74 million in other costs. This increase is partially offset by a reduction of (i) Rs.36.00 million in legal expenses, (ii) Rs.5.67 million in selling expenses, (iii) Rs.23.62 million in contracts payments, (iv) Rs.54.33 million foreign exchange loss on account of covering of forward contracts caused by significant rupee depreciation,(v) Rs.40.65 million in provision for doubtful debts.

Table of Contents

Depreciation and Amortization expenses: Depreciation and amortization expenses were Rs.498.87 million for the year ended March 31,2009, compared to Rs.394.34 million for the year ended March 31,2008, representing an increase of Rs.104.53 million or (26.50%). The increase is attributable to an increase of Rs.97.00 million in depreciation due to addition of fixed assets as well as an increase of Rs.7.53 million in amortization expense due to addition of system software.

Impairment loss: The Company has performed impairment test with respect to goodwill relating to Globe Travels business consequent to which, a Rs. 15.20 million impairment charge was recorded during the year.

Net finance income. The net finance loss was Rs.129.09 million for the year ended March 31, 2009, compared to an income of Rs.104.10 million for the year ended March 31, 2008, representing a decrease of Rs.233.19 million or (224.00 %). The finance income was Rs.122.57 million for the year ended March 31, 2009, compared to Rs.161.78 million for the year ended March 31,2008, representing a decrease of Rs.39.21 million caused by a decrease in the interest income on bank deposits on account of closure for such deposits. The finance expense was Rs.251.66 million for the year ended March 31, 2009, compared to Rs.57.68 million for the year ended March 31, 2008, representing an increase of Rs.193.98 million caused by an increase Rs.193.56 million in bank charges or interest on account of increased borrowings, including demand loans against the deposits, fund based working capital facilities and non-fund based limits and a decrease of Rs.0.42 million in interest paid towards finance leases.

Share of profit of investment in associate. The share of profit of investment in associate was Rs.64.09 million for the year ended March 31, 2009, compared to Rs.181.12 million for the year ended March 31,2008, representing a decrease of Rs. 117.03 million or 64.61%. The decrease was due to poor financial performance of MF Global Sify Securities India Private Limited caused by sluggish stock market conditions.

Income tax expense. The income tax expense was Rs.97.05 million for the year ended March 31, 2009, compared to Rs. 63.97 million for the year ended March 31, 2008. The income tax expense represents the current tax and utilization of deferred tax assets created in respect of the carry forward business loss of Sify Communications Limited (erstwhile subsidiary) relating to previous years. This utilization was due to the taxable profits earned by the erstwhile subsidiary during the year.

Foreign Exchange Fluctuations and Forwards

We enter into foreign exchange derivative contracts to mitigate the risk of changes in foreign exchange rates on cash flows denominated in U.S. dollars. We enter into forward contracts where the counter party is a bank. These contracts generally mature between one to six months. These contracts do not qualify for hedge accounting under IFRS. Foreign exchange contracts are marked to market as at the balance sheet date and recognized in the consolidated income statement.

Liquidity and capital resources

The following table summarizes our statements of cash flows for the periods presented:

	2011	**2010**	**2009**	**2011**
	Rs. In 000	Rs. in 000	Rs. in 000	US $ in 000
Profit / (loss) before tax	(519,492)	26,813	(851,633)	(11,635)
Other adjustments for non-cash items	1,000,310	952,486	856,486	22,404
Income taxes paid	(42,440)	(164,455)	(108,560)	(951)
Net decrease (increase) in working capital	(213,019)	(55,042)	(258,173)	(4,771)
Net cash from / (used in) operating activities	225,359	759,802	(371,556)	5,047
Net cash from / (used in) investing activities	(730,650)	(896,683)	(1,174,156)	(16,363)
Net cash from / (used in) financing activities	551,700	(354,486)	968,797	12,356
Effect of exchange rate changes on cash and cash equivalents	(627)	(2,934)	945	(14)
Net increase / (decrease) in cash and cash equivalents	46,409	(491,367)	(576,920)	1,039

52

Table of Contents

Our growth has been financed largely by cash generated from operations and bank borrowings and, to a lesser extent, from the proceeds from the issuance of equity.

As of March 31, 2011, we had a cash and cash equivalents of Rs.(135.80) million ($3.04 million), including a negative working capital of Rs.36.35 million ($0.81 million), cash and bank balances of Rs.543.09 million ($12.16 million), and bank borrowings of Rs.1,298.41 million ($29.08 million). Based on the projected cash flows, available lines of credit and promoter group capital infusion, we will have sufficient resources to meet capital expenditure needs and working capital requirements over the course of the next 12 months.

On October 22, 2010, the company entered into a subscription agreement with Mr Ananda Raju Vegesna, acting as representative (the Representative) of the purchasers in connection with the offering. Pursuant to the terms of this subscription agreement, the company issued and allotted 125,000,000 equity shares to an entity affiliated and controlled by Raju Vegesna, our Chief Executive Officer. In accordance with Indian law, the purchase price is to be paid at such time as determined by Board of Directors of the company. During the fiscal year 2011, the Company received an aggregate of Rs. 1000 million, or $US 22.40 million, in connection with this private placement. A further sum of Rs.1000 million has been received in August 2011, resulting in an aggregate of Rs 2000 million receipt till date. Although all 125,000,000 shares are deemed issued and outstanding, the unpaid portion of the equity shares issued pursuant to the subscription agreement do not have any voting rights and are not entitled to dividends, if declared. As of the date of this Annual Report, Mr. Vegesna has paid for half of the shares of the subscription. The Board of Directors has the sole discretion as to the timing to require Mr. Vegesna to pay the balance of the subscription price.

The balance of the proceeds from the sale of the equity shares to our promoter group, or Rs. 2,000 million ($44.79 million), will take place in tranches over the next two years as per our funding requirements. See note 42 in the notes to the financial statements included with this Annual Report.

Our principal sources of liquidity are our borrowings from banks. Our cash and cash equivalents comprise of cash and bank deposits. The restricted cash balance Rs.84.54 million ($1.90 million) primarily represents fixed deposits pledged for availing bank borrowings.

Our external sources of credit include facilities sanctioned to us by Indian banks. We have working capital facilities in the form of short term loans, cash credit and overdraft facilities of an aggregate of Rs.1000 million ($22.40 million) of which Rs.171 million ($3.83 million) is unutilized as of March 31, 2011. Further, we were provided non-funded limits of Rs.1350.00 million ($30.23 million) (primarily in the form of bank guarantees and letters of credit) out of which Rs.110.00 million ($4.72 million) remained unutilized as of the reporting date. Our ongoing working capital requirements are significantly affected by the profitability of our operations and we continue to periodically evaluate existing and new sources of liquidity and financing.

We are taking steps to improve the cash position to meet our currently known requirements at least over the next twelve months. In light of the highly dynamic nature of our business, however, we cannot assure you that our capital requirements and sources will not change significantly in the future.

Net cash generated from operating activities for the year ended March 31, 2011 was Rs.225.36 million ($5.05 million). This is mainly attributable to cash generated during the year and partially offset by increase in trade and other receivables by Rs.153.56 million ($3.44 million) and increase in other assets by Rs.34.08 million ($0.76 million) and decrease in trade and other payables by Rs.30.36 ($0.68 million).

Net cash generated from operating activities for the year ended March 31, 2010 was Rs.759.80 million. This is mainly attributable to one time legal settlement amounting to Rs.561.12 million, increase in trade and other receivables by Rs.585.80 million, decrease in inventories by Rs.17.60 million, increase in other assets by Rs.64.11 million, Increase in trade and other payables by Rs.517.48 million, decrease in employee benefits by Rs.3.98 million and increase in deferred revenue by Rs 63.72 million.

Net cash used in operating activities for the year ended March 31, 2009 was Rs.371.55 million. This is mainly attributable to increase in trade and other receivables by Rs.314.35 million, increase in inventories by Rs.1.33 million, decrease in other assets by Rs.224.62 million, decrease in trade and other payables by Rs.171.26 million, increase in employee benefits by Rs.17.70 million and decrease in deferred revenue by Rs13.55 million.

Net cash used in investing activities for the year ended March 31, 2011 was Rs.730.65 million ($16.36 million) primarily on account of advance paid for purchase of ordinary shares in Hermit Projects Private Limited amounting to Rs.400 million ($8.96 million) (Refer note 37 to the consolidated financial statement) and purchase of routers, modems, ports, servers, other capital equipments for our ongoing expansion plans. and advance payments towards undersea cable arrangement with EIG amounting to Rs.395 million ($8.85 million). The increase was partly offset by increase in finance income by Rs.61.67 million ($1.38 million).

Table of Contents

Net cash used in investing activities for the year ended March 31, 2010 was Rs.896.68 million primarily on account of purchase of routers, modems, ports, servers, other capital equipments for our ongoing expansion plans. and advance payments towards undersea cable arrangement with EIG.

Net cash used in investing activities for the year ended March 31, 2009 was Rs.1,174.16 million primarily on account of purchase of routers, modems, ports, servers and other capital equipments for 2009 was Rs.1,170.8 million.

Net cash generated from financing activities for fiscal year 2011 was Rs.551.70 million ($12.36 million) mainly on account of capital infusion from promoter group amounting to Rs.1,000 million ($22.40 million). This was partly offset by decrease in bank borrowings and servicing of borrowings by Rs.397.13 ($8.89 million).

Net cash used by financing activities for fiscal year 2010 was Rs.354.49 million mainly on account of servicing borrowings from banks and increase in payment on account of lease financing of capital and other purchases.

Net cash provided by financing activities for fiscal year 2009 was Rs.968.80 million on account of increase in borrowings from banks.

Capital expenditure

We incurred Rs.795 million ($17.81 million) towards capital expenditure for the year ended March 31, 2011. We anticipate incurring further expenditure during the current fiscal of approximately Rs. 1150 million (US$25.76 million) mainly on data centers and payment for undersea cable arrangement. This will be funded out of internal accruals, capital infusion from promoter group and through low cost debts like lease financing by strategic vendors.

Research and development

The Company does not have research and development activities and has also not undertaken any sponsored research and development activities.

Trends

The information is set forth under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations Operating and Financial review and Prospects .

Off-balance sheet arrangements

We have not entered into any off-balance sheet arrangements as defined by SEC Final Rule 67 (FR-67), Disclosure in Management s Discussion and Analysis about Off-Balance Sheet Arrangements and Aggregate Contractual Obligations .

Contractual obligations

Set forth below are our contractual obligations as of March 31, 2011:

	Payments due by period (Rs 000s)				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long Term Debt Obligations	262,609		230,205	32,404	
Short Term Borrowings	1,035,803	1,035,803			
Finance Lease Obligations	188,253	60,507	110,986	16,760	
Non-cancellable Operating Lease obligations	1,884,544	105,693	220,433	368,541	1,189,877
Europe India Gateway Obligations	65,813	65,813			
Purchase Obligations	521,562	521,562			
Total	3,958,584	1,789,378	561,624	417,705	1,189,877

Table of Contents

Recent Accounting Pronouncements

In November 2009, the IASB issued *IFRS 9, Financial instruments*, to introduce certain new requirements for classifying and measuring financial assets. IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two classifications those measured at amortized cost and those measured at fair value. The standard along with proposed expansion of IFRS 9 for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment, and hedge accounting will be applicable for annual periods beginning on or after January 1, 2013, although entities are permitted to adopt earlier. We are evaluating the impact which this new standard will have on our consolidated financial statements.

In November 2009, the IASB issued *IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments*, to introduce requirements when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity s shares and other equity instruments to settle the financial liability fully or partially. This Interpretation is effective for annual periods beginning on or after July 1, 2010.

In May 2011, the IASB issued new standards and amendments on consolidated financial statements and joint arrangements. The following are new standards and amendments:

IFRS 10, Consolidated financial statements.

IFRS 11, Joint arrangements.

IFRS 12, Disclosure of interests in other entities.

IAS 27 (Revised 2011), Consolidated and separate financial statements, which has been amended for the issuance of IFRS 10 but retains the current guidance on separate financial statements.

IAS 28 (Revised 2011), Investments in associates, which has been amended for conforming changes on the basis of the issuance of IFRS 10 and IFRS 11.

All the standards mentioned above are effective for annual periods beginning on or after January 1, 2013; earlier application is permitted as long as each of the other standards in this group is also early applied. We are in the process of determining the impact of these amendments on our consolidated financial statements.

On June 16, 2011, the IASB issued an amendment to *IAS-19 Employee benefits*, which amended the standard as follows:

requires recognition of changes in the net defined benefit liability/(asset), including immediate recognition of defined benefit cost, disaggregation of defined benefit cost into components, recognition of re-measurements in other comprehensive income, plan amendments, curtailments and settlements.

introduced enhanced disclosures about defined benefit plans.

modified accounting for termination benefits, including distinguishing benefits provided in exchange for services from benefits provided in exchange for the termination of employment, and it affected the recognition and measurement of termination benefits.

provided clarification regarding various issues, including the classification of employee benefits, current estimates of mortality rates, tax and administration costs and risk-sharing and conditional indexation features.

incorporated, without change, the IFRS Interpretations Committee s requirements set forth in *IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

These amendments are effective for annual periods beginning on or after January 1, 2013; earlier application is permitted. The Group is in the process of determining the impact of these amendments on our consolidated financial statements.

Critical Accounting Policies

Our accounting policies affecting our financial condition and results of operations are more fully described in Note 3 to our Consolidated Financial Statements included in Item 18 of this Annual Report on Form 20-F. Certain of our accounting policies require the application of judgment by management in selecting appropriate assumptions for calculating financial estimates, which inherently contain some degree of uncertainty. Management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the reported carrying values of assets and liabilities and the reported amounts of revenues and expenses that may not be readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Table of Contents

We believe the following are the critical accounting policies and related judgments and estimates used in the preparation of its Consolidated Financial Statements. Management has discussed the application of these critical accounting estimates with our Board of Directors and Audit Committee.

Revenue Recognition

Various streams of revenue are described below:

Corporate network/data services, which provides Internet, connectivity, security and consulting, hosting, voice and managed service solutions;

Internet access services, from homes and through cybercafés (e-ports);

Online portal services and content offerings; and

Other services such as development of e-learning software

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

Revenue from services rendered is recognized in the consolidated income statement in proportion to the stage of completion of the transaction at the reporting date. Revenue is recognized when the following conditions are met:

the amount of revenue can be measured reliably;

it is probable that the economic benefits will flow to the seller;

the stage of completion at the balance sheet date can be measured reliably; and

the costs incurred, or to be incurred, in respect of the transaction can be measured reliably.

The revenue recognition in respect of the various streams of revenue is described below:

(i) Corporate network/data services

Corporate network service revenues primarily include NLD/ILD connectivity services and sale of hardware and software (purchased from third party vendors), and to a lesser extent, installation of a connectivity link, and other ancillary services such as e-mail and domain registration. Generally these elements are sold as a package consisting all or some of the elements. In these cases the Group applies the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction with different revenue allocations for each component. These multiple element arrangements are recognised as separable elements because each element constitutes a separate earnings process, each element has a fair value that is reliable, verifiable and objectively determinable, and the undelivered element is not essential to functionality of the delivered elements. In this arrangement involving delivery of multiple elements, the units of accounting are determined based on whether the delivered items have a value to the customer on a standalone basis, whether there is objective and reliable evidence of fair value of the undelivered elements and if the arrangement includes a general right of return relative to the delivered item, whether delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Group. The arrangement consideration is allocated to the units of accounting based on their relative fair values. Revenue on delivered items is recognised when the revenue recognition criteria applicable to that unit of accounting are met.

The Group provides connectivity for a fixed period of time at a fixed rate regardless of usage. Connectivity is the last element that is provided in the case of a bundled contract. The connectivity charges are the same when sold alone or as part of a package. The revenue attributable to connectivity services is recognised ratably over the period of the contract. The hardware and software are standard products that are freely traded in and purchased from the market,

have standard specifications and are not otherwise customized for the specific needs of a customer. The software sold by the Group is off-the-shelf software, such as antivirus utilities and firewalls. The fair value for the hardware and software is available from the market. The revenue attributable to hardware/software is recognised on delivery. Trading transactions relating to standard hardware and software and involving arrangement of purchases from suppliers and sales to customers are reported on gross basis or on net basis, by carrying out a fact-specific evaluation of whether or not all significant risks and rewards of ownership or property in the goods are transferred. In circumstances where there is multi element arrangement that includes both hardware/software sales and last mile connectivity services, revenue from sale of hardware/software is recognised only upon completion of the services relating to last mile connectivity. Installation consists of commissioning of the last mile connectivity to the customer premises either through the Group s wireless mode of broadband delivery or through the carrier exchange. However, once commissioned this last mile connectivity can be used by the customer to access any other service provider. When the customer has such last mile connectivity, the Group does not charge any installation fee. Due to the short duration, the revenue attributable to the installation of the link is recognised on completion of the installation work. Revenue from ancillary services such as e-mail and domain registration are recognised over the period such facilities are provided. All revenues are shown exclusive of sales tax and service tax.

Table of Contents

Web hosting service revenues primarily include co-location services on demand and cloud offerings.. On occasions, the Group also sells related hardware/software to its web hosting customers. At all times, such hardware and software belongs to the customer. This hardware as well as software are purchased from outside vendors and are freely traded in the market. The Group treats each element as a separate component of the arrangement which have separate earnings process. The value of the hosting service is determined based on fair value from similar services provided separately by the Group. When hardware and/or software is also included with hosting services and sold as a package, the revenue is allocated to the respective element based on their relative fair values. Revenue from hosting services is recognised over the period during which the service is provided.

The Group remotely manages the Information Technology infrastructure of global enterprises from India. The contracts are on time and material basis. Revenue in relation to time is measured as the agreed rate per unit of time multiplied by the units of time expended. The element of revenue related to materials is measured in accordance with the terms of the contract.

We provide NLD (National Long Distance) and ILD (International Long Distance) services through company s network. We carry voice traffic, both national and international, using the IP back-bone and delivers voice traffic to Direct Inter-connect Operators. Revenue is recognised based upon metered call units of voice traffic terminated on our network.

We started generating revenues from construction contracts. Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity. The stage of completion is assessed by reference to the cost incurred till date to the total estimated costs. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in Statement of Income.

(ii) Internet access services

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

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

VoIP services are mainly provided through Internet Telephony Booths at e-ports (formerly iway s) cybercafés and to a smaller extent through Cable TV operators, (CTOs). The user purchases the packs that enable them to use the Internet telephone facility through CTOs and revenue is recognised on the basis of usage by the customer. The customers use Internet telephony facilities at the e-port cybercafés and make the payment to the extent of usage of the facility.

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

In the case of franchised cybercafé operators, the Group enters into an agreement with the franchisee that establishes the rights and obligations of each party and grants each franchisee a non-exclusive license to operate the cybercafé using the Group s logo, brand and trade names. The cybercafés are owned and operated by the franchisees. The franchisee procures the retail space, invests in furniture, interior decor, PCs, and point of sale signage and employs

and trains the franchisee staff. The franchisee is responsible for the maintenance of the premises and interface with customers. The Group provides the complete backend support, including bandwidth, the authentication/usage engine and the billing and collection system.

Table of Contents

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

conducting a market survey and deciding on the best location for the cybercafé or cable head end;

installing the broadband receiver equipment on the roof top of the cybercafé or the cable head end and connecting it to one of Sify s broadcasting towers;

obtaining the regulatory approvals for clearance of the site for wireless transmission at the allotted frequency range;

installing the wiring from the receiver unit to the individual PCs in the cybercafé or the transmitting equipment in the cable head end;

assisting in obtaining facilities, including computers and interiors for the cybercafés; and

providing the operations manual with instructions and guidelines for running the cybercafé or distributing Internet access through cable network.

The initial franchisee fee revenue is recognised as revenue when all of the obligations required of the Group has been substantially accomplished or provided. Internet access revenue and Internet telephony revenues are recognised based on usage by the customer.

(iii) Online portal services

The Group enters into contracts with customers to serve advertisements in its portal and the Group is paid on the basis of impressions, click-throughs or leads and in each case the revenue is recognised based on actual impressions/click-throughs/leads delivered. Revenue from advertisements displayed on portals is recognised ratably over the period of contract

In the case of electronic commerce transactions, there are no performance obligations or minimum guarantees. The Group acts in the capacity of an agent rather than as the principal for these transactions, and the revenue recognised on a net basis is the amount of the commission earned by the Group.

In the case of value-added services that are rendered using Sify s mobile telephone short code 54545, are recognised upon delivery of the content/ring tones to the end subscriber and confirmation by the mobile phone service provider.

(iv) Other services

The Group provides e-learning software development services to facilitate web-based learning in various organizations. These customized services vary in size from customer to customer and relate to computer based and web based training in accordance with the customer specification. These services include information presentation, structured content delivery, content digitization and simulation based training. These services are generally provided on a fixed price basis. Revenue under such contracts is recognised when the outcome of the transaction can be estimated reliably by reference to the stage of completion of transaction at the reporting date. The stage of completion being determined based on the actual time spent to the total estimated time.

Accounting Estimates

While preparing financial statements we make estimates and assumptions that affect the reported amount of assets, liabilities, disclosure of contingent liabilities at the date of financial statements and the reported amount of revenues and expenses for the reporting period.

Our estimate of liability relating to pending litigation is based on currently available facts and our assessment of the probability of an unfavorable outcome. Considering the uncertainties about the ultimate outcome and the amount of losses, we re-assess our estimates as additional information becomes available. Such revisions in our estimates could materially impact our results of operations and our financial position. Management believes that the estimates used in the preparation of the Consolidated Financial Statements are prudent and reasonable. The actual results could differ

from these estimates.

Table of Contents

Allowance for accounts receivable

The receivables primarily constitute dues from corporate connectivity, portals and other services. We maintain allowances for doubtful accounts receivable for estimated losses resulting from the inability of our customers to make contractually agreed payments. We also make allowances for a specific account receivables if the facts and circumstances indicate that such account receivable is unlikely to be collected.

We estimate the amount of uncollectible receivables each period and establish an allowance for uncollectible amounts. The amount of the allowance is based on the age of unpaid amounts, information about the creditworthiness of customers, current economic trends and other relevant information. The assessments reflect management s best assumptions and estimates. Significant management judgment is involved in estimating these factors, and they include inherent uncertainties. Management periodically evaluates and updates the estimates based on the conditions that influence these factors. The variability of these factors depends on a number of conditions, including uncertainty about future events, and thus our accounting estimates may change from period to period. Estimates of uncollectible amounts are revised each period, and changes are recorded in the period they become known.

Business Combinations, Goodwill and Intangible Assets

Business combinations are accounted for using IFRS 3 (Revised), Business Combinations. IFRS 3 requires the identifiable intangible assets and contingent consideration to be fair valued in order to ascertain the net fair value of identifiable assets, liabilities and contingent liabilities of the acquiree. Significant estimates are required to be made in determining the value of contingent consideration and intangible assets. These valuation are conducted by independent valuation experts.

Business combinations have been accounted for using the acquisition method under the provisions of IFRS 3(Revised). The cost of acquisition is measured at the fair of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of acquisition. The cost of acquisition also includes the fair value of any contingent consideration. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value on the date of acquisition.

Transactions costs that the group incurs in connection with a business combination such as finder s fees, legal fees, due diligence fees, and other professional and consulting fees are expenses as incurred.

We amortize intangible assets on straight line basis over their respective individual estimated useful lives. Our estimates of the useful lives of identified intangible assets are based on a number of factors including the effects of obsolescence, demand, competition, and other economic factors (such as the stability of the industry, and known technological advances), and the level of maintenance expenditures required to obtain the expected future cash flows from the asset.

Estimated Useful Lives of Property, Plant and Equipment

In accordance with IAS 16, *Property, Plant and Equipment*, we estimate the useful lives of plant and equipment in order to determine the amount of depreciation expense to be recorded during any reporting period. If technological changes were to occur more rapidly than anticipated or in a different form than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the recognition of increased depreciation expense in future periods. Likewise, if the anticipated technological or other changes occur more slowly than expected, the useful lives could be extended. This could result in a reduction of depreciation expense in future periods.

Impairment

Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset is considered to be impaired and impairment losses are recognized if objective evidence indicates that one or more events such as a loss event, the significant financial difficulty of the issuer, a breach of contract, the disappearance of an active market, which have had a negative effect on the estimated future cash flows of that asset. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Table of Contents

Financial assets measured at amortized cost:

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Available-for-sale financial assets:

Significant or prolonged decline in the fair value of the security below its cost and the disappearance of an active trading market for the security are objective evidence that the security is impaired. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value. The cumulative loss that was recognized in the equity is transferred to the income statement upon impairment.

Loans and receivables:

Impairment loss in respect of loans and receivables measured at amortized cost are calculated as the difference between their carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Such impairment loss is recognized in the income statement.

Reversal of impairment loss:

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized in other comprehensive income and presented within equity.

Non-financial assets:

The carrying amounts of the Group s non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset s recoverable amount is estimated. For goodwill, the recoverable amount is estimated each year at 31 December.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination. Corporate assets for the purpose of impairment testing are allocated to the cash generating units on a reasonable and consistent basis.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit or group of units on a *pro rata basis.*

Reversal of impairment loss:

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Income taxes:

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in other comprehensive income.

Table of Contents

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and associates to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill, as the same is not deductible for tax purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred taxation arising on investments in subsidiaries and associates is recognised except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred taxation arising on the temporary differences arising out of undistributed earnings of the equity method accounted investee is recorded based on the management s intention. If the intention is to realise the undistributed earnings through sale, deferred tax is measured at the capital gains tax rates that are expected to be applied to temporary differences when they reverse. However, when the intention is to realise the undistributed earnings through dividend, the Group s share of the income and expenses of the equity method accounted investee is recorded in the statement of income, after considering any taxes on dividend payable by the equity method accounted investee and no deferred tax is set up in the Group s books as the tax liability is not with the group.

Item 6. Directors, Senior Management and Employees

Directors and Executive Officers

The following table sets forth the name, age and position of each director and senior management executive officer of our Company as of March 31, 2011:

Name	Age	Designation
Raju Vegesna	51	Chairman, CEO and Managing Director
Ananda Raju Vegesna	51	Executive Director
C B Mouli (1)	64	Director, Chairman & Financial Expert of Audit Committee
S K Rao (1) (2) (3)	67	Director
T H Chowdary (2) (3)	79	Director & Chairman of Compensation & Nominating Committees
P S Raju (2)	57	Director
S R Sukumara (1) (2) (3)	66	Director
M P Vijay Kumar	41	Chief Financial Officer
C V S Suri	51	Chief Operating Officer
Pijush Kanti Das (4)	57	President - Corporate Affairs
Natesh Mani	51	President - Consumer Infrastructure Business
Baskar R Sayyaparaju	44	President - International Business
Venkata Rao Mallineni	43	Head- Software Services
Pranesh Babu	45	Chief Technology Officer
C R Rao	51	Vice President - Head HR & Administration

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

(3) Member of the Nominating Committee.

(4) Resigned as of May 27, 2011.

Table of Contents

Raju Vegesna, Chairman, CEO and Managing Director, has served as a Director of our Company since November 2005. He was appointed as the Chief Executive Officer and Managing Director of the Company effective July 18, 2006. Mr. Vegesna is a Silicon Valley entrepreneur who founded several leading edge technology companies, including Server Works Corporation, acquired by Broadcom in 2001. After that acquisition and he had a brief stint with Broadcom. He holds a BS in Electrical Engineering from the University of Bangalore and holds an MS in Computer Engineering from Wayne State University, USA, and holds several patents in Microprocessor and Multiprocessor technology. He is also a Director of Server Engines LLC, Nulife Corp, USA.and Raju Vegesna Infotech & Industries Private Limited.

Mr Ananda Raju Vegesna, brother of Mr Raju Vegesna, Chairman and Managing Director, has served as an Executive Director of our Company since June 2007. He is the Managing Director of Infinity Satcom Universal Private Limited and a Director of Village Inns (India) Limited, Raju Vegesna Infotech & Industries Limited and Server Engines India (Private) Limited.

C.B. Mouli has served as a Director of our Company since July 2005. Mr. Mouli is a member of the Institute of Chartered Accountants of India and also holds a Bachelor of Law Degree. Mr Mouli, a partner of C.B. Mouli & Associates, a Chartered Accountants firm. He is a Director of Taj GVK Hotels & Resorts Limited and Ammana Bio Pharma Limited.

S.K. Rao has served as a Director of our Company since July 2005. Mr Rao, currently is the Director General, Administrative Staff College of India, Hyderabad. Mr Rao previously worked at the Commonwealth Secretariat in London in various diplomatic capacities. He also acted as the Consultant for the United Nations and represented the Commonwealth Secretariat as an Observer at the meetings of the UN General Assembly. Mr. Rao holds a MA and a Ph.D in Economics from Trinity College, Cambridge, U.K**.**

T.H. Chowdary has served as a Director of our Company since February 1996. Dr. Chowdary retired as the Chief Executive Officer of VSNL. He has held key positions in the ITU, Intelsat and other international telecommunications organizations during the course of his career, and was involved in the establishment of the Centre for Telecommunications Management Studies (CTMS) at Hyderabad. Dr. Chowdary is also a director in Soft Solutions India Limited, Energy Leader Batteries India Limited and Tera Software Limited.

P. S. Raju has served as a Director of our Company since February 2006. Mr P S Raju is a member of the Institute of Chartered Accountants of India. Mr Raju is an independent practising Chartered Accountant. He is also a Director of Suryashakti Agro Tech Private Limited and Suryashakti Polypack Private Limited.

Mr S R Sukumara has served as a Director of our Company since January 2007. Prior to joining the Company, Mr. Sukumara was the Director General of Police with the Indian Police Service and served 36 years in the Police Department. Presently, he is practicing as a Consultant.

M P Vijay Kumar has served as Chief Financial Officer since October 2007 and has over 15 years of experience in corporate audits, financial/management consulting, legal advisory services, management audit and investment banking. He is a Chartered Accountant and a Fellow Member of the Institute of Chartered Accountants of India, Fellow Member of the Institute of Company Secretaries of India and Associate member of the Institute of Cost and Works Accountants of India.

C V S Suri has served as Chief Operating Officer since August 2006 and has over 23 years of experience in marketing, operations, commercial and regulatory matters. Suri is a graduate of Delhi University with an Honors Degree in Economics, and has a Masters in Human Resource Management from XLRI, Jamshedpur.

Natesh Mani has served as President Consumer Infrastructure Business since August 2009. He brings a wealth of experience in a career spanning 27 years, of which close to 22 years have been with Xerox Limited. His last assignment was with Xerox, as Director Middle East & Africa, based out of Dubai, where he was responsible for a turnover of US$ 200 Mln per annum. He has a strong track record in the areas of Marketing, Sales Operations, and Channel development, which in turn has provided him with excellent exposure to business challenges of various kinds, and in varied environments.

Baskar R Sayyaparaju has been in service since August 2006 and presently designated as President International Business. He handles broad experience across infrastructure operations, network management, process development, application development/deployment, database management, website operations, desktop support operations and data

center management. Mr. Bhaskar has an M.S in Computer Science from Alabama A&M University.

Table of Contents

Venkata Rao Mallineni has been in service since September 2006 and presently designated as Head Software Services. He has more than 15 years of experience in IT and Communications He is a Graduate in Engineering in Industrial Products and also a Post Graduate in Technology.

Pranesh Babu has been in service since October 2000 and presently designated as Chief Technology Officer. Currently, responsible for strategizing the Core Network and Access network Engineering and developing Services, Pranesh has been a key contributor in Sify s Network expansion and in developing Network services for Enterprise and Retail Customers. With over 21 years of experience in the Telecom/Service provider industry and having handled diverse responsibilities, including projects, service delivery and engineering.

C R Rao has served as Vice President Head HR & Administration since March 2009. He is a Graduate in Commerce and Law and also holds an MBA. He comes with an overall experience of 21 years with around 16 years of rich experience in Strategic Planning and Operations Management. Prior to joining Sify, he was with GSA Lufthansa as Vice President, responsible for Tamil Nadu and Andhra Pradesh. His key responsibilities included Strategic Planning, Business Development, Sales and Marketing for the Cargo division.

Infinity Capital Ventures, LP beneficially owned 7.80% of our equity shares as of March 31, 2011. This shareholder is a party to the Subscription Agreement dated November 10, 2005 with our Company. The Subscription Agreement provides that, among other things, the Company shall appoint Mr Raju Vegesna as the Chairman of the Board of Directors, Infinity Capital shall also nominate another person to the Board of Directors and for so long as Infinity Capital continues to own at least 10% of the Company s outstanding Equity Shares, the Company shall not enter into any agreement pursuant to which it would provide a third party with registration rights for Company securities, without the consent of Infinity Capital. In November 2005, Mr Raju Vegesna, a nominee of Infinity Capital Ventures, LP, was appointed as Chairman of our Board of Directors. In February 2006, the Company also appointed Mr. P S Raju as the second nominee of Infinity Capital to the Board of Directors.

We believe Infinity Satcom Universal Private Limited beneficially owned 8.15% of our equity shares as of March 31, 2011. Mr Ananda Raju Vegesna, Executive Director of the Company and brother of Mr Raju Vegesna, is the Director of Infinity Satcom. Infinity Satcom is presently controlled by Mr Raju Vegesna.

Director Compensation

Our Articles of Association provide that each of our directors may receive a sitting fee not exceeding the maximum limits prescribed under the provisions of the Indian Companies Act, 1956. Accordingly, our Directors, other than the Chairman and Managing Director and Executive Director, have been receiving Rs.20,000 for each Board and Committee meeting attended by them, effective October 2005. Mr Raju Vegesna, who is our Chairman, CEO and Managing Director, does not receive any compensation for his service on our Board of Directors. Similarly, Mr Ananda Raju Vegesna, who is employed as our Executive Director, also does not receive any compensation for his service on our Board of Directors. Directors are reimbursed for travel and out-of-pocket expenses in connection with their attendance at Board and Committee meetings. T. H. Chowdary, a Director of our Company, has been receiving Rs.20,000 per month effective February 1, 2004 for the technical services rendered by him to us, after obtaining requisite Governmental permission for the same.

Officer Compensation

The following table sets forth all compensation paid by us during the fiscal year ended March 31, 2011 to our executive officers

	Summary Compensation Table (Rs. Million)	
Name	**Salary(1)**	**Bonus**
C V S Suri	1.07	
Bhaskar R Sayyaparaju	6.35	
M P Vijay Kumar	7.09	
P J Nath	6.34	

Natesh Mani	5.10	
Pijush Kanti Das	2.28	1.05
Venkat Rao Mallineni	3.74	
Pranesh Babu K	4.06	0.65
C R Rao	3.32	0.49
David Appasamy	0.36	0.03
Ajith K N	0.30	0.02

(1) Includes provident fund contributions.

Table of Contents

As per the service contracts entered into with the employees (including executive officers), the Company provides the following retirement benefits: (a) Provident fund contributions and (b) Gratuity.

Provident fund contribution is a defined contribution plan governed by a statute in India. Under this, both employer and employee make monthly contributions (determined in relation to the basic salary of the respective employees) to a fund administered by the Government of India.

Gratuity is a defined benefit retirement plan covering all employees and provides for lump sum payment to employees at retirement or termination (computed based on the respective employees last drawn basic salary and years of employment with the Company). Liability for gratuity is accrued based on an actuarial valuation on an overall Company basis.

The Directors (who are not executive officers) are not entitled for any remuneration including any pension, retirement or similar benefit schemes.

The details of our contribution to provident fund in respect of the executive officers are set out below:

Name	Rs. in million
C V S Suri	0.08
Bhaskar R Sayyaparaju	0.30
M P Vijay Kumar	0.33
P J Nath	0.30
Natesh Mani	0.26
Pijush Kanti Das	0.07
Venkat Rao Mallineni	0.18
Pranesh Babu K	0.16
C R Rao	0.18
David Appasamy	0.01
Ajith K N	0.05

Gratuity expense is determined at an overall Company level based on an actuarial valuation performed by an independent actuary. Thus, the cost for the year ended March 31, 2011 in respect of gratuity and compensated absences towards executive officers of the Company was not separately determined. Gratuity cost relating to such executive officers is not estimated to be material.

We make bonus payments to employees including executive officers upon satisfactory achievement of the following two performance criteria.

(i) Performance of the Company: Represents bonus payable on achievement of overall revenue and net profit targets for the Company. These performance targets were not achieved for the year ended March 31, 2010 and no bonus was paid under this category.

(ii) Performance of the individual: Represents bonus payable on achievement of the individual s Key Responsibility Areas (KRA) and Key Performance Indicators (KPI). These KRAs and KPIs vary in relation to each employee including executive officers and include both financial and non-financial parameters.

We have provided for Rs.46.14 million ($1.03 million) towards bonus payable for the year ended March 31, 2011 to employees including executive officers who have achieved the KRAs and KPIs.

Table of Contents

Board Composition

Our Articles of Association set the minimum number of directors at three and the maximum number of directors at twelve. We currently have seven directors. The Indian Companies Act and our Articles of Association require the following:

- at least two-thirds of our directors shall be subject to re-election by our shareholders; and
- at least one-third of our directors who are subject to re-election shall be up for re-election at each annual meeting of our shareholders.

On July 15, 2005, we appointed Messrs. S.K. Rao and C.B. Mouli as independent Directors of the Board to comply with the applicable Nasdaq rules.

Mr S R Sukumara was appointed as an independent Director effective January 22, 2007. Dr T H Chowdary is also an independent director of the Board.

Each of these Directors (Messrs S.K.Rao, C.B.Mouli, S R Sukumara, T H Chowdary) continue to remain independent in accordance with Nasdaq rules.

The terms of Dr S K Rao expired at our Annual General Meeting held on September 28, 2011 and being eligible, they offered himself for reappointment. The shareholders have reappointed him for his next tenure.

The Company has service contracts with Mr. Raju Vegesna, Chief Executive Officer and Managing Director and Mr. Ananda Raju Vegesna, Executive Director. The Company does not have any service contract with any other Director of the Board of Directors. The service contracts with Mr. Raju Vegesna and Mr. Ananda Raju Vegesna do not provide for any benefits either during or upon termination of employment.

Board Committees

Details relating to Audit, Compensation and Nominating Committees of our board are provided below:

Audit Committee

Our Audit Committee is comprised of three independent directors, as determined under applicable Nasdaq rules. They are:

Mr C B Mouli;

Dr S K Rao; and

Mr S R Sukumara

The primary objective of the audit committee is to monitor and provide effective supervision of our financial reporting process with a view towards ensuring accurate, timely and proper disclosures and the transparency, integrity and quality of financial reporting. Our audit committee oversees the work carried out in the financial reporting process by our management, including the internal auditors and the independent auditor and reviews the processes and safeguards employed by each. In addition, our audit committee has the responsibility of oversight and supervision over our system of internal control over financial reporting, audit process, and process for monitoring the compliance with related laws and regulations. The audit committee recommends to our Board the appointment of our independent registered auditors and approves the scope of both audit and non-audit services. All members of the Audit Committee meet the independence requirements and majority of them meet financial literacy requirements as defined by applicable Nasdaq and SEC rules.

The Audit Committee held six meetings in person during fiscal 2011.

The Audit Committee has adopted a charter and it is reviewed annually.

Table of Contents

Compensation Committee

Our Compensation Committee consists entirely of non-executive, independent directors as determined under applicable Nasdaq rules, and consists of:

Dr T H Chowdary;

Dr S K Rao;

Mr S R Sukumara; and

Mr P S Raju

The Compensation Committee of the Board of Directors determines the salaries, benefits and stock option grants for our employees, consultants, directors and other individuals compensated by our Company. The Compensation Committee also administers our compensation plans.

The Compensation Committee held four meetings in person during fiscal 2011.

The Compensation Committee has adopted a charter and reviewed annually.

Nominating Committee

The Nominating Committee of the board consists exclusively of the following non-executive, independent directors as determined under applicable Nasdaq rules:

Dr T H Chowdary;

Dr S K Rao; and

Mr S R Sukumara

The purpose of our Nominations Committee is to oversee our nomination process for our top level management and specifically to identify, screen and review individuals qualified to serve as our Executive Directors, Non Executive Directors and Independent Directors consistent with criteria approved by our board and to recommend, for approval by our board, nominees for election at our annual general meeting of shareholders.

No meetings were held during the year 2010-11 as there was no requirement.

The Nominations Committee has adopted a charter.

Employees

As of March 31, 2011, we had 1,950 employees, compared with 1,885 as of March 31, 2010. Of our current employees, 106 are administrative, 358 form our sales and marketing staff, 53 are in product and content development, 1,390 are dedicated to technology and technical support, and 43 are in business process and customer care. None of our employees are represented by a union. We believe that our relationship with our employees is good.

Stock Ownership

The following table sets forth information with respect to the beneficial ownership of our equity shares as of September 30, 2011 by each director and our senior management executives. Beneficial ownership is determined in accordance with the rules of the SEC and includes voting and investment power with respect to equity shares. Unless otherwise indicated, the persons named in the table have sole voting and sole investment control with respect to all equity shares beneficially owned.

	Equity Shares Beneficially Owned	
Beneficial Owner	**Number**	**Percent**
Raju Vegesna *[(1)]	154,011,051	86.30%
T. H. Chowdary		
C B Mouli		
P S Raju		
S K Rao		
S R Sukumara		
C V S Suri		

A indicates no ownership.

(1) All 125,000,000 shares have been allotted to Mr. Vegesna and his affiliated entities, as all shares are issued and outstanding. However, pursuant to Indian law, Mr. Vegesna does not have voting power for the shares until such

shares have been fully paid. As of September 30, 2011, the entities affiliated with Mr. Vegesna had paid for 50% of the shares sold pursuant to the subscription agreement described elsewhere in this Annual Report, and his beneficial ownership is approximately 79%. As only 62,500,000 shares have the right to vote at this time, he may only vote those 62,500,000 shares.

Other than the above, none of the executive officers of the Company hold any shares in the Company.

Table of Contents

Employee Stock Option Plan

We have an Associate Stock Option Plan, or ASOP, which provides for the grant of options to employees of our Company. The ASOP 2007 was approved by our Board of Directors and our shareholders in September 2007 and 2,000,000 shares were reserved for issuance under the plan. This was in addition to the earlier ASOP Plans of 2000, 2002 and 2005. A total of 5.73 million equity shares are currently reserved for issuance under our ASOP Plans. As of March 31, 2011, we had outstanding an aggregate of 1,078,800 options (net of 81,801 options forfeited by employees) under our ASOP Plans with a weighted average exercise price equal to approximately Rs.146.58 ($3.28) per equity share.

The ASOP Plans are administered by the Compensation Committee of our Board of Directors. On the recommendation of the Compensation Committee, we issue option letters to identified employees, with the right to convert the issued options into our equity shares at the rates indicated in the options. The consideration for transfer of the options is Rs.1 per option to be paid by the employee before transfer of the options.

An employee holding options may apply for exercise of the options on a date specified therein which is referred to as the conversion date. The options are not transferable by an employee. The options lapse in the event of cessation of employment due to reasons of non-performance or otherwise. The equity shares transferred to the employee after conversion from options is the absolute property of the employee and will be held by the employee.

Item 7. Major Shareholders and Related Party Transactions

Principal Shareholders

The following table sets forth information with respect to the beneficial ownership of our equity shares as of September 30, 2011 by each person or group of affiliated persons who is known by us based on our review of public filings to beneficially own 5% or more of our equity shares. The table gives effect to equity shares issuable within sixty days upon the exercise of all options and other rights beneficially owned by the indicated shareholders on that date. Beneficial ownership is determined in accordance with the rules of the SEC and includes voting and investment power with respect to equity shares. Unless otherwise indicated, the persons named in the table have sole voting and sole investment control with respect to all equity shares beneficially owned. The information below is based on a review of filings made by such persons with the SEC.

Mr Raju Vegesna, the Co-Trustee of the Vegesna Family Trust, which is the owner of Infinity Capital Venture Management LLC, which is the general partner of Infinity Capital Ventures, LP, exercise voting control and dispositive power over the equity shares owned by Infinity Capital Ventures, LP. Mr Raju Vegesna, CEO and MD of our Company, is affiliated with Infinity Capital Ventures, LP.

Infinity Satcom Universal Private Limited is owned and controlled by Mr Raju Vegesna, Managing Director of the Company.

Ramanand Core Investment Company Private Limited is wholly owned subsidiary company of Raju Vegesna Infotech and Industries Private Limited which is owned and controlled by Infinity Satcom Universal Private Limited, which in turn is owned and controlled by Mr Raju Vegesna, Managing Director of the Company.

As of March 31, 2011, entities affiliated with our Chief Executive Officer, Raju Vegesna, beneficially owned approximately 86.30% of our outstanding equity shares, which includes the 125,000,000 shares (partly paid with proportionate voting rights) issued in connection with the private placement described below. This amount includes all of the shares issued in connection with the private placement. However, under Indian Law, shares that have not been fully paid are entitled to voting rights in proportion to the amount paid-up on those shares. As of September 30, 2011, the entities affiliated with Mr. Vegesna had paid for 50% of the shares sold pursuant to the subscription agreement described elsewhere in this Annual Report, and his beneficial ownership is approximately 79%.

	Equity Shares Beneficially owned	
Shareholder	**Number**	**Percent**
Infinity Capital Ventures, LP, 11601 Wilshire Boulevard, Suite 1900, Los Angeles, CA 90025	13,902,860	7.79

Vegesna Family Trust, LP, 11601 Wilshire Boulevard, Suite 1900, Los Angeles, CA, 90025	578,191	0.32
Infinity Satcom Universal Private Limited, Visakhapatnam	14,530,000	8.14
Ramanand Core Investment Company Private Limited, Visakhapatnam	125,000,000	70.05

Table of Contents

Details of significant change in the percentage ownership held by the major shareholders:

	2008-09		2009-10		2010-11	
Name of the shareholder	No. of shares	%	No. of shares	%	No. of shares	%
Infinity Capital Ventures, LP, USA	17,902,860	41.81	13,902,860	26.06	13,902,860	7.80
Vegesna Family Trust, USA	578,191	1.35	578,191	1.08	578,191	0.38
Infinity Satcom Universal Private Limited			14,530,000	27.24	14,530,000	8.15
Ramanand Core Investment Company Private Limited					125,000,000	70.09

Reference is drawn to note 42 to the Consolidated Financial Statement as regards the shareholding of M/s Ramanand Core Investment Company Private Limited. As on date, these shares are partly paid up to the extent of 50% of the face value and hence carry voting rights proportionate to the paid-up value of these shares.

The Company has not issued any shares having differential voting rights and hence the Company s major shareholders do not have differential voting rights, except for proportionate voting rights on the partly paid up shares.

United States Shareholders

As of March 31, 2011, 38,820,846 of our ADSs were held in the United States and we had approximately 20,574 shareholders in the United States. Each ADS represents one equity share.

Host country Shareholders

As on March 31, 2011, 139,530,652 of our equity shares were held in India and we had 23 shareholders on record in India. Each equity share has a par value of Rs.10/- each. Of the above, 125,000,000 shares were partly paid-up to the extent of Rs. 2.50 per share.

Control of Registrant

Based on our review of filings made with the SEC, we believe Infinity Capital Ventures, LP beneficially owned 7.80% of our equity shares as of March 31, 2011. This shareholder is a party to the Subscription Agreement dated November 10, 2005 with our Company. The Subscription Agreement provides that, among other things, the Company shall appoint Mr Raju Vegesna as the Chairman of the Board of Directors, Infinity Capital shall also nominate another person to the Board of Directors and for so long as Infinity Capital continues to own at least 10% of the Company s outstanding Equity Shares, the Company shall not enter into any agreement pursuant to which it would provide a third party with registration rights for Company securities, without the consent of Infinity Capital. In November 2005, Mr Raju Vegesna, a nominee of Infinity Capital Ventures, LP, was appointed as Chairman of our Board of Directors. In February 2006, the Company also appointed Mr. P S Raju as the second nominee of Infinity Capital to the Board of Directors.

Infinity Satcom Universal Private Limited, India also beneficially owned 8.15% of our equity shares as of March 31, 2011.

As of March 31, 2011, entities affiliated with our Chief Executive Officer, Raju Vegesna, beneficially owned approximately 86.30% of our outstanding equity shares, which includes the 125,000,000 shares issued in connection with the private placement described below.

These shareholders are presently able to exercise control over many matters requiring approval by our shareholders, including the election of directors and approval of significant corporate transactions. Under Indian law, a simple majority is sufficient to control all shareholder actions except for those items, which require approval by a special resolution. If a special resolution is required, the number of votes cast in favor of the resolution must be not less than three times the number of votes cast against it. Examples of actions that require a special resolution include:

- altering our Articles of Association;
- issuing additional shares of capital stock, except for *pro rata* issuances to existing shareholders;

commencing any new line of business; and

commencing a liquidation.

Circumstances may arise in which the interests of Infinity Capital Ventures, LP or Infinity Satcom Universal Private Limited or a subsequent purchaser of their shares could conflict with the interest of our other shareholders or holders of our ADSs. These shareholders could prevent or delay a change in control of our Company even if a transaction of that sort would be beneficial to our other shareholders, including the holders of our ADSs.

Table of Contents

On October 30, 2010, we consummated the issuance and sale of 125,000,000 of our equity shares in a private placement with our promoter group, including an entity affiliated with our Chairman and Chief Executive Officer, Mr Raju Vegesna. See note 42 in the notes to the financial statements in this Annual Report.

Forfeiture of equity shares issued in a private placement

During the year ended March 31, 2008, Sify proposed a scheme of amalgamation to merge Sify Communications Limited (erstwhile subsidiary) with the Company and made applications to the appropriate authorities in India for approval of the proposed scheme of amalgamation with a to take over the IP-VPN services from Sify Communications Limited (erstwhile subsidiary) upon the consummation of the merger. Under the provisions of the local telecom regulations, a Company engaged in the business of providing IP-VPN services was required to maintain Indian shareholding at least 26% of the total paid up share capital of the Company. In order to maintain the Indian shareholding at 26% in Sify consequent to the approval of the proposed scheme of amalgamation, Sify and Infinity Satcom Universal, an Indian entity (the Purchaser) entered into a Subscription Agreement (effective March 24, 2008), whereby the Company agreed to sell, and Infinity agreed to purchase, 12,817,000 equity shares of the Company (herein after referred to as the Share Purchase), at a per share purchase price of USD $4.46/ per share (referred to as the Purchased Shares), equivalent to Rs. 175/- per share in Indian Rupees.

In connection with the private placement of shares to Infinity Satcom Universal, the independent directors of the Board of the Directors waived the provision of the Standstill Agreement dated November 10, 2005 prohibiting Infinity Capital Ventures, Raju Vegesna and any Affiliate from acquiring additional shares of the Company. Each of Messrs. Raju Vegesna and Ananda Raju Vegesna abstained from voting on the waiver.

The Company received a sum of Rs.112,149 (comprising of Rs.12,817 towards face value and Rs.99,332 towards securities premium) and called up a sum of Rs.448,595 (comprising of Rs.25,634 towards face value and Rs.422,961 towards securities premium). Subsequent to fiscal 2008, the Company withdrew its applications made to appropriate authorities for the approval of the proposed scheme of amalgamation with Sify Communications Limited (erstwhile subsidiary). Consequent upon the withdrawal of the merger, Infinity Satcom Universal communicated to Sify that they would not contribute to calls already made and any balance monies which would become payable under the Subscription Agreement. Hence, the Board of Directors forfeited the shares allotted and the monies collected (Rs. 112,149 including sums towards capital and premium) at the meeting held on August 29,2008.

Sale of shares in a private transaction

Pursuant to a Share Purchase Agreement dated May 31, 2009 between Infinity Capital Venture Management and Infinity Satcom Universal Private Limited, a Company owned and controlled by Ananda Raju Vegesna, Executive Director of the Company and brother of Raju Vegesna, CEO & MD of the Company, Raju Vegesna has sold 4,000,000 Equity Shares of Rs.10/- each of the Company to Infinity Satcom for a consideration of USD 3,000,000 in a private transaction.

Merger of Sify Communications Limited with Sify Technologies Limited

In November 2008, the Board of Directors of Sify Technologies Limited and Sify Communications limited decided to merge Sify Communications with Sify Technologies in view of the benefits accruing due to synergy of combined operations, availing of tax benefits, maximizing the utilisation of the infrastructural facilities, human, financial and other resources etc. Based on a petition for the Scheme of Amalgamation filed with the High Court of Madras, India, the Court has approved the Scheme vide its order dated 26th June, 2009. Consequent upon the consummation of merger, the Company has taken over the assets and liabilities of Sify Communications (erstwhile subsidiary) and Sify Communications ceased to exist and got dissolved without winding up.

As per the Scheme, Sify Technologies has issued and allotted 10,530,000 Equity Shares of Rs.10/- each to Infinity Satcom, the only outside shareholder, towards the consideration for the assets and liabilities taken over by the Company.

Issuance of Equity Shares in private placement to the promoter group:

On October 30, 2010, we consummated the issuance and sale of 125,000,000 of our equity shares in a private placement with our promoter group, including an entity affiliated with our Chairman and Chief Executive Officer, Mr Raju Vegesna. See note 42 in the notes to the financial statements in this Annual Report.

69

Table of Contents

The proceeds from the proposed issue will be utilised for the ongoing capital expenditure and future expansion plans of the Company. As of March 31, 2011, we had received an aggregate of $22.40 million approximately of proceeds from the issuance. Although all 125,000,000 shares are deemed issued and outstanding, the unpaid portion of the equity shares issued pursuant to the subscription agreement do not have any voting rights and are not entitled to dividends, if declared. As of the date of this Annual Report, Mr. Vegesna has paid for half of the shares of the subscription and only has the right to vote 62,500,000 of those shares. The Board of Directors has the sole discretion as to the timing to require Mr. Vegesna to pay the balance of the subscription price.

Related Party Transactions

The related parties where control / significant influence exists are subsidiaries and associates. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director whether executive or otherwise.

In addition to the transactions described above regarding Mr. Raju Vegesna and Mr. Ananda Raju Vegesna, we engaged in the following transaction with an entity affiliated with Mr. Raju Vegesna.

VALS Developers Private Limited (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, was holding 94.66% equity in his personal capacity. During the year ended March 31, 2009, 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 and executed, 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 the incremental five year terms. In connection with this memorandum of understanding, 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 15 months from the commencement of lease term. It is customary in India that whenever a premises is taken up on lease for commercial purpose, a rental advance is paid in multiple months of rent (e.g.) 10 months of rent, which shall be refunded at the time of vacating the premises without any interest. On October 30, 2010,with the consent of VALS, the Board of Directors have cancelled the Agreement for Sub lease and has decided to acquire the building along with land directly through acquisition of Pace Info Com Park Private Limited (PACE), an unrelated third party, which is the owner of the land and building for total consideration of Rs.1,140,000. The above deposits would be adjusted against the consideration payable for acquiring the shares of Pace.

The Company has entered has into a lease agreement with Ms Radhika Vegesna, Daughter of Mr Anand Raju Vegesna, Executive Director of the company, to lease the premises owned by her for a period of three years effective June 1, 2010 on a rent of Rs.256 per month and payment of refundable security deposit of Rs.2,558. This arrangement will be automatically renewed for a further period of two blocks of three years with all the terms remaining unchanged. Also refer note 37.

Loans to employees

We provide salary advances to our employees in India who are not executive officers or directors. The annual rate of interest for these loans is 0%. As of March 31, 2011, there were no loans outstanding from any employees.

Item 8. Financial Information

Financial Statements

We have elected to provide financial statements pursuant to Item 18 of Form 20-F. No significant change has occurred since the date of our annual financial statements for fiscal 2010.

Legal Proceedings

(a) 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 the 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 the Sify s ADSs from the time of the Sify s Initial Public Offering (IPO) in October 1999 through December 2000. The central allegation in this action is that the underwriters in the Sify s IPO solicited and received undisclosed commissions from, and

entered into undisclosed arrangements with, certain investors who purchased the 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.

Table of Contents

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 Sify 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 Sify 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 Sify. On June 26, 2003, the plaintiffs in the consolidated IPO class action lawsuits currently pending against the 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 Sify 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. On April 2, 2009, the parties lodged with the Court a motion for preliminary approval of a proposed settlement between all parties, including Sify and its former officers and directors. The proposed settlement provides the plaintiffs with $586 million in recoveries from all defendants. Under the proposed settlement, the Issuer Defendants collectively would be responsible for $100 million, which would be paid by the Issuers insurers, on behalf of the Issuer Defendants and their officers and directors.

Accordingly, any direct financial impact of the proposed settlement is expected to be borne by the Sify s insurers. On June 12, 2009, the Federal District Court granted preliminary approval of the proposed settlement. On October 6, 2009, the District Court issued an order granting final approval of the settlement. Subsequent to the final approval of Settlement agreement by the District court, there are several notices of appeal filed. Most were filed by the same parties that objected to the settlement in front of the District Court. These will likely be consolidated into a single appeal and briefing schedule will be provided shortly. Any direct financial impact of the preliminary approved settlement is expected to be borne by the Sify s insurers. Sify believes, the maximum exposure under this settlement is approximately USD 338,983, an amount which it believes is fully recoverable from the it s insurers.

b) Proceedings before Department of Telecommunications

(i) License fees

On October 12, 2009 (as later clarified by the DoT), the Department of Telecommunications (DOT) raised a demand on the Company for INR 14 million after correcting the arithmetical error in the Assessment letter.

On February 26, 2010 DOT raised a demand on Sify Communications (erstwhile subsidiary merged with this Company) for INR 26 million.

The above demands were made by the DoT on the premise that all amounts of income (whether direct or indirect) including certain items like other income, interest on deposits, gain on foreign exchange fluctuation, profit on sale of assets & provision written back, that have not got anything to do with telecom operations of the Company or arise in connection with the Telecom business of the Company, are to be considered as income for the purpose of calculation of the license fee.

The Company has responded to the above demand notices stating that the above demands are not tenable as the demands were not in accordance with the Telecom Disputes Settlement & Appellate Tribunal (TDSAT) Order, in which Order the TDSAT has clarified in its order that the items of income which are liable for license fee and items of income on which license fees are not liable to be paid. The TDSAT Order however has been challenged and is presently pending before the Supreme Court. Till such time the Supreme Court pronounces its final verdict on this case, the TDSAT Order continues to be in force and the Company currently continues to pay the license fee in accordance with the TDSAT Order. The Company believes that it has adequate legal defenses for these demands and the ultimate outcome of these actions will not have a material adverse effect on the Company.

Table of Contents

(ii) In November 2009, the Company received a demand notice pertaining to the allocation of spectrum in the 3.3-3.4 GHz frequency, from DoT, demanding INR 345 million (US $7.68 million) towards spectrum charges payable from the date of issue of allocation letter for 170 Base Stations. As per the notice, in case no payment is received within 15 days from the date of issue of the notice, then it would be presumed that the Company is no longer interested for the frequency assignments in 3.3-3.4 GHz band.

Whilst the Company received allotment letter for Spectrum in 3.3 GHz band (3303.5/3353.5 MHz) (Total 12 MHz) the Company had neither started any operations in this frequency band nor had applied for any Operating License from DOT/ Wireless Planning Commission (WPC). Sify believes that the obligation to make payment will arise only after obtaining the operating license from DOT/WPC. It also believes that it has adequate legal defence for these demands, as the Company has not yet obtained any operative license, hence such demand is not tenable. Nevertheless, the Company has as a commitment to hold and use the spectrum in the above band has paid INR 11.56 million towards 40 Base Stations and has surrendered the remaining 130 Base Stations. The Company believes that the ultimate outcome of these actions will not have a material adverse effect.

c) The Group is party to additional legal actions arising in the ordinary course of business. Based on the available information, as at March 31, 2011, Sify believes that it has adequate legal defences for these actions and that the ultimate outcome of these actions will not have a material adverse effect. However in the event of adverse judgement in all these cases, the maximum financial exposure would be Rs 9,051 (March 31, 2010: Rs 9,051).

Dividends

We have not declared or paid any cash dividends on our equity shares since inception and do not expect to pay any cash dividends for the foreseeable future. We currently intend to retain future earnings, if any, to finance the expansion of our business. Investors seeking cash dividends should not purchase our ADSs.

Under Indian law, a corporation may pay dividends upon a recommendation by its Board of Directors and approval by a majority of its shareholders. Any future cash dividends on our equity shares represented by ADSs will be paid to the depository in rupees and will generally be converted into dollars by the depository and distributed to holders of ADSs, net of the depository s fees and expenses.

Item 9. The Offer and Listing

Trading Markets

There is no public market for our equity shares in India, the United States or any other market. Our ADSs evidenced by American Depository Receipts, or ADRs, are traded in the United States only on the Nasdaq Global Market. Each ADS represents one equity share. The ADRs evidencing ADSs were issued by our depository, Citibank, N.A., pursuant to a Deposit Agreement.

Price History

Our ADSs commenced trading on the Nasdaq Market on October 19, 1999. The tables below set forth, for the periods indicated, high and low trading prices for our ADSs in United States dollars:

Prior Fiscal Years

Fiscal year ended	High $	Low $
March 31, 2011	3.89	1.18
March 31, 2010	1.76	1.59
March 31, 2009	5.30	0.42
March 31, 2008	10.47	4.00
March 31, 2007	14.78	7.43

72

Table of Contents

Fiscal year ended March 31, 2010	High $	Low $
First Quarter	1.74	1.66
Second Quarter	2.26	2.17
Third Quarter	1.75	1.70
Fourth Quarter	1.76	1.59

Fiscal year ended March 31, 2011	High $	Low $
First Quarter	1.91	1.30
Second Quarter	3.22	1.18
Third Quarter	3.05	1.66
Fourth Quarter	3.89	2.12

Most recent six months

Month	High Rs.	Low Rs.
September 2011	5.05	3.99
August 2011	5.67	4.00
July 2011	6.42	3.99
June 2011	5.98	3.86
May 2011	8.04	4.23
April 2011	8.54	3.61

Item 10. Additional Information

Our authorized share capital is Rs. 1800,000,000, divided into 180,000,000 Equity Shares, having a par value Rs.10 per share. As of March 31, 2011, 178,351,498 Equity Shares were issued, outstanding, of which 125,000,000 Equity Shares were partly paid and the balance fully paid, compared to 53,351,498 Equity Shares as of March 31, 2010. During the fiscal year ended March 31, 2011, the Company had issued 125,000,000 equity shares, par value Rs.10 per share to Raju Vegesna Infotech and Industries Private Limited, and entity controlled by Raju Vegesna, in a private placement.

The equity shares are our only class of share capital. Some of the share capital, 24,445,891 shares, is represented by American Depository Shares issued by our Company in accordance with applicable laws and regulations. Our Articles of Association and the Indian Companies Act permit us to issue classes of securities in addition to the equity shares. For the purposes of this annual report, shareholder means a shareholder who is registered as a member in the register of members of our Company. The term shareholders and ADSs holders have the same meaning in this annual report since the Indian Companies Act only defines a shareholder.

A total of 5.73 million equity shares are reserved for issuance under our Associate Stock Option Plans (ASOPs). As of March 31, 2011, we had outstanding an aggregate of 841,200, options (net of 81,801 options forfeited by employees) under our ASOP with a weighted average exercise price equal to approximately Rs.146.58 ($3.28) per equity share. The unamortized stock compensation expense related to these grants amounted to Rs 12.71 million as of March 31, 2011.

During the fiscal year ended March 31, 2004, Venture Tech, who had subscribed for the shares of our Company in terms of an Investor Rights Agreement, sold 2,017,641 shares reducing their holding from 15.9% to 10.1% and SAIF sold 4,750,000 shares reducing their holding from 21.6% to 8%.

During the fiscal year ended March 31, 2005, Venture Tech sold an additional 783,326 shares reducing their holding from 10.1% to 7.7% and SAIF sold an additional 800,000 shares reducing their holding from 8% to 5.68%.

At the Extraordinary General Meeting of our shareholders held on December 23, 2005, the shareholders had approved by a Special Resolution the issue and allotment of 4.97 million equity shares of the par value of Rs.10/- per share at

such price as may be determined to the public in India as the initial public offer to comply with the statutory requirement of domestic listing of the shares of our Company, as and when announced by the Government of India.

Table of Contents

During the fiscal year ended March 31, 2006, Venture Tech sold the remaining 2,750,000 shares of our Company and SAIF sold the remaining 2,008,140 shares of our Company. Satyam Computer Services had divested their entire holding of 11,182,600 shares in the Company to Infinity Capital Ventures, LP through a sponsored ADS programme arranged by us. Further, Infinity Capital, pursuant to the Subscription Agreement dated November 10, 2005 acquired another 6,720,260 shares of the Company in a private transaction. On conclusion of this transaction, the issued and outstanding share capital of our Company was 42,389,514 equity shares, with a par value of Rs.10/- per share.

During the fiscal year ended March 31, 2008, Infinity Satcom Universal Private Limited has entered into a Subscription Agreement for the subscription of 12,817,000 additional equity shares of the Company with par value of Rs.10/- per share at a premium of Rs 165/- per share.

On March 24, 2008, the Company received a sum of Rs 112.14 million (comprising of Rs 12.81 towards face value and Rs 99.33 million towards securities premium / share premium). Subsequently, Infinity Satcom Universal communicated to the Company vide their letter dated August 27, 2008 that consequent to the merger petition of Sify Communications Limited amalgamating with Sify Technologies Limited has been withdrawn from the High Court of Madras, that they would focus their attention on the business of Sify Communication Limited and hence shall not contribute the balance money towards the subscription of 12,817,000 Equity Shares on call. On August 29, 2008, the Board of Directors, forfeited the shares allotted and the application monies collected (Rs. 112.14 million including sums towards capital and premium).

Pursuant to a Share Purchase Agreement dated May 31, 2009 between Raju Vegesna and Infinity Satcom Universal Private Limited, a Company owned and controlled by Ananda Raju Vegesna, Executive Director of the Company and brother of Raju Vegesna, CEO & MD of the Company, Raju Vegesna has sold 4,000,000 Equity Shares of Rs.10/- each of the Company to Infinity Satcom for a consideration of USD 3,000,000 in a private transaction.

In November 2008, the Board of Directors of Sify Technologies Limited and Sify Communications limited decided to merge Sify Communications with Sify Technologies. Based on a petition for the Scheme of Amalgamation filed with the High Court of Madras, India, the Court has approved the Scheme vide its order dated June 26, 2009. Consequent upon the consummation of merger, the Company has taken over the assets and liabilities of Sify Communications (erstwhile subsidiary) and has issued and allotted 10,530,000 Equity Shares of Rs.10/- each to Infinity Satcom, the only outside shareholder, towards the consideration for the assets and liabilities taken over by the Company.

On October 30, 2010, we consummated the issuance and sale of 125,000,000 of our equity shares in a private placement with our promoter group, including an entity affiliated with our Chairman and Chief Executive Officer, Mr Raju Vegesna. These shares carry voting rights proportionate to the amount paid-up on these shares. Further, company has a lien on these shares till the shares are fully paid-up. Also refer note 42 to the consolidated financial statements.

Memorandum and Articles of Association

Set forth below is the material information concerning our share capital and a brief summary of the material provisions of our Articles of Association, Memorandum of Association and the Indian Companies Act, all as currently in effect. The following description of our equity shares and the material provisions of our Articles of Association and Memorandum of Association does not purport to be complete and is qualified in its entirety by our Memorandum of Association and Articles of Association that are incorporated by reference to this Annual Report on Form 20-F.

Objects of Memorandum of Association

The following is a summary of our Objects as set forth in Section 3 of our Memorandum of Association:

1. To develop and provide Internet service, Internet Telephony, Infrastructure based services, Virtual Private Network and other related data, voice and video services, wide area communication network, value added services on the network, lease or other transfers of network, software, peripherals and related products, and to provide marketing services.

2. To provide security products for corporate, carry on the business of consulting, software and hardware, integrated platform(s) for the e-commerce solutions, applications, information technology, security and all other kinds of technology solutions or services, and to acquire, maintain, operate, manage and undertake technology and infrastructure for this purpose.

3 To develop, service & sell/lease data based through direct or electronic media, to develop a wide area communication network of sell / lease the network or provide value added services on the network to develop, service, buy / sell computers, software, peripherals and related products to provide marketing services rising direct as well as electronic media;

Table of Contents

4 To undertake the designing and development of systems and applications software either for its own use or for sale in India or for export outside India and to design and develop such systems and application software for or on behalf of manufacturers, owners and users of computer systems and digital / electronic equipment s in India or elsewhere in the world;

5 To set up and run electronic data processing centres and to carry on the business of data processing, word processing, software consultancy, system studies, management consultancy, techno-economic feasibility studies of projects, design and development of management information systems, share / debenture issues management and / or registration and share/debenture transfer agency;

6. To undertake and execute feasibility studies for Computerisation, setting up of all kind of computer systems and digital/electronic equipment s and the selection, acquisition and installation thereof whether for the Company or its customers or other users;

7 To conduct, sponsor or otherwise participate in training programmes, courses, seminar conferences in respect of any of the objects of the Company and for spreading or imparting the knowledge and use of computers and computer programming languages including the publication of books, journals, bulletins, study / course materials, circulars and news-letters; and to undertake the business as agents, stockist, distributors, franchise holders or otherwise for trading or dealing in computer systems, peripherals, accessories, parts and computer consumables, continuous and non-continuous stationery, ribbons and other allied products and things and standard software packages.

8 To conduct e-commerce for sale of all kinds of products and services through direct or electronic media as well as on and off line e-commerce including travel related services, buying and selling of products and services / merchandise, software, data information etc., in India and abroad.

Our Articles of Association provide that the minimum number of directors shall be 3 and the maximum number of directors shall be 12. Currently, we have 7 directors. Our Articles of Association provide that at least two-thirds of our directors shall be subject to re-election by our shareholders; and. at least one-third of our directors who are subject to re-election shall be up for re-election at each Annual General Meeting of the shareholders.

Our Articles of Association do not require that our directors have to hold shares of our Company in order to serve on our board of directors.

Our Articles of Association provide that any director who has a personal interest in a transaction must disclose such interest, must abstain from voting on such a transaction and may not be counted for the purposes of determining whether a quorum is present at the meeting. Such director s interest in any such transaction shall be reported at the next meeting of shareholders. The remuneration payable to our directors may be fixed by the board of directors in accordance with provisions prescribed by the Government of India. Our Articles of Association provide that our board of directors may generally borrow or secure the payment of any sum of money for our business purposes, provided, however, where any amounts are to be borrowed, that when combined with any already outstanding debt, exceed the aggregate of our paid-up capital and free reserves, we cannot borrow such amounts without the consent of our shareholders.

Board of Directors

In terms of the provisions of the Articles of Association of the Company and the Indian Companies Act, 1956:

(a) no director of the Company can vote on a proposal, arrangement or contract in which he is materially interested;

(b) the directors of the Company cannot vote on a proposal in the absence of an independent quorum for compensation to themselves or their body;

(c)

each of our directors is entitled to receive a sitting fee not exceeding Rs.20,000 for every meeting of the Board of Directors and each meeting of a Committee of the Board of Directors, as well as all traveling and out-of-pocket expenses incurred in attending such meetings;

(d) the directors are empowered to borrow moneys through board meetings up to the prescribed limit and beyond that with the approval of the shareholders through a General Meeting;

(e) retirement of directors are determined by rotation and not based on age limit; and

(f) no director is required to hold any qualification shares.

Table of Contents

For additional information, please see Item 6. Director, Senior Management and Employees Board Composition, -Board Committees and -Director Compensation, and -Officer Compensation of this Annu Report on Form 20-F.

Dividends

Under the Indian Companies Act, unless our Board of Directors recommends the payment of a dividend which is then declared by our shareholders in a general meeting, we may not declare a dividend. However, the board is not obliged to recommend a dividend. Similarly, under our Articles of Association and the Indian Companies Act, although the shareholders may, at the annual general meeting, approve a dividend in an amount less than that recommended by the Board of Directors, they cannot increase the amount of the dividend. In India, dividends generally are declared as a percentage of the par value of a Company s equity shares. The dividend recommended by the Board of Directors, and thereafter declared by the shareholders in general meeting and subject to the limitations described above, is required to be distributed and paid to shareholders in proportion to the paid up value of their shares within 30 days of the declaration by the shareholders at the annual general meeting. Pursuant to our Articles, our Board of Directors has the discretion to declare and pay interim dividends without shareholder approval. Under the Indian Companies Act, dividends can only be paid in cash to the registered shareholder, the shareholder s order or the shareholder s banker s order, at a record date fixed on or prior to the date of the Annual General Meeting. We must inform the stock exchanges on which our equity shares and ADSs are listed on the record date for determining the shareholders who are entitled to receive dividends.

The Indian Companies Act provides that any dividends that remain unpaid or unclaimed after the 30-day period from the date of declaration of a dividend are to be transferred to a special bank account opened by the Company at an approved bank. We have to transfer any dividends that remain unclaimed for seven years from the date of the transfer to an Investor Education and Protection Fund established by the Government of India under the provisions of the Indian Companies Act. After the transfer to this fund, such unclaimed dividends may not be claimed.

With respect to equity shares issued during a particular fiscal year (including any equity shares underlying ADSs issued to the depository), cash dividends declared and paid for such fiscal year generally will be prorated from the date of issuance to the end of such fiscal year.

Under the Indian Companies Act, dividends may be paid out of profits of a Company in the year in which the dividend is declared or out of the undistributed profits of previous fiscal years after providing for depreciation. Before declaring a dividend greater than 10% of the par value of its equity shares, a Company is required under the Indian Companies Act to transfer to its reserves a minimum percentage of its profits for that year, ranging from 2.5% to 10% depending upon the dividend percentage to be declared in such year.

The Indian Companies Act further provides that, in the event of an inadequacy or absence of profits in any year, a dividend may be declared for such year out of the Company s accumulated profits that has been transferred to its reserves, subject to the following conditions:

- the rate of dividend to be declared may not exceed 10% of its paid up capital or the average of the rate at which dividends were declared by the Company in the prior five years, whichever is less;

- the total amount to be drawn from the accumulated profits earned in the previous years and transferred to the reserves may not exceed an amount equivalent to 10% of its paid up capital and free reserves, and the amount so drawn is to be used first to set off the losses incurred in the fiscal year before any dividends in respect of preference or equity shares are declared; and

- the balance of reserves after withdrawals shall not fall below 15% of its paid up capital.

Table of Contents

Voting Rights

At any general meeting, voting is by show of hands unless a poll is demanded by a shareholder or shareholders present in person or by proxy holding at least 10% of the total shares entitled to vote on the resolution or by those holding shares with an aggregate paid up capital of at least Rs.50,000. Upon a show of hands, every shareholder entitled to vote and present in person has one vote and, on a poll, every shareholder entitled to vote and present in person or by proxy has voting rights in proportion to the paid up capital held by such shareholders. The Chairperson has a casting vote in the case of any tie.

Any shareholder of the Company entitled to attend and vote at a meeting of the Company may appoint a proxy. The instrument appointing a proxy must be delivered to us at least 48 hours prior to the meeting. Unless the articles of association otherwise provide, a proxy may not vote except on a poll. A corporate shareholder may appoint an authorized representative who can vote on behalf of the shareholder, both upon a show of hands and upon a poll. An authorized representative is also entitled to appoint a proxy.

Ordinary resolutions may be passed by simple majority of those present and voting at any general meeting for which the required period of notice has been given. However, specified resolutions such as amendments to our Articles and the Memorandum of Association, commencement of a new line of business, the waiver of preemptive rights for the issuance of any new shares and a reduction of share capital, require that votes cast in favor of the resolution (whether by show of hands or on a poll) are not less than three times the number of votes, if any, cast against the resolution by members so entitled and voting. As per the Indian Companies Act, unless the articles of association of a Company provide for all directors to retire at every annual general meeting, not less than two-third of the directors of a public Company must retire by rotation, while the remaining one-third may remain on the board until they resign or are removed. Our Articles of Association require two thirds of our Directors to retire by rotation. One-third of the directors who are subject to retirement by rotation must retire at each Annual General Meeting. Further, the Indian Companies Act requires certain resolutions such as those listed below to be voted on only by a postal ballot:

amendments of the memorandum of association to alter the objects of the Company and to change the registered office of the Company under section 146 of the Indian Companies Act;

the issuance of shares with differential rights with respect to voting, dividend or other provisions of the Indian Companies Act;

the sale of the whole or substantially the whole of an undertaking or facilities of the Company;

providing loans, extending guarantees or providing a security in excess of the limits allowed under Section 372A of the Indian Companies Act;

varying the rights of the holders of any class of shares or debentures;

the election of a director by minority shareholders; and

the buyback of shares.

Bonus Shares

In addition to permitting dividends to be paid out of current or retained earnings as described above, the Indian Companies Act permits us to distribute an amount transferred from the reserve or surplus in our profit and loss account to our shareholders in the form of bonus shares, which are similar to a stock dividend. The Indian Companies Act also permits the issuance of bonus shares from a share premium account. Bonus shares are distributed to shareholders in the proportion recommended by the Board. Shareholders of record on a fixed record date are entitled to receive such bonus shares.

Consolidation and Subdivision of Shares

The Indian Companies Act permits a Company to split or combine the par value of its shares, provided such split or combination is not made in fractions. Shareholders of record on a fixed record date are entitled to receive the split or

combination.

Preemptive Rights and Issue of Additional Shares

The Indian Companies Act gives shareholders the right to subscribe for new shares in proportion to their respective existing shareholdings unless otherwise determined by a special resolution passed by a General Meeting of the shareholders. Under the Indian Companies Act, in the event of an issuance of securities, subject to the limitations set forth above, a Company must first offer the new shares to the shareholders on a fixed record date. The offer must include: (i) the right, exercisable by the shareholders of record, to renounce the shares offered in favor of any other person; and (ii) the number of shares offered and the period of the offer, which may not be less than 15 days from the date of offer. If the offer is not accepted it is deemed to have been declined and thereafter the board of directors is authorized under the Indian Companies Act to distribute any new shares not purchased by the preemptive rights holders in the manner that it deems most beneficial to the Company.

Table of Contents

Annual General Meetings of Shareholders

We must convene an annual general meeting of shareholders each year within 15 months of the previous annual general meeting or within six months of the end of previous fiscal year, whichever is earlier and may convene an extraordinary general meeting of shareholders when necessary or at the request of a shareholder or shareholders holding at least 10% of our paid up capital carrying voting rights. In certain circumstances a three month extension may be granted by the Registrar of Companies to hold the Annual General Meeting. The Annual General Meeting of the shareholders is generally convened by our Company Secretary pursuant to a resolution of the board of directors. In addition, the Board may convene an Extraordinary General Meeting of shareholders when necessary or at the request of a shareholder or shareholders holding at least 10% of our paid up capital carrying voting rights. Written notice setting out the agenda of any meeting must be given at least 21 days prior to the date of the General Meeting to the shareholders of record, excluding the days of mailing and date of the meeting. Shareholders who are registered as shareholders on the date of the General Meeting are entitled to attend or vote at such meeting. The Annual General Meeting of shareholders must be held at our registered office or at such other place within the city in which the registered office is located, and meetings other than the Annual General Meeting may be held at any other place if so determined by the board of directors.

Our Articles provide that a quorum for a general meeting is the presence of at least five shareholders in person.

2011 Annual General Meeting

Our Annual General Meeting for the fiscal year 2011 was held on September 28, 2011 at the registered office of our Company, 2nd Floor, Tidel Park, 4 Rajiv Gandhi Salai, Taramani, Chennai 600 113, India.

At the Annual General Meeting, the shareholders have approved the following items:

Adopted of audited financials for the year ended March 31, 2011 as per Indian GAAP.

Reappointment of Dr S K Rao as director.

Appointment of M/s ASA & Associates as statutory auditors in the place of M/s CKS Associates.

Limitations on the Rights to Own Securities

The limitations on the rights to own securities of Indian companies, including the rights of non-resident or foreign shareholders to hold securities, are discussed in the section entitled Ownership Restrictions below.

Register of Shareholders; Record Dates; Transfer of Shares

We maintain a register of shareholders as required under the Indian Companies Act, 1956. For the purpose of determining the shares entitled to annual dividends, the register is closed for a specified period prior to the annual general meeting. The date on which this period begins is the record date.

To determine which shareholders are entitled to specified shareholder rights such as dividend, we may close the register of shareholders. The Indian Companies Act requires us to give at least seven days prior notice to the public before such closure. We may not close the register of shareholders for more than thirty consecutive days, and in no event for more than forty-five days in a year.

Following the introduction of the Depositories Act, 1996, and the repeal of Section 22A of the Securities Contracts (Regulation) Act, 1956, which enabled companies to refuse to register transfers of shares in some circumstances, the equity shares of a public Company are freely transferable, subject only to the provisions of Section 111A of the Indian Companies Act and the listing agreement entered into between the Company and relevant stock exchange on which the shares of the Company are listed. Since we are a public Company under Indian law, the provisions of Section 111A will apply to us. Our Articles currently contain provisions, that give our directors discretion to refuse to register a transfer of shares in some circumstances. According to our Articles, our directors are required to exercise this right in the best interests of our Company. While our directors are not required to provide a reason for any such refusal in writing, they must give notice of the refusal to the transferee within two months after receipt of the application for registration of transfer by our Company. In accordance with the provisions of Section 111A(2) of the Indian Companies Act, our directors may exercise this discretion if they have sufficient cause to do so. If our directors refuse to register a transfer of shares, the shareholder wishing to transfer his, her or its shares may file a civil suit or an appeal with the Company Law Board or CLB/Tribunal.

Pursuant to Section 111A(3), if a transfer of shares contravenes any of the provisions of the Indian Companies Act and Securities and Exchange Board of India Act, 1992 or the regulations issued there under or the Sick Industrial Companies (Special Provisions) Act, 1985 or any other Indian laws, the CLB/Tribunal may, on application made by the relevant Company, a depository incorporated in India, an investor, a participant, or the Securities and Exchange Board of India or other parties, direct the rectification of the register, record of members and/or beneficial owners. Pursuant to Section 111A(4),the CLB/Tribunal may, in its discretion, issue an interim order suspending the voting rights attached to the relevant shares before making or completing its investigation into the alleged contravention. Notwithstanding such investigation, the rights of a shareholder to transfer the shares will not be restricted.

Table of Contents

Under the Indian Companies Act, unless the shares of a Company are held in a dematerialized form, a transfer of shares is effected by an instrument of transfer in the form prescribed by the Indian Companies Act and the rules there under together with delivery of the share certificates. Our transfer agent is Citibank, N.A. Mumbai branch.

Disclosure of Ownership Interest

Section 187C of the Indian Companies Act requires holders on record who do not hold beneficial interests in shares of Indian companies to declare to the Company certain details, including the nature of the holder s interest and details of the beneficial owner. Any person who fails to make the required declaration within 30 days may be liable for a fine of up to Rs. 1,000 for each day the declaration is not made. Any charge, promissory note or other collateral agreement created, executed or entered into with respect to any share by the ostensible owner thereof, or any hypothecation by the ostensible owner of any share, pursuant to which a declaration is required to be made under Section 187C, shall not be enforceable by the beneficial owner or any person claiming through the beneficial owner if such declaration is not made. Failure to comply with Section 187C will not affect the obligation of the Company to register a transfer of shares or to pay any dividends to the registered holder of any shares pursuant to which such declaration has not been made.

Audit and Annual Report

Under the Indian Companies Act, a Company must file its annual report with the Registrar of Companies within 7 months from the close of the accounting year or within 30 days from the date of the Annual General Meeting, whichever is earlier. At least 21 days before the annual general meeting of shareholders excluding the days of mailing and receipt, we must distribute to our shareholders a detailed version of our audited balance sheet, profit and loss account and cash flow statement and the related reports of the Board and the auditors, together with a notice convening the annual general meeting. These materials are also generally made available at our corporate website, *www.sifycorp.com*. Under the Indian Companies Act, we must file the balance sheet and annual profit and loss account presented to the shareholders within 30 days of the conclusion of the annual general meeting with the Registrar of Companies in Tamil Nadu, India, which is the state in which our registered office is located. We must also file an annual return containing a list of our shareholders and other information within 60 days of the conclusion of the meeting.

As per the directive of the Ministry of Corporate Affairs, Government of India, effective fiscal year ended March 31, 2011 onwards, the Company is required to file the audited financials in Extensible Business Reporting Language (XBRL) mode by using XBRL taxonomy.

Company Acquisition of Equity Shares

A Company may, under some circumstances, acquire its own equity shares without seeking the approval of the High Court. However, a Company would have to extinguish the shares it has so acquired within the prescribed time period. Generally, a Company is not permitted to acquire its own shares for treasury operations. An acquisition by a Company of its own shares (without having to obtain the approval of the High Court) must comply with prescribed rules, regulations and conditions as laid down in the Indian Companies Act and the Securities and Exchange Board of India (Buy-back of Securities) Regulations, 1998, or Buy-back Regulations.

Any ADS holder may participate in a Company s purchase of its own shares by withdrawing his or her ADSs from the depository facility, acquiring equity shares upon the withdrawal and then selling those shares back to the Company. There can be no assurance that equity shares offered by an ADS investor in any buyback of shares by us will be accepted by us. The regulatory approvals required for ADS holders to participate in a buyback are not entirely clear. ADS investors are advised to consult their legal advisors for advice prior to participating in any buyback by us, including advice related to any related regulatory approvals and tax issues.

Liquidation Rights

Subject to the rights of creditors, employees and the holders of any shares entitled by their terms to preferential repayment over the equity shares and taxes, if any, as may be prescribed under the Indian Companies Act, in the event of our winding-up the holders of the equity shares are entitled to be repaid the amounts of paid up capital or credited as paid up on those equity shares. All surplus assets after payments due to the holders of any preference shares at the commencement of the winding-up shall be paid to holders of equity shares in proportion to their shareholdings.

79

Table of Contents

Redemption of Equity Shares

Under the Indian Companies Act, equity shares are not redeemable.

Discriminatory Provisions in Articles

There are no provisions in our Articles of Association discriminating against any existing or prospective holder of such securities as a result of such shareholder owning a substantial number of shares.

Alteration of Shareholder Rights

Under the Indian Companies Act, and subject to the provisions of the articles of association of a Company, the rights of any class of shareholders can be altered or varied (i) with the consent in writing of the holders of not less than three-fourths of the issued shares of that class; or (ii) by special resolution passed at a separate meeting of the holders of the issued shares of that class. In the absence of any such provision in the articles, such alteration or variation is permitted as long as it is not prohibited by the agreement governing the issuance of the shares of that class.

Under the Indian Companies Act, the articles of association may be altered by a special resolution of the shareholders

Provisions on Changes in Capital

Our authorized capital can be altered by an ordinary resolution of the shareholders in a General Meeting. The additional issue of shares is subject to the preemptive rights of the shareholders. In addition, a Company may increase its share capital, consolidate its share capital into shares of larger face value than its existing shares or sub-divide its shares by reducing their par value, subject to an ordinary resolution of the shareholders in a General Meeting.

Material Contracts

See the agreements listed in Item 7, Major Shareholders and Related Party Transactions regarding our material contracts involving certain of our officers and directors.

Exchange Controls

General

The subscription, purchase and sale of shares of an Indian Company by Person Resident outside India (non-residents) are governed by various Indian laws regulating the transfer or issue of Securities by the Company to non-residents. These regulations have been progressively relaxed in recent years. Set forth below is a summary of various forms of investment, and the regulations applicable to each, including the requirements under Indian law applicable to the issuance of ADSs.

Foreign Direct Investment

Foreign Direct Investment (FDI) in India is governed by the FDI Policy announced by the Government of India and the provisions of the Foreign Exchange Management Act (FEMA), 1999. Reserve Bank has issued Notification No. FEMA 20 /2000-RB dated May 3, 2000 which contains the Regulations in this regard. This Notification has been amended from time to time. The various amendments are compiled every year in Master Circulars. In terms of Master Circular issued in July 1, 2009, FDI is freely permitted in almost all sectors. Under the FDI Scheme, investments can be made by non-residents in the shares / convertible debentures / preference shares of an Indian Company, through two routes; the Automatic Route and the Government Route. Under the Automatic Route, the foreign investor or the Indian Company does not require any approval from the Reserve Bank or Government of India (RBI) for the investment. Under the Government Route, prior approval of the Government of India, Ministry of Finance, Foreign Investment Promotion Board (FIPB) is required. The details of FDI are contained in the policy and procedures in respect of FDI in India are available in the Manual on Investing in India Foreign Direct Investment, Policy & Procedures .

In terms of Master Circular issued in July 2009, in most manufacturing / service sectors do not require prior approval of the FIPB, or the RBI, if the activity of the investee-Company fulfill the conditions prescribed for Automatic Route. These conditions include certain eligibility norms, pricing requirements, subscription in foreign exchange, compliance with the Takeover Code (as described below), and ownership restrictions based on the nature of the foreign investor (as described below). Purchases by foreign investors of ADSs are treated as direct foreign investment in the equity issued by Indian companies for such offerings. Foreign investment up to 74% of our share capital is currently permitted in our industry (telecom industry).

80

Table of Contents

Subsequent Transfers

Restrictions for subsequent transfers of shares of Indian companies between residents and non-residents were relaxed significantly as of October 2004. As a result, for a transfer between a resident and a non-resident of securities of an Indian Company in the Telecom sector, such as ours, no prior approval of either the RBI or the Government of India is required, as long as the terms and conditions set out in A.P. (DIR Series) Circular No. 16 of October 4, 2004 is complied with. These conditions / procedure include compliance with pricing guidelines, Consent letters from the Transaction Parties, applicability of regulatory requirements such as FDI and the Takeover Code, filing Form FC TRS with Authorised Dealers (authorized bankers) with relevant enclosures and so on.

Transfers of shares or convertible debenture, by way of sale or gift, between two non-residents are not subject to RBI approvals or pricing restrictions, provided the buying non-residents do not have investment in similar business / collaboration / commercial arrangements in India. If the buying non-residents have similar investment / collaboration / commercial arrangements in India, prior Government Approval is required for such transaction.

Issue of shares by Indian companies under ADR / GDR

i) Depository Receipts (DRs) are negotiable securities issued outside India by a Depository bank, on behalf of an Indian Company, which represent the local Rupee denominated equity shares of the Company held as deposit by a Custodian bank in India. DRs are traded on Stock Exchanges in the US, Singapore, Luxembourg, etc. DRs listed and traded in the US markets are known as American Depository Receipts (ADRs) and those listed and traded elsewhere are known as Global Depository Receipts (GDRs). In the Indian context, DRs are treated as Foreign Direct Investment (FDI).

ii) Indian companies can raise foreign currency resources abroad through the issue of ADRs/GDRs, in accordance with the Scheme for issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) Scheme, 1993 and guidelines issued by the Government of India thereunder from time to time.

iii) A Company can issue ADRs / GDRs if it is eligible to issue shares to persons resident outside India (non-resident) under the FDI Scheme. However, an Indian listed Company, which is not eligible to raise funds from the Indian Capital Market including a Company which has been restrained from accessing the securities market by the Securities and Exchange Board of India (SEBI) will not be eligible to issue ADRs/GDRs.

iv) Unlisted companies, which have not yet accessed the ADR/GDR route for raising capital in the international market, would require prior or simultaneous listing in the domestic market, while seeking to issue such overseas instruments. Unlisted companies, which have already issued ADRs/GDRs in the international market, have to list in the domestic market within three years of having started making profit. Further, they are prohibited to issue further ADRs/GDRs till the listing in the domestic market is completed.

Takeover Code

Upon conversion of ADSs into equity shares, a holder of ADSs will be subject to the Takeover Code as prescribed by the Securities and Exchange Board of India.

Fungibility of ADSs

A limited two-way fungibility scheme has been put in place by the Government of India for ADRs / GDRs. Under this Scheme, a stock broker in India, registered with SEBI, can purchase shares of an Indian Company from the market for conversion into ADRs/GDRs based on instructions received from overseas investors. Re-issuance of ADRs / GDRs would be permitted to the extent of ADRs / GDRs which have been redeemed into underlying shares and sold in the Indian market.

Currently, there is no public trading market for our equity shares in India or elsewhere nor can we assure you that we will take steps to develop one. Our equity securities are only traded on Nasdaq through the ADSs as described in this report. Under prior Indian laws and regulations, our Depository could not accept deposits of outstanding equity shares and issue ADRs evidencing ADSs representing such equity shares without prior approval of the Government of India. The Reserve Bank of India has announced fungibility regulations permitting, under limited circumstances, the conversion of ADSs to equity shares and the reconversion of equity shares to ADSs provided that the actual number of ADSs outstanding after such reconversion is not greater than the original number of ADSs outstanding. If you elect to surrender your ADSs and receive equity shares, you will not be able to trade those equity shares on any securities market and, under present law, likely will not be permitted to reconvert those equity shares to ADSs.

81

Table of Contents

If in the future a market for our equity shares is established in India or another market outside of the United States, those shares may trade at a discount or premium to the ADSs. Under current Indian regulations and practice, the approval of the Reserve Bank of India is not required for the sale of equity shares underlying ADSs by a non-resident India to a resident India as well as for renunciation of rights to a resident of India, unless the sale of equity shares underlying the ADSs is through a recognized stock exchange or in connection with the offer made under the regulations regarding takeovers. The shareholders who intend transferring their equity shares shall comply with the procedural requirements set out under the head subsequent transfers above.

Transfer of ADSs and Surrender of ADSs

A person resident outside India may transfer the ADSs held in Indian companies to another person resident outside India without any permission. An ADS holder is permitted to surrender the ADSs held by him in an Indian Company and to receive the underlying equity shares under the terms of the Deposit Agreement. Under Indian regulations, the re-deposit of these equity shares with the Depository for ADSs may not be permitted.

Government of India Approvals

Pursuant to the RBI s regulations relating to sponsored ADS offerings, an issuer in India can sponsor the issue of ADSs through an overseas depository against underlying equity shares accepted from holders of its equity shares in India. The guidelines specify, among other conditions, that:

the ADSs must be offered at a price determined by the lead manager of such offering;

all equity holders may participate;

the issuer must obtain special shareholder approval; and

the proceeds must be repatriated to India within one month of the closure of the issue.

Ownership Restrictions

The Securities and Exchange Board of India and Reserve Bank of India regulate Portfolio Investments in Indian Companies by Foreign Institutional Investors and Non-Resident Indians, both of which we refer to as foreign portfolio investors. The Reserve Bank of India issued a circular in August 1998 stating that foreign institutional investors in aggregate may hold no more than 30% of the equity shares of an Indian Company and non-resident Indians and overseas corporate bodies in aggregate may hold no more than 10% of the shares of an Indian Company through portfolio investments. Under current Indian Law, the aggregate of the investment by the Foreign Institutional Investors can t be more than 24% of the equity share capital of an Indian Company, and the aggregate of the investment by the Non-Resident Indians can t be more than 10% of the equity share capital of an Indian Company through Portfolio Investments. The 24% and 10% limit referred above may be increased to 49% and 24% respectively on passing of a Special Resolution by the Shareholders to that effect. Moreover, no single Foreign Institutional Investor may hold more than 10% of the shares of an Indian Company and no single Non-Resident Indian may hold more than 5% of the shares of an Indian Company.

Foreign institutional investors are urged to consult with their Indian legal and tax advisers about the relationship between the foreign institutional investor regulations and the ADSs and any equity shares withdrawn upon surrender of ADSs.

Under the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, Every purchaser who acquires (directly or indirectly) more than 5% of the equity share capital at any point of time (the aggregate of the existing shares and the newly acquired shares) of a Listed Public Indian Company, is required to notify the Company within four days of such acquisition or receipt of allotment information and the Company in turn is required to notify all the stock exchanges on which the shares of the Company are listed with seven days.

Any purchaser whose proposed acquisition entitled him to hold 15% (the aggregate of the existing shares and the newly acquired shares) or more of such shares or a change in control of the Company, either by himself or with others acting in concert is required to make annual disclosures of the purchaser s holdings in the Company and to make an Open Offer to the other Shareholders offering to purchase at least 20% of all the outstanding shares of the Company at

a minimum offer price as determined pursuant to the provisions of the regulations. A purchaser who holds between 15% and 75% of a Company s shares cannot acquire additional shares or voting rights that would entitle the purchaser to exercise an additional 5.% of the voting rights in any 12 month period unless such

Table of Contents

purchaser makes a public announcement offering to acquire an additional 20% of the Company s shares. Upon conversion of ADSs into equity shares, an ADS holder will be subject to the Takeover Code. The Takeover Code does not apply to purchases involving the acquisition of shares (i) by allotment in a public and rights issue, (ii) pursuant to an underwriting agreement, (iii) by registered stockbrokers in the ordinary course of business on behalf of customers, (iv) in unlisted companies, (v) pursuant to a scheme of reconstruction or amalgamation or (vi) pursuant to a scheme under Section 18 of the Sick Industrial Companies (Special Provisions) Act, 1985. The Takeover Code does not apply to purchases in the ordinary course of business by public financial institutions either on their own account or as a pledgee. In addition, the Takeover Code does not apply to the purchase of ADSs so long as they are not converted into equity shares. However, since we are an unlisted Company, the provisions of the new regulations will not apply to us. If our shares are listed on an Indian stock exchange in the future, the new regulations will apply to the holders of our ADSs.

Open market purchases of securities of Indian companies in India by foreign direct investors or investments by non-resident Indians and foreign institutional investors above the ownership levels set forth above require Government of India approval on a case-by-case basis.

Voting Rights of Deposited Equity Shares Represented by ADSs

Holders of ADSs generally have the right under the deposit agreement to instruct the depository bank to exercise the voting rights for the equity shares represented by the related ADSs. At our request, the depository bank will mail to the holders of ADSs any notice of shareholders meeting received from us together with information explaining how to instruct the depository bank to exercise the voting rights of the securities represented by ADSs.

If the depository bank timely receives voting instructions from a holder of ADSs, it will endeavor to vote the securities represented by the holder s ADSs in accordance with such voting instructions. In the event that voting takes place by a show of hands, the depository bank will cause the custodian to vote all deposited securities in accordance with the instructions received by holders of a majority of the ADSs for which the depository bank receives voting instructions.

Please note that the ability of the depository bank to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities on deposit. We cannot assure you that ADS holders will receive voting materials in time to enable them to return voting instructions to the depository bank in a timely manner. Securities for which no voting instructions have been received will not be voted except as discussed above.

As a foreign private issuer, we are not subject to the SEC s proxy rules, which regulate the form and content of solicitations by United States-based issuers of proxies from their shareholders. To date, our practice has been to provide advance notice to our ADS holders of all shareholder meetings and to solicit their vote on such matters, through the depository, and we expect to continue this practice. The form of notice and proxy statement that we have been using does not include all of the information that would be provided under the SEC s proxy rules.

Under Indian law, the ADS holders have the right to vote on any general meetings either by show of hands or by poll only on becoming the Shareholder of the Company by converting the ADS into equity shares of the Company.

Taxation

Indian Taxation

General. The following relates to the principal Indian tax consequences for holders of ADSs and equity shares received upon withdrawal of such equity shares who are not resident in India, whether of Indian origin or not. We refer to these persons as non-resident holders. The following summary is based on the law and practices of the Income-tax Act, 1961, or Income-tax Act including the special tax regime contained in Sections 115AC and 115 ACA of the Income-tax Act read with the Issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depository Receipt Mechanism) Scheme, 1993 or the Scheme, as amended. The Income-tax Act is amended every year by the Finance Act of the relevant year. Some or all of the tax consequences of Sections 115AC and 115ACA may be amended or changed by future amendments to the Income-tax Act

This section is not intended to constitute a complete analysis of the individual tax consequences to non-resident holders under Indian law for the acquisition, ownership and sale of ADSs and equity shares. Personal tax consequences of an investment may vary for non-resident holders in various circumstances, and potential investors should therefore consult their own tax advisers on the tax consequences of such acquisition, ownership and sale,

including specifically the tax consequences under the law of the jurisdiction of their residence and any tax treaty between India and their country of residence.

Table of Contents

Residence.

For purposes of the Income-tax Act, an individual is considered to be a resident of India during any fiscal year if he or she is in India in that year for a period or periods amounting to at least 182 days; or at least 60 days and, within the four preceding years has been in India for a period or periods amounting to at least 365 days.

The period of 60 days referred to above shall be read as 182 days (i) in case of a citizen of India who leaves India in a previous year for the purposes of employment outside of India or (ii) in the case of a citizen of India or a person of Indian origin living abroad who visits India or (iii) a member of crew of Indian ship.

Taxation of Distributions. The Finance Act, 2003 has inserted with effect from April 1, 2003, dividend income from domestic Company will be exempt from tax in the hands of shareholders as the domestic companies will be liable to pay a dividend distribution tax at the rate of 16.995% inclusive of applicable surcharge and education cess. The Finance Act, 2008 introduced Section 115 O (1A) effective April 1, 2008 under which a domestic Company, subject to certain conditions, can set off the dividend income received from its subsidiary from the amount of dividend income declared by it to its shareholders and would therefore be liable to dividend distribution tax only on the balance dividend after such set-off. Any distributions of additional ADSs or equity shares to resident or non-resident holders will not be subject to Indian tax. Similarly, the acquisition by a non-resident holder of equity shares upon redemption of ADSs will not constitute a taxable event for Indian income tax purposes as it is not regarded as transfer under sec 47(xa) of the Indian Income tax laws. Such acquisition will, however, give rise to a stamp duty as described below under Stamp Duty and Transfer Tax.

Minimum Alternate Tax. The Indian Government had introduced Section 115JA to the Income Tax Act which came into effect in April 1, 1997, to bring certain zero tax companies under the ambit of a Minimum Alternative Tax, or MAT. If the taxable income of a Company computed under this Act, in respect of a previous year was less than 30% of its book profits, the total income of such Company chargeable to tax for the relevant previous year shall be deemed to be an amount equal to 30% of such book profits. Effective April 1, 2001, Finance Act, 2000 introduced Section 115JB, pursuant to which the income of companies eligible for tax holiday under sections 10A or 10AA of the Act was exempted from MAT. The amount of income to which any of the provisions of section 10A or section 10AA apply, was reduced from the book profit for the purposes of calculation of income tax payable under the aforesaid section. The Finance Act, 2007 included income eligible for deductions under sections 10A and 10B of the Act in the computation of book profits for the levy of MAT. The rate of MAT for domestic companies, effective April 1, 2007, was 11.33% (inclusive of applicable surcharge and education cess) and levied on its book profits. The Income tax Act provides that the MAT paid by the companies can be adjusted against its tax liability under the normal provisions of the India Income tax laws but limited to the extent that is over and above the tax computed under MAT provisions over the next seven years which is being increased to 10 years by the Finance (No 2) Act 2009. The Finance Act (No 2) 2009 has increased the rate of MAT to 16.995%(inclusive of applicable surcharge and education cess) and increased the number of years to 10 years to carry forward the MAT credit. The rate was further increased to 19.93% by the Finance Act 2010. The rate was further increased to 20.01% by the Finance Act 2011.

Fringe Benefits Tax. The Finance Act, 2007 imposed a Fringe Benefits Tax, or FBT in respect of any specified security or sweat equity shares allotted or transferred, directly or indirectly, by a Company free of cost or at concessional rate to its current or former employees. The FBT is applicable for all options granted under a Company s stock option plan, where such option is exercised on or after April 1, 2007. The value of fringe benefit is the fair market value, or FMV, of the specified security or share as on the date of vesting of the option with the employee as reduced by the amount actually paid by, or recovered from the employee in respect of such security or share. The value of the fringe benefit is subject to FBT at the rate of 33.99%, inclusive of applicable surcharge and education cess. The Finance Act, 2007 introduced a new section 115WKA in the Income Tax Act enabling an employer to recover FBT payable in respect of specified securities or sweat equity shares from its employees. The Finance Act, 2008 introduced a new section 115WKB, effective April 1, 2008, which provides that FBT paid by the employer and subsequently recovered from the employee shall be deemed to be tax paid by the employee in relation to the value of fringe benefits provided to him. However, the employee is not entitled to any refund of such deemed payment of tax and shall not be entitled to any claim of credit against any other tax liability. The Ministry of Finance has abolished the FBT from fiscal 2009- 2010 onwards.

Taxation of Capital Gains. Any gain realized on the sale of ADSs by a non-resident holder to any non-resident outside India is not subject to Indian capital gains tax as it is not regarded as transfer by virtue of section 47(viia) of Indian Income tax laws which is prerequisite for taxing as capital gains.

Since our ADS offerings were approved by the Government of India under the Issue of Foreign Currency Convertible Bonds and Ordinary Shares Scheme, non-resident holders of the ADSs have the benefit of tax concessions available under Section 115AC. As a result, gains realized on the sale of ADSs will not be subject to Indian taxation. The effect of the Scheme in the context of Section 115AC is unclear as to whether such tax treatment is available to a non-resident who acquires equity shares outside India from a non-resident holder of equity shares after receipt of the equity shares upon surrender of the ADSs. If concessional tax treatment is not available, gains realized on the sale of such equity shares will be subject to customary Indian taxation on capital gains as discussed below. The Issue of Foreign Currency Convertible Bonds and Ordinary Shares Scheme provides that if the equity shares are sold on a recognized stock exchange in India against payment in Indian rupees, they will no longer be eligible for such concessional tax treatment.

Table of Contents

Subject to any relief provided pursuant to an applicable tax treaty, any gain realized on the sale of equity shares to an Indian resident or inside India generally will be subject to Indian capital gains tax. However, the acquisition by non-resident holders of equity shares in exchange for ADSs will not be subject to Indian capital gains tax. When the sale of equity shares is liable to capital gain tax the cost of acquisition for computing the tax is taken as the original cost of acquisition of the ADSs by virtue of the section 49(2A) of the Indian Income tax laws. Therefore, the original cost of acquisition of the ADSs may be treated as the cost of acquisition for the purposes of determining the capital gains tax. According to the Issue of Foreign Currency Convertible Bonds and Ordinary Shares Scheme, a non-resident holder s holding period for purposes of determining the applicable Indian capital gains tax rate in respect of equity shares received in exchange for ADSs commences on the date of the notice of the redemption by the depository to the custodian. The India-U.S. Treaty does not provide an exemption from the imposition of Indian capital gains tax.

Under Section 115AC, taxable gain realized in respect of equity shares held for more than 12 months, or long-term gain, is subject to tax at the rate of 10.30%. Taxable gain realized in respect of equity shares held for 12 months or less, or short-term gain, is subject to tax at variable rates with a maximum rate of 41.20%. The actual rate of tax on short-term gain depends on a number of factors, including the country of residence of the non-resident holder and the type of income chargeable in India.

Withholding Tax on Capital Gains. Any taxable gain realized by a non-resident on the sale of ADSs or equity shares is to be withheld at the source by the buyer. However, as per the provisions of Section 196D(2) of the Income Tax Act, no withholding tax is required to be deducted from any income by way of capital gains arising to Foreign Institutional Investors as defined in Section 115AD of the Income Tax Act on the transfer of securities defined in Section 115AD of the Income Tax Act.

Buy-back of Securities. Indian companies are not subject to any tax on the buy-back of their shares. However, the shareholders will be taxed on any resulting gains. We would be required to deduct tax at source according to the capital gains tax liability of a non-resident shareholder

Stamp Duty and Transfer Tax. Upon issuance of the equity shares underlying our ADSs, we are required to pay a stamp duty of 0.1% of the aggregate value of the shares issued, provided that the issue of dematerialized shares is not subject to Indian stamp duty. A transfer of ADSs is not subject to Indian stamp duty. However, upon the acquisition of equity shares from the depository in exchange for ADSs, the non-resident holder will be liable for Indian stamp duty at the rate of 0.25% of the market value of the equity shares on the redemption date. Similarly upon a sale of shares in physical form, stamp duty at the rate of 0.25% of the market value of the equity shares on the trade date is payable, although customarily such duty is borne by the purchaser. Our equity shares, if and when issued and traded in dematerialized form, are not subject to Indian stamp duty.

Wealth Tax. The holding of the ADSs in the hands of non-resident holders and the holding of the underlying equity shares by the depository as a fiduciary will be exempt from Indian wealth tax. Non-resident holders are advised to consult their own tax advisers in this context.

Gift Tax and Estate Duty. Indian gift tax was abolished in October 1998. In India, there is no estate duty law. As a result, no estate duty would be applicable in India. Non-resident holders are advised to consult their own tax advisors in this context. However, gift receipt by non-relatives or firms or closely held companies would be taxed as income in the hands of the recipient under the Income tax Act. Yet, gifts between non-residents (being transfers outside India) would not get taxed in India.

Service Tax. Brokerage or commission paid to stock brokers in connection with the sale or purchase of shares is subject to a service tax of 10.30%. The stock broker is responsible for collecting the service tax from the shareholder and paying it to the relevant authority

Table of Contents

Income Tax Matters

The statutory corporate income tax rate and the surcharge thereon are subject to change in line with the changes announced in the Union Budget each year. For fiscal year 2010, the corporate income tax rate was 30%, subject to a surcharge of 7.5% and education cess of 2% and 1% secondary and higher education cess, resulting in an effective tax rate of 33.22%. For fiscal year 2011, the corporate income tax rate is 30%, subject to a surcharge of 5% and education cess of 2% and 1% secondary and higher education cess, resulting in an effective tax rate of 32.45%. We cannot assure you that the current income tax rate will remain unchanged in the future. We also cannot assure you that the surcharge will be in effect for a limited period of time or that additional surcharges will not be levied by the Government of India. Until April 1, 2002, dividends declared, distributed or paid by an Indian corporation were subject to a dividend tax of 10.2%, including the applicable surcharge for fiscal 2002, of the total amount of the dividend declared, distributed or paid. This tax is not paid by shareholders nor is it a withholding requirement, but rather it is a direct tax payable by the corporation before distribution of a dividend. Effective April 1, 2002, Indian companies were no longer to be taxed on declared dividends. The Finance Act, 2003 proposed that after April 1, 2003, dividend income will be exempt from tax for shareholders and that domestic companies will be liable to pay a dividend distribution tax at the rate of 12.5% plus a surcharge and education cess at the time of the distribution. The Finance Act 2007 has increased the rate of dividend distribution tax to 15% plus applicable surcharge and education cess resulting in an effective rate of 16.995%.

Material United States Federal Tax Consequences

The following is a summary of the material U.S. federal income and estate tax consequences that may be relevant with respect to the acquisition, ownership and disposition of equity shares or ADSs and is for general information only. This summary addresses the U.S. federal income and estate tax considerations of holders that are U.S. holders. U.S. holders are beneficial holders of equity shares or ADSs who are citizens or residents of the United States, or corporations (or other entities treated as corporations for U.S. federal tax purposes) created in or under the laws of the United States or any political subdivision thereof or therein, estates, the income of which is subject to U.S. federal income taxation regardless of its source, and trusts for which a U.S. court exercises primary supervision and a U.S. person has the authority to control all substantial decisions or that has a valid election under applicable U.S. Treasury regulation to be treated as a U.S. person. This summary is limited to U.S. holders who will hold equity shares or ADSs as capital assets for U.S. federal income tax purposes generally, for investment. In addition, this summary is limited to U.S. holders who are not resident in India for purposes of the Convention Between the Government of the United States of America and the Government of the Republic of India for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect to Taxes on Income. If a partnership, including any entity treated as a partnership for U.S. federal income tax purposes, holds the equity shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. A partner in a partnership holding equity shares or ADSs should consult his, her or its own tax advisor.

This summary does not address tax considerations applicable to holders that may be subject to special tax rules, such as banks, insurance companies, financial institutions, dealers in securities or currencies, tax-exempt entities, persons that will hold equity shares or ADSs as a position in a straddle or as part of a hedging or conversion transaction for tax purposes, persons that have a functional currency other than the U.S. dollar or holders of 10% or more, by voting power or value, of the shares of our Company. This summary is based on the tax laws of the United States as in effect on the date of this Annual Report and on United States Treasury Regulations in effect or, in some cases, proposed, as of the date of this Annual Report, as well as judicial and administrative interpretations thereof available on or before such date, and is based in part on the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms. All of the foregoing are subject to change, which change could apply retroactively and could affect the tax consequences described below.

EACH PROSPECTIVE INVESTOR SHOULD CONSULT HIS, HER OR ITS OWN TAX ADVISOR WITH RESPECT TO THE U.S. FEDERAL, STATE, LOCAL AND NON-U.S. TAX CONSEQUENCES OF ACQUIRING, OWNING OR DISPOSING OF EQUITY SHARES OR ADSs

Ownership of ADSs. For U.S. federal income tax purposes, holders of ADSs will be treated as the holders of equity shares represented by such ADSs

Dividends. The gross amount of any distributions of cash or property with respect to ADSs or equity shares (before reduction for any Indian withholding taxes) generally will be included in income by a U.S. holder as foreign source dividend income at the time of receipt, which in the case of a U.S. holder of ADSs generally should be the date of receipt by the Depository, to the extent such distributions are made from the current or accumulated earnings and profits (as determined under U.S. federal income tax principles), of our Company. Such dividends will not be eligible for the dividends received deduction generally allowed to corporate U.S. holders. To the extent, if any, that the amount of any distribution by our Company exceeds our Company s current and accumulated earnings and profits (as determined under U.S. federal income tax principles) such excess will be treated first as a tax-free return of capital to the extent of the U.S. holder s tax basis in the equity shares or ADSs, and thereafter as capital gain.

Subject to certain limitations, dividends paid to non-corporate U.S. holders, including individuals, may be eligible for a reduced rate of taxation if we are deemed to be a qualified foreign corporation for United States federal income tax purposes. A qualified foreign corporation includes a foreign corporation if (1) its shares (or, according to legislative history, its ADSs) are readily tradable on an established securities market in the United States or (2) it is eligible for the benefits under a comprehensive income tax treaty with the United States. In addition, a corporation is not a qualified foreign corporation if it is a passive foreign investment company (as discussed below). The ADSs are traded on the Nasdaq Global Market. Due to the absence of specific statutory provisions addressing ADSs, however, there can be no assurance that we are a qualified foreign corporation solely as a result of our listing on Nasdaq Global Market. Nonetheless, we may be eligible for benefits under the comprehensive income tax treaty between India and the United States. Each U.S. holder should consult its own tax advisor regarding the treatment of dividends and such holder s eligibility for a reduced rate of taxation.

Table of Contents

Subject to certain conditions and limitations, any Indian withholding tax imposed upon distributions paid to a U.S. holder with respect to ADSs or equity shares should be eligible for credit against the U.S. holder s federal income tax liability. Alternatively, a U.S. holder may claim a deduction for such amount, but only for a year in which a U.S. holder does not claim a credit with respect to any foreign income taxes. The overall limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, distributions on ADSs or ordinary shares generally will be passive category income or general category income for purposes of computing the United States foreign tax credit allowable to a U.S. holder.

If dividends are paid in Indian rupees, the amount of the dividend distribution included in the income of a U.S. holder will be in the U.S. dollar value of the payments made in Indian rupees, determined at a spot exchange rate between Indian rupees and U.S. dollars applicable to the date such dividend is included in the income of the U.S. holder, regardless of whether the payment is in fact converted into U.S. dollars. Generally, gain or loss, if any, resulting from currency exchange fluctuations during the period from the date the dividend is paid to the date such payment is converted into U.S. dollars will be treated as U.S. source ordinary income or loss

Sale or Exchange of Equity shares or ADSs. A U.S. holder generally will recognize gain or loss on the sale or exchange of equity shares or ADSs equal to the difference between the U.S. dollar value of the amount realized and the U.S. holder s tax basis, determined in U.S. dollars, in the equity shares or ADSs. Subject to special rules described below governing passive foreign investment companies, such gain or loss will be capital gain or loss, and will be long-term capital gain or loss if the equity shares or ADSs were held for more than one year. Gain or loss, if any, recognized by a U.S. holder generally will be treated as U.S. source gain or loss for U.S. foreign tax credit limitation purposes. The deductibility of capital losses may be subject to limitation.

Estate Taxes. An individual shareholder who is a citizen or resident of the United States for U.S. federal estate tax purposes will have the value of the equity shares or ADSs owned by such holder included in his or her gross estate for U.S. federal estate tax purposes. An individual holder who actually pays Indian estate tax with respect to the equity shares will, however, be entitled to credit the amount of such tax against his or her U.S. federal estate tax liability, subject to a number of conditions and limitations.

Passive Foreign Investment Company. A non-U.S. corporation will be classified as a passive foreign investment Company for U.S. federal income tax purposes if either:

- 75% or more of its gross income for the taxable year is passive income; or
- on a quarterly average for the taxable year by value (or, if it is not a publicly traded corporation and so elects, by adjusted basis) 50% or more of its assets produce or are held for the production of passive income.

For the purposes of this test, such non-U.S. corporation will be treated as owning its proportionate share of the assets and earning its proportionate share of the income of any other corporation in which it owns, directly or indirectly, 25% or more (by value) of the stock.

We do not believe that we satisfy either of the tests for passive foreign investment Company status. Since this determination is made on an annual basis, however, no assurance can be given that we will not be considered a passive foreign investment Company in future taxable years. If we were to be a passive foreign investment Company for any taxable year, U.S. holders would be required to either:

- pay an interest charge together with tax calculated at maximum ordinary income rates on excess distributions (as that term is defined in relevant provisions of the U.S. tax laws), and on any gain on a sale or other disposition of equity shares or ADSs;
- if a qualified electing fund election is made (as that term is defined in relevant provisions of the U.S. tax laws), include in their taxable income their pro rata share of undistributed amounts of our income; or
- if the equity shares are marketable (as that term is defined in relevant provisions of the U.S. tax laws), and a mark-to-market election is made, mark-to-market the equity shares each taxable year and recognize ordinary gain and, to the extent of prior ordinary gain, ordinary loss for the increase or decrease in market value for such taxable year.

87

Table of Contents

If a U.S. holder holds equity shares or ADSs in any year in which we are a passive foreign investment Company, that U.S. holder will be required to file Internal Revenue Service Form 8621 (or similar such form) regarding distributions received on equity shares or ADSs and any gain realized on the disposition of equity shares or ADSs.

Backup Withholding Tax and Information Reporting Requirements. Dividends paid, if any, on equity shares of ADSs to a holder who is not an exempt recipient, may be subject to information reporting and, unless a U.S. holder either furnishes its taxpayer identification number or otherwise establishes an exemption, may also be subject to U.S. backup withholding tax. In addition, information reporting will apply to payments of proceeds from the sale, exchange, redemption or other disposition of equity shares or ADSs by a paying agent, including a broker, within the United States to a U.S. holder, other than an exempt recipient. An exempt recipient includes a corporation. In addition, a paying agent within the United States will be required to backup withhold 28% of any payments of the proceeds from the sale or redemption of equity shares or ADSs within the United States to a holder, other than an exempt recipient, if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with such backup withholding requirements. Backup withholding is not an additional tax and may be refunded (or credited against the U.S. holder s U.S. federal income tax liability, if any), provided that certain required information is furnished to the IRS. The information reporting requirements may apply regardless of whether withholding is required.

The above summary is not intended to constitute a complete analysis of all tax consequences relating to ownership of equity shares or ADSs. You should consult your own tax advisor concerning the tax consequences of your particular situation.

Documents on Display

This report and other information filed or to be filed by us can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Copies of these materials can also be obtained from the Public Reference Section of the SEC, 100 F Street, NE., Washington, DC 20549, at prescribed rates. Additionally, all of our publicly filed SEC reports are available at the SEC s website, www.sec.gov, which contains all the public filings and other information regarding registrants that make electronic filings with the SEC using its EDGAR system.

Additionally, documents referred to in this Annual Report may be inspected at our corporate offices which are located at Tidel Park. No, 4, Rajiv Gandhi Salai, Taramani, Chennai, 600 113 India.

Item 11. Quantitative and Qualitative Disclosures About Market Risk

General

Market risk is the risk of loss of future earnings, to fair values or to future cash flows that may result from a change in the price of a financial instrument. The value of a financial instrument may change as a result of changes in the interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market risk sensitive instruments. Market risk is attributable to all market risk sensitive financial instruments including investments, foreign currency receivables, payables and debt. Our exposure to market risk is a function of our investment and borrowing activities and our revenue generating activities in foreign currency. The objective of market risk management is to avoid excessive exposure of our earnings and equity to loss.

Risk Management Procedures

We manage market risk through a corporate treasury department, which evaluates and exercises independent control over the entire process of market risk management. Our corporate treasury department recommends risk management objectives and policies which are approved by senior management and our Audit Committee. The activities of this department include management of cash resources, implementing hedging strategies for foreign currency exposures, borrowing strategies, and ensuring compliance with market risk limits and policies on a daily basis.

Refer to note 39 of the notes to consolidated financial statements to this Annual Report for further analysis and exposure arising out of credit risk, liquidity risk and currency risk.

Table of Contents

Item 12. Description of Securities Other Than Equity Securities

Item 12(d). American Depositary Shares

Citibank, N.A. (the Depositary) serves as the depositary for our ADSs, pursuant to that certain Deposit Agreement by and between the Company and the Depositary, dated as October 18, 1999, as amended from time to time. ADS holders are required to pay various fees to the Depositary and the Depositary may refuse to provide any service for which a fee is assessed until the applicable fee has been paid. For purposes of this section, Shares means the Company s equity shares.

The fees and charges payable by holders of our ADSs include the following:

(i) a fee not in excess of US $5.00 per 100 ADSs is charged for each issuance of ADS upon deposit of Shares, excluding certain issuances described below;

(ii) a fee not in excess of US $5.00 per 100 ADSs is charged for each surrender of ADSs, property and cash in exchange for the underlying deposited securities;

(iii) a fee not in excess of US $2.00 per 100 ADSs for each distribution of cash dividend or other cash distribution pursuant to the deposit agreement;

(iv) a fee not in excess of US $2.00 per 100 ADSs for the distribution of ADSs pursuant to stock dividends or other free distributions or an exercise of rights; and

(v) a fee not in excess of $5.00 per 100 ADSs for depositary services.

Additionally, under the terms of our deposit agreement, the depositary is entitled to charge each registered holder, beneficial owner, persons depositing Shares and person surrendering ADS for cancellation and for the purpose of withdrawing deposited securities the following:

(i) taxes (including applicable interest and penalties) and other governmental charges;

(ii) such registration fees as may from time to time be in effect for the registration of shares or other deposited securities on the share register and applicable to transfers of shares or other deposited securities to or from the name of the custodian, the Depositary or any nominees upon the making of deposits and withdrawals, respectively;

(iii) such cable, telex and facsimile transmission and delivery expenses as are expressly provided in the Deposit Agreement to be at the expense of the person depositing shares or holders and beneficial owners of ADSs;

(iv) the expenses and charges incurred by the Depositary in the conversion of foreign currency;

(v) such fees and expenses as are incurred by the Depositary in connection with compliance with exchange control regulations and other regulatory requirements applicable to shares, deposited securities, ADSs and ADRs; and

(vi) the fees and expenses incurred by the Depositary in connection with the delivery of deposited securities.

If any tax or other governmental charge is payable by the holders and/or beneficial owners of ADSs to the depositary, the depositary, the custodian or the Company may withhold or deduct from any distributions made in respect of deposited securities and may sell for the account of the holder and/or beneficial owner any or all of the deposited securities and apply such distributions and sale proceeds in payment of such taxes (including applicable interest and penalties) or charges, with the holder and the beneficial owner thereof remaining fully liable for any deficiency.

Direct and Indirect Payments by the Depositary to Sify

Pursuant to the Deposit Agreement with Citibank, we received the following payments from Citibank during the fiscal year ended March 31, 2011 in connection with our ADS Program:

Fee	***Amount in $USD***
Financial Audit Fees	23,469.59
US Legal Counsel Fees	151,543.92
Internet, telephone and mail charges	855.45
Printing and mailing	34,706.63

Processing Fees	6,692.02
Processing Fees for Annual General Meeting	25.00
Text Conversion charges	450.00
Total amount received	**217,742.61**

Table of Contents

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

Not applicable.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None

Item 15. Controls and procedures

Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 20-F, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has carried out an evaluation of the effectiveness of our disclosure controls and procedures. The term disclosure controls and procedures means controls and other procedures that are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended, or the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding our required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well conceived and operated, can only provide reasonable assurance that the objectives of the disclosure controls and procedures are met.

Based on their evaluation as of March 31, 2011, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, were effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and that material information related to us and our consolidated subsidiaries is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions about required disclosure

Management s annual report on internal control over financial reporting

1) Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board. Our internal control over financial reporting includes those policies and procedures that:

   pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets.

   provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with applicable accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

   provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Table of Contents

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

2) Management assessed the effectiveness of our internal control over financial reporting as of March 31, 2011. In conducting its assessment of internal control over financial reporting, management based its evaluation on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment, management has concluded that our internal control over financial reporting was effective as of March 31, 2011.

3) Our independent registered public accounting firm, ASA & Associates, has audited the consolidated financial statements included in this Annual Report on Form 20-F, and as part of their audit, has issued their report, included herein, on the effectiveness of our internal control over financial reporting as of March 31, 2011.

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Sify Technologies Limited

We have audited Sify Technologies Limited s (the Company) internal control over financial reporting as of March 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial position of the Company as of March 31, 2011 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year ended March 31, 2011, and our report dated October 12, 2011 expressed an unqualified opinion on those consolidated financial statements.

ASA & Associates
Independent Registered Public Accounting Firm
Chennai, India
October 12, 2011

Table of Contents

Changes in internal control over financial reporting

During the period covered by this Annual Report, the changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting are described below.

Management identified a material weakness in internal control over financial reporting as of March 31, 2010:

During the year ended March 31, 2010, the controls over the accounting evaluation of certain revenue transactions relating to the purchase of products for onward sales in the Systems Integration business failed. Certain transactions which otherwise qualified for being accounted on a net basis were reported on a gross basis as revenues and cost of goods sold . The root cause of the error was the result of a failure in the operating effectiveness of an internal control relating to carrying out an independent accounting review of the trading transactions of the System Integration business. Whilst, the potential for error existed and the control deficiency remained unremediated as at March 31, 2010, the errors identified were corrected prior to the finalization of the March 31, 2010 annual consolidated financial statements. Due to the existence of this control deficiency, management concluded that there was a reasonable possibility that a material misstatement of the company s annual financial statements could not have been prevented or detected on a timely basis.

Our previous independent registered public accounting firm, KPMG, as part of their audit in the previous year, had issued their report on the effectiveness of our internal control over financial reporting as of March 31, 2010 wherein it was indicated that the Company had a material weakness in internal controls relating to the failure of a control intended to carry out an accounting evaluation of certain transactions relating to the purchase of goods for onward sales.

In order to remediate the material weakness described in our Annual Report on Form 20-F for the fiscal year ended March 31, 2010, during the months of August and September 2010, the Company:

- introduced specific policies to ensure that all transactions relating to purchase of products for onward sales in the System Integration business are subject to a fact specific accounting evaluation to enforce operating effectiveness.

- augmented the IFRS expertise in our accounting team by imparting specific training to evaluate the trading transactions from a Gross Versus Net reporting.

- performed an accounting evaluation of all the transactions of purchase of products for onward sales in the System Integration business and noted that the accounting controls surrounding appropriateness of the Gross versus Net reporting are operating effectively.

We believe that the remediation efforts described above have remediated the material weakness described in our Annual Report on Form 20-F for the fiscal year ended March 31, 2010.

Item 16A. Audit Committee financial expert

Mr. C. B. Mouli, a member of our audit committee, has been deemed independent per the applicable SEC and NASDAQ rules. The Board of Directors has determined that Mr Mouli is the audit committee financial expert as defined by the applicable rules of the SEC.

Item 16 B. Code of Ethics

The Company has adopted a Code of Conduct and Conflict of Interest Policy that is applicable to all employees. The text of the policy was filed as an Exhibit under Item 19 to the Annual Report for the year ended March 31, 2005. This policy is available on our corporate website www.sifycorp.com.

We have also adopted a written Code of Ethics, as defined in Item 406 of Regulation S-K, applicable to our principal executive officer, principal financial officer, principal accounting officer and all officers working in our finance, accounting, treasury, tax, legal, purchase, investor relations functions, disclosure committee members, and senior management, as well as members of the audit committee and the board of directors. This policy is available in our www.sifycorp.com. We will post any amendments to, or waivers from, our Code of Ethics at that location on our website.

Our Audit Committee has also adopted a Whistleblower Policy wherein it has established procedures for receiving, retaining and treating complaints received, and procedures for the confidential, anonymous submission by employees of complaints regarding questionable accounting or auditing matters, conduct which results in a violation of law by Sify or in a substantial mismanagement of Company resources. Under this policy, our employees are encouraged to report questionable accounting matters, any reporting of fraudulent financial information to our shareholders, the government or the financial markets any conduct that results in a violation of law by Sify to our management (on an anonymous basis, if employees so desire). Under this policy, we have prohibited discrimination, retaliation or harassment of any kind against any employee who, based on the employee s reasonable belief that such conduct or practices have occurred or are occurring, reports that information or participates in an investigation.

Table of Contents

We have also adopted a Code of Conduct, applicable to all officers, directors and employees. The Code of Conduct is available on our website, www.sifycorp.com.

Item 16C. Principal Accountant Fees and Services

The following table sets forth for the fiscal years indicated the fees paid to our principal accountant and its associated entities for various services provided us in these periods.

	Fiscal year ended	
Type of Service	**march 31, 2011**	**march 31, 2010**
(a) Audit Fees	Rs.2.00 million	Rs.12.45 million
(b) Audit Related Fees	Nil	Nil
(c) Tax Fees	Nil	Nil
(d) All Other Fees	Nil	Nil

The Audit Fees for fiscal 2011 comprise fees for professional services paid to ASA & Associates in connection with the Company s audit of the Company s financial statements for the fiscal year ended March 31, 2011. The Audit Fees for fiscal 2010 comprise fees for professional services paid to paid to KPMG, the Company s independent auditor in connection with the Company s audit of the Company s financial statements for the fiscal year ended March 31, 2010.

Our Audit Committee requires pre-approval of all audit and permissible non-audit services to be performed for the Company by its independent auditors, subject to the de-minims exception for non-audit services described in Section 10A(i)(1)(B) of the Securities Exchange act of 1934.

Item 16D. Exemptions from the Listing Standards for Audit Committees

We have not sought any exemption from the listing standards for audit committees applicable to us as foreign private issuer, pursuant to Rule 10(A)-3(d) of the Securities Exchange Act of 1934.

Item 16E. Purchase of Equity Securities by the Issuer and Affiliated Purchasers

None.

Item 16F: Change in Registrant s Certifying Accountant

KPMG was previously the principal accountants for Sify Technologies Limited. On October 27, 2010, that firm declined to stand for re-election for the fiscal period ending March 31, 2011.

On recommendation of the Audit Committee at its meeting held on May 3, 2011, the Board of Directors of the Company has approved the engagement of ASA & Associates, as its independent registered public accounting firm for the fiscal year ended March 31, 2011.

During the two fiscal years ended March 31, 2010, and the period through November 30, 2010, there were no (1) disagreements with our previous auditors KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements if not resolved to their satisfaction would have caused them to make reference in connection with their opinion to the subject matter of the disagreement, or (2) reportable events, except that the audit report of KPMG on the effectiveness of internal control over financial reporting as of March 31, 2010 contained an adverse opinion due to the existence of a material weakness related to the failure of a control intended to carry out an accounting evaluation of certain transactions relating to the purchase of products for onward sales.

The audit reports of our previous auditors KPMG on the consolidated financial statements of Sify Technologies and subsidiaries as of March 31, 2010 and for the years ended March 31, 2010 and 2009 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles. The audit report of KPMG, as of March 31, 2010, contained an adverse opinion due to the existence of a material weakness related to the failure of a control intended to carry out an accounting evaluation of certain transactions relating to the purchase of products for onward sales. The Company received a copy of a letter addressed to the commission which was included as an exhibit 15.3 in the Form 20-F dated November 30, 2010.

During the two most recent fiscal years, the Company has not consulted with ASA & Associates regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed; or the type of audit opinion that might be rendered on the Company s financial statements, and neither a written report was provided to the Company or oral advice was provided that ASA & Associates concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a disagreement, as that term is defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions to Item 304 of Regulation S-K, or a reportable event, as that term is defined in Item 304(a)(I)(v) of Regulation S-K.

Table of Contents

Item 16 G. Corporate Governance

Nasdaq Marketplace Rule 5615(a)(3) provides that a foreign private issuer may follow its home country practice in lieu of the requirements of Rule 5600 series, provided such foreign private issuer shall disclose in its annual reports filed with SEC or on its website each requirement that it does not follow and describe the home country practice followed by the issuer in lieu of such requirements.

Under the Nasdaq Marketplace Rule 5620 (c), companies, other than limited partnerships, that maintain a listing on NASDAQ are required to provide for a quorum as specified in its by-laws for any meeting of its stockholders, and in no case shall the quorum be less than 33-1/3% of the outstanding shares of a Company s common voting stock. In India, the requirement for a quorum is the presence of at least five shareholders in person. Our Articles of Association provide that a quorum for a General Meeting of our shareholders is constituted by the presence of at least five shareholders in person. Hence, we do not meet the quorum requirements under Rule 5620 (c), and instead we follow our home country practice. Under the Nasdaq Marketplace Rule 5620 (b), companies, other than limited partnerships, that maintain a listing on Nasdaq are required to solicit proxies and provide proxy statements for all meetings of shareholders and also provide copies of such proxy solicitation to Nasdaq. However, the SEC proxy rules are not applicable to us, since we are a foreign private issuer, and Section 176 of the Indian Companies Act prohibits a Company incorporated under that Act from soliciting proxies. Because we are prohibited from soliciting proxies under Indian law, we will not meet the proxy solicitation requirement of Rule 5620 (b). However, as described above, we give written notices of all our shareholder meetings to all the shareholders and we also file such notices with the SEC. With regard to issuance of securities, we also comply with the home country regulations.

Table of Contents

PART III

Item 17. Financial Statements

See Item 18.

Item 18. Financial Statements

Consolidated Statements and other Financial Information

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Sify Technologies Limited

We have audited the accompanying consolidated statements of financial position of Sify Technologies Limited and subsidiaries (the Company) as of March 31, 2011 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year ended March 31,2011. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements, based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States).Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, based on our audit, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sify Technologies Limited and subsidiaries as of March 31, 2011 and the results of their operations and their cash flows for the year ended March 31, 2011, in conformity with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Sify Technologies Limited s internal control over financial reporting as of March 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated October 12, 2011 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

ASA & Associates
Independent Registered Public Accounting Firm
Chennai, India
October 12, 2011

Table of Contents

Report of KPMG, Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Sify Technologies Limited

We have audited the accompanying consolidated statement of financial position of Sify Technologies Limited and subsidiaries (the Company) as of March 31, 2010 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years in the two-year period ended March 31, 2010. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements, based on our audits. We did not audit the consolidated financial statements of MF Global Sify Securities Private Limited (MF Global), (a 29.85% percent owned investee company). The Company s investment in MF Global at March 31, 2010 was Rs. 633,469 (in thousands) and its equity in earnings of MF Global was Rs.91,135 (in thousands) and Rs.64,091 (in thousands) for the years ended March 31, 2010 and March 31, 2009, respectively. The consolidated financial statements of MF Global were audited by other auditors whose report has been furnished to us, and our opinion, in so far as it relates to the amounts included for MF Global, is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sify Technologies Limited and subsidiaries as of March 31, 2010, and the results of their operations and their cash flows for each of the years in the two-year period ended March 31, 2010, in conformity with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG
Chennai, India
November 30, 2010

Table of Contents

Sify Technologies Limited
Consolidated Statement of Financial Position

(In thousands of Rupees, except share data and as otherwise stated)	Note	As at March 31, 2011 Rs	As at March 31, 2010 Rs	As at March 31, 2011 Convenience translation into US$ thousands (Unaudited) Note 2(c)
Assets				
Property, plant and equipment	5	3,760,473	3,452,022	84,221
Intangible assets	6	104,626	129,524	2,344
Investment in equity accounted investee	7	702,363	633,469	15,730
Lease prepayments	9	63,068	273,911	1,412
Other assets	10	672,843	554,358	15,069
Other investments	15	160		4
Deferred tax assets	11			
Total non-current assets		**5,303,533**	**5,043,284**	**118,780**
Inventories	12	15,637	21,488	350
Trade and other receivables, net	13	3,185,913	3,195,012	71,353
Prepayments for current assets	14	190,191	191,318	4,260
Restricted cash	8	84,538	360,909	1,893
Cash and cash equivalents	8	458,559	517,789	10,270
Total current assets		**3,934,838**	**4,286,516**	**88,126**
Total assets		**9,238,371**	**9,329,800**	**206,906**
Equity	16			
Share capital		858,832	546,332	19,235
Share premium		17,216,121	16,528,621	385,579
Share based payment reserve		190,325	180,124	4,263
Other components of equity		7,365	3,374	165
Accumulated deficit		(13,606,851)	(13,087,359)	(304,745)
Total equity attributable to equity holders of the Company		**4,665,792**	**4,171,092**	**104,497**
Non-controlling interest				
Total equity		**4,665,792**	**4,171,092**	**104,497**

99

Table of Contents

Sify Technologies Limited
Consolidated Statement of Financial Position

(In thousands of Rupees, except share data and as otherwise stated)	Note	As at March 31, 2011 Rs	As at March 31, 2010 Rs	As at March 31, 2011 Convenience translation into US$ thousands (Unaudited) Note 2(c)
Liabilities				
Finance lease obligations, other than current installments	17	127,746	155,347	2,861
Borrowings	20	262,608	449,424	5,881
Employee benefits	18	47,788	54,807	1,070
Other liabilities	19	163,245	165,800	3,657
Total non-current liabilities		**601,387**	**825,378**	**13,469**
Finance lease obligations, current installments	17	60,507	45,970	1,355
Borrowings	20	1,035,802	952,846	23,198
Bank overdraft	8	678,901	1,060,284	15,205
Trade and other payables	21	1,783,388	1,855,664	39,941
Deferred income	22	412,594	418,566	9,241
Total current liabilities		**3,971,192**	**4,333,330**	**88,940**
Total liabilities		**4,572,579**	**5,158,708**	**102,409**
Total equity and liabilities		**9,238,371**	**9,329,800**	**206,906**

The accompanying notes form an integral part of these consolidated financial statements

Table of Contents

Sify Technologies Limited
Consolidated Statement of Income

(In thousands of Rupees, except share data and as otherwise stated)	Note	Year ended March 31, 2011 Rs	2010 Rs	2009 Rs	Year ended March 31, 2011 Convenience translation into US$ thousands (Unaudited) Note2(c)
Revenue					
- Rendering of services		6,283,569	5,657,140	5,519,140	140,729
- Sale of products		603,060	1,053,048	643,021	13,507
Total	23	6,886,629	6,710,188	6,162,161	154,236
Cost of goods sold and services rendered					
- Rendering of services		(3,655,994)	(3,157,472)	(3,033,798)	(81,881)
- Sale of products		(553,436)	(939,066)	(579,551)	(12,395)
Total	25	(4,209,430)	(4,096,538)	(3,613,349)	(94,276)
Other income	26	72,693	131,789	89,105	1,628
Selling, general and administrative expenses	28	(2,441,799)	(2,482,415)	(2,813,425)	(54,688)
Depreciation and amortization	5 & 6	(685,836)	(656,797)	(498,872)	(15,360)
Impairment loss on intangibles including goodwill	6	(1,857)	(47,269)	(15,200)	(42)
Income from legal settlement	27		561,120		
Profit / (loss) from operating activities		**(379,600)**	**120,078**	**(689,580)**	**(8,502)**
Finance income	31	45,698	27,994	122,565	1,023
Finance expenses	31	(258,622)	(293,873)	(251,660)	(5,792)
Net finance income / (expense)	31	**(212,924)**	**(265,879)**	**(129,095)**	**(4,769)**
Share of profit of equity accounted investee	7	73,032	91,135	64,091	1,636
Profit / (loss) before tax		**(519,492)**	**(54,666)**	**(754,584)**	**(11,635)**
Income tax (expense) / benefit	11		81,479	(97,049)	
Profit / (loss) for the year		**(519,492)**	**26,813**	**(851,633)**	**(11,635)**
Attributable to:					
Equity holders of the Company		(519,492)	17,027	(900,574)	(11,635)
Non-controlling interest			9,786	48,941	
		(519,492)	**26,813**	**(851,633)**	**(11,635)**

Earnings / (loss) per share	32				
Basic earnings /(loss) per share		(8.20)	0.33	(20.77)	(0.18)
Diluted earnings/(loss) per share		(8.20)	0.33	(20.77)	(0.18)

The accompanying notes form an integral part of these consolidated financial statements

Table of Contents

Sify Technologies Limited
Consolidated Statement of Comprehensive Income

(In thousands of Rupees, except share data and as otherwise stated)	Note	Year ended March 31, 2011 Rs	2010 Rs	2009 Rs	2011 Convenience translation into US$ thousands Note 2(c) (Unaudited)
Profit / (loss) for the year		**(519,492)**	**26,813**	**(851,633)**	**(11,635)**
Other comprehensive income					
Foreign currency translation differences for foreign operations		(229)	1,682	(1,256)	(5)
Defined benefit plan actuarial gains / (losses)		8,358	5,508	(4,346)	187
Change in fair value of available for sale investments, transferred to profit or loss			6,441		
Change in fair value of available for sale investments				(5,361)	
Share of gains and (losses) from equity accounted investees (net of taxes)		(4,138)	(566)	296	(93)
Other comprehensive income for the year, net of income tax		**3,991**	**13,065**	**(10,667)**	**89**
Total comprehensive income for the year	16	**(515,501)**	**39,878**	**(862,300)**	**(11,546)**
Attributable to:					
Equity holders of the Company		(515,501)	30,092	(911,241)	(11,546)
Non-controlling interest			9,786	48,941	
Total comprehensive income/(expense) for the year		**(515,501)**	**39,878**	**(862,300)**	**(11,546)**

The accompanying notes form an integral part of these consolidated financial statements

Table of Contents

Sify Technologies Limited
Consolidated Statement of Changes in Equity
(In thousands of Rupees, except share data and as otherwise stated)
For year ended March 31, 2011

Particulars	Share capital	Share premium	Share based payment reserve	Other components of equity	Retained earnings / (accumulated deficit)	Total	Non-controlling interest	Total equity
Balance at April 1, 2010	**546,332**	**16,528,621**	**180,124**	**3,374**	**(13,087,359)**	**4,171,092**		**4,171,092**
Total comprehensive income for the year				**3,991**	**(519,492)**	**(515,501)**		**(515,501)**
Transactions with owners, recorded directly in equity								
Issue of share capital	312,500	687,500				1,000,000		1,000,000
Share-based payment transactions			10,201			10,201		10,201
Balance at March 31, 2011	**858,832**	**17,216,121**	**190,325**	**7,365**	**(13,606,851)**	**4,665,792**		**4,665,792**

Table of Contents

Sify Technologies Limited
Consolidated Statement of Changes in Equity
(In thousands of Rupees, except share data and as otherwise stated)
For year ended March 31, 2010

Particulars	Share capital	Share premium	Share based payment reserve	Other components of equity	Retained earnings / (accumulated deficit)	Total	Non-controlling interest	Total equity
Balance at April 1, 2009	**441,018**	**16,375,217**	**149,535**	**(9,691)**	**(13,104,386)**	**3,851,693**	**248,848**	**4,100,541**
Total comprehensive income for the year				**13,065**	**17,027**	**30,092**	**9,786**	**39,878**
Transactions with owners, recorded directly in equity								
Issue of share capital	105,300	737,537				842,837		842,837
Share options exercised	14	70				84		84
Share-based payment transactions			30,589			30,589		30,589
Changes in ownership interests in subsidiaries that do not result in a loss of control								
Acquisition of non-controlling interest		(584,203)				(584,203)	(258,634)	(842,837)
Balance at March 31, 2010	**546,332**	**16,528,621**	**180,124**	**3,374**	**(13,087,359)**	**4,171,092**		**4,171,092**

Table of Contents

Sify Technologies Limited
Consolidated Statement of Changes in Equity
(In thousands of Rupees, except share data and as otherwise stated)
For year ended March 31, 2009

Particulars	Share capital	Share premium	Share based payment reserve	Other components of equity	Retained earnings / (accumulated deficit)	Total	Non-controlling interest	Total equity
Balance at April 1, 2008	**441,018**	**16,368,647**	**149,398**	**976**	**(12,265,055)**	**4,694,984**	**199,907**	**4,894,891**
Total comprehensive income for the year				**(10,667)**	**(900,574)**	**(911,241)**	**48,941**	**(862,300)**
Transactions with owners, recorded directly in equity								
Share-based payment transactions			61,380			61,380		61,380
Stock options lapsed			(61,243)		61,243			
Others		6,570				6,570		6,570
Balance at March 31, 2009	**441,018**	**16,375,217**	**149,535**	**(9,691)**	**(13,104,386)**	**3,851,693**	**248,848**	**4,100,541**

The accompanying notes form an integral part of these consolidated financial statements.

Table of Contents

Sify Technologies Limited
Consolidated Statements of Cash Flows
For the fiscal years ended March 31,

(In thousands of Rupees, except share data and as otherwise stated)	Year ended March 31, 2011 Rs	2010 Rs	2009 Rs	2011 Convenience translation into US$ thousands (Unaudited) Note 2(c)
Profit/(loss) for the year	(519,492)	26,813	(851,633)	(11,635)
Adjustments for:				
Depreciation and amortization	685,836	656,797	498,872	15,360
Impairment loss on intangibles including goodwill	1,857	47,269	15,200	42
Share of profit of equity accounted investee	(73,032)	(91,135)	(64,091)	(1,636)
(Gain) / loss on sale of property, plant and equipment	(594)	(2,414)	(828)	(13)
Provision for doubtful receivables	161,922	121,987	84,346	3,626
Provision for finance lease receivables			6,929	
Realized loss on sale of investments		373		
Stock compensation expense	10,201	30,589	61,380	229
Net finance (income) / expense	212,924	265,879	129,095	4,769
Income tax expense/(benefit)		(81,479)	97,049	
Unrealized (gain)/ loss on account of exchange differences	1,196	703	455	27
Amortization of leasehold prepayments		3,917	8,403	
Provision for infrastructure costs			10,000	
	480,818	979,299	(4,823)	10,853
Change in trade and other receivables	(153,560)	(585,805)	(314,349)	(3,439)
Change in inventories	5,851	17,600	(1,337)	131
Change in other assets	(34,082)	(64,112)	224,625	(763)
Change in trade and other payables	(26,597)	517,497	(171,261)	(596)
Change in employee benefits	1,341	(3,984)	17,704	30
Change in deferred income	(5,972)	63,762	(13,555)	(134)
	267,799	924,257	(262,996)	5,998
Income taxes paid	(42,440)	(164,455)	(108,560)	(951)
Net cash from / (used in) operating activities	**225,359**	**759,802**	**(371,556)**	**5,047**

Table of Contents

Sify Technologies Limited
Consolidated Statements of Cash Flows
For the fiscal years ended March 31,

(In thousands of Rupees, except share data and as otherwise stated)	Year ended March 31, 2011 Rs	2010 Rs	2009 Rs	2011 Convenience translation into US$ thousands (Unaudited) Note 2(c)
Cash flows from / (used in) investing activities				
Acquisition of property, plant and equipment	(674,558)	(759,435)	(1,170,905)	(15,107)
Expenditure on intangible assets	(120,710)	(220,299)	(165,247)	(2,703)
Proceeds from sale of property, plant and equipment	3,109	5,979	2,393	69
Net investment in leases			5,111	
Payment towards purchase of unquoted equity shares	(160)			(4)
Finance income received	61,669	57,130	154,492	1,381
Short term investments (net)		19,942		
Net cash from / (used in) investing activities	**(730,650)**	**(896,683)**	**(1,174,156)**	**(16,364)**
Cash flows from / (used in) financing activities				
Proceeds from issue of share capital (including share premium)	1,000,000	84		22,396
Proceeds from / (repayment) of borrowings (net)	(103,860)	8,409	1,227,733	(2,326)
Finance expenses paid	(293,265)	(318,723)	(249,908)	(6,568)
Repayment of finance lease liabilities	(51,175)	(44,256)	(9,028)	(1,146)
Net cash from / (used in) financing activities	**551,700**	**(354,486)**	**968,797**	**12,356**
Net increase / (decrease) in cash and cash equivalents	46,409	(491,367)	(576,920)	1,039
Cash and cash equivalents at April 1	(181,586)	312,715	888,690	(4,067)
Effect of exchange fluctuations on cash held	(627)	(2,934)	945	(14)
Cash and cash equivalents at March 31	**(135,804)**	**(181,586)**	**312,715**	**(3,042)**

Refer note 3 (c) and note 8 for the composition of cash and cash equivalents.

Supplementary information				
	38,111	99,950	158,962	854

Additions to property, plant and equipment
represented by finance lease obligations

The accompanying notes form an integral part of these consolidated financial statements

Table of Contents

SIFY TECHNOLOGIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Rupees, except share data and as stated otherwise)

1. Reporting entity

Sify Technologies Limited, (Sify or the Company) formerly known as Sify Limited, is a leading internet services provider headquartered in Chennai, India. These Consolidated Financial Statements comprise the Company and its subsidiaries (Sify Software Limited, Sify Technologies (Singapore) Pte. Limited and Sify International Inc.) (together referred to as the Group and individually as Group entities) and the Group s interest in MF Global Sify Securities India Private Limited, an equity accounted investee. 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 on the NASDAQ Global Market in the United States.

2. Basis of preparation

a. Statement of compliance

The accompanying Consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations as issued by the International Accounting Standards Board (IASB).

These Consolidated Financial Statements have been approved for issue by the Board of Directors on October 12, 2011

b. Basis of measurement

These Consolidated Financial Statements have been prepared on the historical cost basis except for the following:

Available for sale financial assets are measured at fair value

Derivative financial instruments are measured at fair value

Financial instruments at fair value through profit or loss are measured at fair value.

The defined benefit asset is recognised as the net total of the plan assets, plus unrecognized past service cost and unrecognized actuarial losses, less unrecognized actuarial gains and the present value of the defined benefit obligation.

In relation to lease prepayments, the initial fair value of the security deposit, is estimated as the present value of the refundable amount, discounted using the market interest rates for similar instruments. The difference between the initial fair value and the refundable amount of the deposit is recognized as a lease prepayment.

The above items have been measured at fair value and the methods used to measure fair values are discussed further in Note 4.

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. The U.S. dollar is the functional currency of Sify s foreign subsidiaries located in the United States and in Singapore.

The Consolidated 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 (unaudited): Solely for the convenience of the reader, the financial statements as of and for the year ended March 31, 2011 have been translated into United States dollars (neither the presentation currency nor the functional currency of the Group) based on the reference rate in the City of Mumbai on March 31, 2011, for cable transfers in Indian rupees as published by the Reserve Bank of India which was Rs.44.65 per $1.00. 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 March 31, 2011 or at any other date.

Table of Contents

d. Use of estimates and judgements

The preparation of Consolidated 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 in which the estimates are revised and in future periods affected.

In particular, areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements include the following**:**

Measurement of the recoverable amounts of cash-generating units containing goodwill (Note 6)
Useful lives of property, plant and equipment (Note 3 e and Note 5)
Useful lives of intangible assets (Note 3 f and Note 6)
Lease classification (Note 3 g, 9, 17 and 33)
Utilization of tax losses (Note 11)
Measurement of defined employee benefit obligations (Note 18)
Measurement of share-based payments (Note 30 and Note 37)
Valuation of financial instruments (Note 3 c, 4, 38 and 39)
Provisions and contingencies (Note 3 m and 35)

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements.

a. Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power directly/indirectly 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 currently are exercisable are taken into account. The financial statements of subsidiaries are consolidated from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Group.

(ii) Associates (equity accounted investees)

Associates are those entities where the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group s investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The Consolidated Financial Statements include the Group s share of the income and expenses and equity movements of equity accounted investees from the date that significant influence commences until the date that significant influence ceases. When the Group s share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Table of Contents

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group s interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

b. Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies on initial recognition are translated to the respective functional currencies of Group entities at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rates at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities denominated in a foreign currency and measured at historical cost are translated at the exchange rate prevalent at the date of transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale financial assets that are not monetary items, are recognised directly in other comprehensive income.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Indian Rupees at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Indian rupees using average exchange rates during the period. Foreign currency differences are recognised in other comprehensive income. Such differences are captured in the foreign currency translation reserve FCTR within other components of equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

c. Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. However if the instrument is recognized as at fair value through profit or loss then any directly attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

Non-derivative financial assets

a) Available-for-sale financial assets

Available-for-sale (AFS) financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss in accordance with IAS 39.

Investments in equity and certain debt securities are initially recognised at fair value and classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items are recognised directly in other comprehensive income. When an investment is de-recognised, the cumulative gain or loss in equity is transferred to profit or loss. These are presented as current assets unless the management intends to dispose of the assets after 12 months from the balance sheet date.

Table of Contents

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are presented as current assets, except for those maturing later than 12 months after the balance sheet date which are presented as non-current assets. Loans and receivables are initially measured at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method, less any impairment loss. Loans and receivables are represented by trade receivables, unbilled revenue, cash and cash equivalents. Cash and cash equivalents comprise cash balances and demand deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group s cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

c) Others

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Non-derivative financial liabilities

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the assets and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities to the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings and trade and other payables.

(ii) Derivative financial instruments

Foreign exchange forward contracts and options are purchased to mitigate the risk of changes in foreign exchange rates associated with certain payables, receivables and forecasted transactions denominated in certain foreign currencies.

These derivative contracts do not qualify for hedge accounting under IAS 39, and are initially recognised at fair value on the date the contract is entered into and subsequently re-measured at their fair value. Gains or losses arising from changes in the fair value of the derivative contracts are recognised immediately in profit or loss. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

d. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or share options are recognised as a deduction from equity, net of any tax effects.

e. Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and where applicable accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. To the extent the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditure incurred on such asset. The capitalization rate is determined based on the weighted average of borrowing costs applicable to the borrowings of the Group which are outstanding during the period, other than borrowings made specifically towards purchase of the qualifying asset. The amount of borrowing costs that the Group capitalizes during a period does not exceed the amount of borrowing costs incurred during that period. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

111

Table of Contents

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within other income / other expenses in statement of income.

(i) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is de-recognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(ii) Depreciation

Depreciation is recognised in the consolidated statement of income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Management s estimated useful lives for the years ended March 31, 2011, 2010 and 2009 were as follows:

	Estimate of useful life in years
Buildings	28
Plant and machinery comprising computers, servers etc.	3 5*
Plant and machinery comprising other items	8*
Furniture and fittings	5
Office equipment	5
Motor vehicles	3 5

* Revised during the year ended March 31, 2008. Also refer note 5.

Depreciation method, useful lives and residual values are reviewed at each of the reporting date.

f. Business combinations and intangible assets

(i) Business combinations

Business combinations are accounted for using IFRS 3 (Revised), Business Combinations. IFRS 3 requires the identifiable intangible assets and contingent consideration to be fair valued in order to ascertain the net fair value of identifiable assets, liabilities and contingent liabilities of the acquiree. Significant estimates are required to be made in determining the value of contingent consideration and intangible assets. These valuation are conducted by independent valuation experts.

Business combinations have been accounted for using the acquisition method under the provisions of IFRS 3(Revised). The cost of acquisition is measured at the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of acquisition. The cost of acquisition also includes the fair value of any contingent consideration. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value on the date of acquisition.

Transactions costs that the group incurs in connection with a business combination such as finder s fees, legal fees, due diligence fees, and other professional and consulting fees are expensed as incurred.

Table of Contents

(ii) Goodwill

Goodwill represents the cost of a business acquisition in excess of the Group s interest in the net fair value of identifiable assets, liabilities and contingent liabilities of the acquiree.

Acquisitions prior to April 1, 2006

In respect of acquisitions prior to April 1, 2006, goodwill, if any, represents the amount recognised under the Group s previous accounting framework, US GAAP.

Acquisitions on or after April 1, 2006

For acquisitions on or after April 1, 2006, goodwill represents the excess of the cost of the acquisition over the Group s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), the Group reassesses the identification and measurement of identifiable assets, liabilities and contingent liabilities, and the measurement of the cost of acquisition, and recognizes any remaining excess in profit or loss immediately on acquisition.

Acquisition of non-controlling interest

Acquisition of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity-holders and therefore no goodwill is recognised as a result of such transactions.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investee.

(iii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the intangible asset. Borrowing costs that are directly attributable to the acquisition of qualifying intangible asset are capitalized as part of the cost of that asset. To the extent the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowings costs eligible for capitalization by applying a capitalization rate to the expenditure incurred on such asset. The capitalization rate is determined based on the weighted average of borrowing costs applicable to the borrowings of the Group which are outstanding during the period, other than borrowings made specifically towards purchase of the qualifying asset. The amount of borrowing costs that the Group capitalizes during a period does not exceed the amount of borrowing costs incurred during that period.

(iv) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, are recognised in profit or loss as incurred.

(v) Amortisation of intangible assets with finite useful lives

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and previous year are as follows:

	Estimate of useful life in years
Software	Not exceeding 3 years
Technical know-how	5 years
License fees	20 years
Portals and web development cost	5 years
Customer related intangibles	5 years

113

Table of Contents

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

g. Leases

At the inception of a lease, the lease arrangement is classified as either a finance lease or an operating lease, based on the substance of the lease arrangement.

Assets taken on finance lease:

A finance lease is recognised as an asset and a liability at the commencement of lease, at lower of the fair value of leased asset or the present value of the minimum lease payments. Initial direct costs, if any, are also capitalized and subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets taken on operating lease:

Other leases are operating leases and the leased assets are not recognised on the Group s statement of financial position. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Assets given on finance lease:

The Group is a dealer lessor for leasing various types of products sold to its customers. Profit or loss on sale of such products is recognised in accordance with the policy on outright sales. Finance income i.e., excess of gross minimum lease payments and normal selling price is recognised over the lease period.

Deposits provided to lessors:

The Group is generally required to pay refundable security deposits in order to obtain property leases from various lessors. Such security deposits are financial assets and are recorded at fair value on initial recognition. The difference between the initial fair value and the refundable amount of the deposit is recognized as a lease prepayment. The initial fair value is estimated as the present value of the refundable amount of security deposit, discounted using the market interest rates for similar instruments.

Subsequent to initial recognition, the security deposit is measured at amortised cost using the effective interest method with the carrying amount increased over the lease period up to the refundable amount. The amount of increase in the carrying amount of deposit is recognised as interest income. The lease prepayment is amortised on a straight line basis over the lease term as a lease rental expense.

h. Inventories

Inventories comprising traded hardware and software are measured at the lower of cost (determined using first-in first-out principle) and net realizable value. Cost comprises cost of purchase and all directly attributable costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

i. Construction contracts in progress

Construction contracts in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billing and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group s contracts and activities based on normal operating capacity.

Table of Contents

Construction contract in progress is presented as part of trade and other receivable in statement of financial position for all contracts in which costs incurred plus recognised profit exceed progress billings. If progress billings exceeds cost incurred plus recognised profits, then the difference is presented as deferred income / revenue in the statement of financial position.

j. Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset is considered to be impaired and impairment losses are recognized, if objective evidence indicates that one or more events such as a loss event, the significant financial difficulty of the issuer, a breach of contract, the disappearance of an active market, which have had a negative effect on the estimated future cash flows of that asset. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Available-for-sale financial assets

Significant or prolonged decline in the fair value of the security below its cost and the disappearance of an active trading market for the security are objective evidence that the security is impaired. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value. The cumulative loss that was recognized in the equity is transferred to the consolidated income statement upon impairment. Such impairment loss is recognized in the consolidated income statement.

Loans and receivables

Impairment loss in respect of loans and receivables measured at amortized cost are calculated as the difference between their carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Such impairment loss is recognized in the consolidated income statement.

Reversal of impairment loss

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in other comprehensive income and presented within equity.

Non-financial assets

The carrying amounts of the Group s non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset s recoverable amount is estimated. For goodwill, the recoverable amount is estimated each year at 31 December.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit).

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination. Corporate assets for the purpose of impairment testing are allocated to the cash generating units on a reasonable and consistent basis.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit or group of units on a *pro rata basis.*

115

Table of Contents

Reversal of impairment loss

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised directly in other comprehensive income and presented within equity.

k. Employee benefits

Employee benefits are accrued in the period in which the associated services are rendered by employees of the Group, as detailed below:

(a) Defined contribution plan (Provident fund)

In accordance with Indian law, all employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and employer make monthly contributions to the plan, each equal to a specified percentage of employee s basic salary. The Group has no further obligations under the plan beyond its monthly contributions. The Group does not have any legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Obligation for contributions to the plan is recognised as an employee benefit expense in profit or loss when incurred.

(b) Defined benefit plans (Gratuity)

In accordance with applicable Indian laws, the Group provides for gratuity, a defined benefit retirement plan (the Gratuity Plan) covering all employees. The Gratuity Plan provides a lump sum payment to vested employees, at retirement or termination of employment, an amount based on the respective employee s last drawn salary and the years of employment with the Group. The Company s net obligation in respect of the gratuity plan is calculated by estimating the amount of future benefits that the employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service cost and the fair value of plan assets are deducted. The discount rate is the yield at the reporting date on risk free government bonds that have maturity dates approximating the terms of the Company s obligations. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

The Group recognizes all actuarial gains and losses arising from defined benefit plans directly in other comprehensive income and presented within equity. The Company has an employees gratuity fund managed by the Life Insurance Corporation of India (LIC).

(c) Short term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(d) Compensated leave of absence

The employees of the Group are entitled to compensated absence. The employees can carry forward a portion of the unutilized accrued absence and utilize it in future periods or receive cash compensation at retirement or termination of employment for the unutilized accrued compensated absence. The Group recognizes an obligation for compensated absences in the period in which the employee renders the services. The Group provides for the expected cost of compensated absence as the additional amount that the Group expects to pay as a result of the unused entitlement that has accumulated based on actuarial valuations at the balance sheet date, carried out by an independent actuary.

Table of Contents

l. Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The expense is recorded for each separately vesting portion of the award as if the award was, in substance, multiple awards. The increase in equity recognised in connection with a share based payment transaction is presented as a separate component in equity. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest. In respect of options whose terms and conditions are modified, the Group includes the incremental fair value of the options in the measurement of the amounts recognised for services received from the employees. The incremental fair value is the difference between the fair value of the modified option and that of the original option both estimated as at the date of the modification. If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period. If the modification occurs after vesting date, the incremental fair value granted is recognised immediately, or over the vesting period if the employee is required to complete an additional period of service before becoming unconditionally entitled to those modified equity instruments.

Indian tax regulations required the Group to pay Fringe Benefit Tax (FBT) upon the exercise of employee stock options. The amount of FBT arising on exercise of employee stock options is calculated by reference to the difference between the fair value of the underlying share at the date of vesting and the exercise price payable by the employee, i.e. the intrinsic value of the option at the vesting date. The Group recognizes the liability for the amount of FBT over the vesting period. The Group s obligation to pay FBT arises only upon the exercise of options by the employees. The amount of FBT payable by the Group is recovered from the employees upon the exercise of their stock options. The Group recognizes a FBT recoverable from its employees when it is virtually certain that the reimbursement will be received if the Group settles the obligation. The amounts of FBT payable and recoverable are disclosed separately in the balance sheet and are not offset with each other. With the abolition of FBT with effect from April 1, 2009, the FBT is not chargeable on the exercise of employee stock options.

m. Provisions

Provisions are recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognizes any impairment loss on the assets associated with that contract.

n. Revenue

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

Revenue from services rendered is recognized in the consolidated income statement in proportion to the stage of completion of the transaction at the reporting date.

Table of Contents

The revenue recognition in respect of the various streams of revenue is described below:

(i) Corporate network/data services

Corporate network service revenues primarily include connectivity services and sale of hardware and software (purchased from third party vendors), and to a lesser extent, installation of a connectivity link, and other ancillary services such as e-mail and domain registration. Generally these elements are sold as a package consisting all or some of the elements. In these cases the Group applies the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction with different revenue allocations for each component. These multiple element arrangements are recognised as separable elements because each element constitutes a separate earnings process, each element has a fair value that is reliable, verifiable and objectively determinable, and the undelivered element is not essential to functionality of the delivered elements. In this arrangement involving delivery of multiple elements, the units of accounting are determined based on whether the delivered items have a value to the customer on a stand alone basis, whether there is objective and reliable evidence of fair value of the undelivered elements and if the arrangement includes a general right of return relative to the delivered item, whether delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Group. The arrangement consideration is allocated to the units of accounting based on their relative fair values. Revenue on delivered items is recognised when the revenue recognition criteria applicable to that unit of accounting are met.

The Group provides connectivity for a fixed period of time at a fixed rate regardless of usage. Connectivity is the last element that is provided in the case of a bundled contract. The connectivity charges are the same when sold alone or as part of a package. The revenue attributable to connectivity services is recognised ratably over the period of the contract. The hardware and software are standard products that are freely traded in and purchased from the market, have standard specifications and are not otherwise customized for the specific needs of a customer. The software sold by the Group is off-the-shelf software, such as antivirus utilities and firewalls. The fair value for the hardware and software is available from the market. The revenue attributable to hardware/software is recognised on delivery. Trading transactions relating to standard hardware and software and involving arrangement of purchases from suppliers and sales to customers are reported on gross basis or on net basis, by carrying out a fact-specific evaluation of such transactions. In circumstances where there is multi element arrangement that includes both hardware/software sales and last mile connectivity services, revenue from sale of hardware/software is recognised only upon completion of the services relating to last mile connectivity. Installation consists of commissioning of the last mile connectivity to the customer premises either through the Group s wireless mode of broadband delivery or through the carrier exchange. However, once commissioned this last mile connectivity can be used by the customer to access any other service provider. When the customer has such last mile connectivity, the Group does not charge any installation fee. Due to the short duration, the revenue attributable to the installation of the link is recognised on completion of the installation work. Revenue from ancillary services such as e-mail and domain registration are recognised over the period such facilities are provided. All revenues are shown exclusive of sales tax and service tax.

Web hosting service revenues primarily include co-location services and connectivity services. On occasions, the Group also sells related hardware/software to its web hosting customers. At all times, such hardware and software belongs to the customer. This hardware as well as software are purchased from outside vendors and are freely traded in the market. The Group treats each element as a separate component of the arrangement which have separate earnings process. The value of the hosting service is determined based on fair value from similar services provided separately by the Group. When hardware and/or software is also included with hosting services and sold as a package, the revenue is allocated to the respective element based on their relative fair values. Revenue from hosting services is recognised over the period during which the service is provided.

The Group remotely manages the Information Technology infrastructure of global enterprises from India. The contracts are on time and material basis. Revenue in relation to time is measured as the agreed rate per unit of time multiplied by the units of time expended. The element of revenue related to materials is measured in accordance with the terms of the contract.

The Company provides NLD (National Long Distance) and ILD (International Long Distance) services through company s network. The Company carries voice traffic, both national and international, using the IP back-bone and

delivers voice traffic to Direct Inter-connect Operators. Revenue is recognised based upon metered call units of voice traffic terminated on the Company s network.

The Company generates revenues from construction of data centers. Revenue from such contracts includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity. The stage of completion is assessed by reference to the cost incurred until date to the total estimated costs. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

Table of Contents

(ii) Internet access services

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

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

VoIP services are mainly provided through Internet Telephony Booths at e-ports (formerly iway s) cybercafés and to a smaller extent through Cable TV operators, (CTOs). The user purchases the packs that enable them to use the Internet telephone facility through CTOs and revenue is recognised on the basis of usage by the customer. The customers use Internet telephony facilities at the iway cybercafés and make the payment to the extent of usage of the facility.

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

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

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

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

The initial franchisee fee revenue is recognised as revenue when all of the obligations required of the Group have been substantially accomplished or provided. Internet access revenue and Internet telephony revenues are recognised based on usage by the customer.

(iii) Online portal services

The Group enters into contracts with customers to serve advertisements in its portal and the Group is paid on the basis of impressions, click-throughs or leads and in each case the revenue is recognised based on actual impressions/click-throughs/leads delivered. Revenue from advertisements displayed on portals is recognised ratably over the period of contract

Table of Contents

In the case of electronic commerce transactions, there are no performance obligations or minimum guarantees. The Group acts in the capacity of an agent rather than as the principal for these transactions, and the revenue recognised on a net basis is the amount of the commission earned by the Group.

In the case of value-added services that are rendered using Sify s mobile telephone short code 54545, revenue is recognised upon delivery of the content/ring tones to the end subscriber and confirmation by the mobile phone service provider.

(iv) Other services

The Group provides e-learning software development services to facilitate web-based learning in various organizations. These customized services vary in size from customer to customer and relate to computer based and web based training in accordance with the customer specification. These services include information presentation, structured content delivery, content digitization and simulation based training. These services are generally provided on a fixed price basis. Revenue under such contracts is recognised when the outcome of the transaction can be estimated reliably by reference to the stage of completion of transaction at the reporting date. The stage of completion being determined based on the actual time spent to the total estimated time.

(v) Deferred income

Deferred income represents billing in excess of revenue recognized.

o. Export entitlements

Income in respect of import duty credit entitlement arising from export of services under the Served from India Scheme of the Government of India is recognised in the year of exports, provided there is no significant uncertainty as to the amount of entitlement and availment of the credit.

p. Finance income and expense

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, fair value gains on financial assets at fair value through profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date when the Group s right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expense comprises interest expense on loans and borrowings, bank charges, unwinding of the discount on provision, losses on disposal of available-for-sale financial assets, fair value losses on financial assets at fair value through profit or loss that are recognised in statement of income.

q. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs are recognized as expenses in the period in which they are incurred. To the extent the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowings costs eligible for capitalization by applying a capitalization rate to the expenditure incurred on such asset. The capitalization rate is determined based on the weighted average of borrowing costs applicable to the borrowings of the Group which are outstanding during the period, other than borrowings made specifically towards purchase of the qualifying asset. The amount of borrowing costs that the Group capitalizes during a period does not exceed the amount of borrowing costs incurred during that period.

r. Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date.

Table of Contents

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and associates to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill, as the same is not deductible for tax purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred taxation arising on investments in subsidiaries and associates is recognised except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred taxation arising on the temporary differences arising out of undistributed earnings of the equity method accounted investee is recorded based on the managment s intention. If the intention is to realise the undistributed earnings through sale, deferred tax is measured at the capital gains tax rates that are expected to be applied to temporary differences when they reverse. However, when the intention is to realise the undistributed earnings through dividend, the Group s share of the income and expenses of the equity method accounted investee is recorded in the statement of income, after considering any taxes on dividend payable by the equity method accounted investee and no deferred tax is set up in the Group s books as the tax liability is not with the group.

s. Earnings / (loss) per share

The Group presents basic and diluted earnings / (loss) per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Where ordinary shares are issued but not fully paid, they are treated in the calculation of basic earnings per share as a fraction of an ordinary share to the extent that they were entitled to participate in dividends during the period relative to a fully paid ordinary share. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which includes share options granted to employees. To the extent that partly paid shares are not entitled to participate in dividends during the period they are treated as the equivalent of warrants or options in the calculation of diluted earnings per share.

t. Recent accounting pronouncements

In November 2009, the IASB issued *IFRS 9, Financial instruments*, to introduce certain new requirements for classifying and measuring financial assets. IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two classifications those measured at amortized cost and those measured at fair value. The standard along with proposed expansion of IFRS 9 for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment, and hedge accounting will be applicable for annual periods beginning on or after January 1, 2013, although entities are permitted to adopt earlier. We are evaluating the impact which this new standard will have on our consolidated financial statements.

In November 2009, the IASB issued *IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments*, to introduce requirements when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity s shares and other equity instruments to settle the financial liability fully or partially. This Interpretation is effective for annual periods beginning on or after July 1, 2010.

In May 2011, the IASB issued new standards and amendments on consolidated financial statements and joint arrangements. The following are new standards and amendments:

IFRS 10, Consolidated financial statements.

IFRS 11, Joint arrangements .
IFRS 12, Disclosure of interests in other entities .
IAS 27 (Revised 2011), Consolidated and separate financial statements , which has been amended for the issuance of IFRS 10 but retains the current guidance on separate financial statements.
IAS 28 (Revised 2011), Investments in associates , which has been amended for conforming changes on the basis of the issuance of IFRS 10 and IFRS 11.

Table of Contents

All the standards mentioned above are effective for annual periods beginning on or after January 1, 2013; earlier application is permitted as long as each of the other standards in this group is also early applied. We are in the process of determining the impact of these amendments on our consolidated financial statements.

On June 16, 2011, the IASB issued an amendment to *IAS-19 Employee benefits*, which amended the standard as follows:

- requires recognition of changes in the net defined benefit liability/(asset), including immediate recognition of defined benefit cost, disaggregation of defined benefit cost into components, recognition of re-measurements in other comprehensive income, plan amendments, curtailments and settlements.
- introduced enhanced disclosures about defined benefit plans.
- modified accounting for termination benefits, including distinguishing benefits provided in exchange for services from benefits provided in exchange for the termination of employment, and it affected the recognition and measurement of termination benefits.
- provided clarification regarding various issues, including the classification of employee benefits, current estimates of mortality rates, tax and administration costs and risk-sharing and conditional indexation features.
- incorporated, without change, the IFRS Interpretations Committee s requirements set forth in *IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

These amendments are effective for annual periods beginning on or after January 1, 2013; earlier application is permitted. The Group is in the process of determining the impact of these amendments on our consolidated financial statements.

4. Determination of fair values

A number of the Group s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is an estimated amount for which a property could be exchanged on the date of acquisition between a willing buyer and a willing seller in an arm s length transaction after proper marketing wherein the parties had each acted knowledgeably. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approach using quoted market prices for similar items when available and replacements costs when appropriate.

(ii) Inventories

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(iii) Intangible assets

The fair value of intangible assets acquired in the business combinations is based on discounted cash flows expected to be derived from the use and eventual sale of assets (terminal value).

(iv) Investments in equity and debt securities

The fair value of available-for-sale financial assets is determined by reference to their quoted price at the reporting date. When the fair value of the financial asset cannot be measured reliably, it is measured at cost.

Table of Contents

(v) Trade and other receivables

The fair value of trade and other receivables, excluding construction contracts in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. However in respect of such financial instruments, fair value generally approximates the carrying amount due to the short term nature of such assets. This fair value is determined for disclosure purposes or when acquired in a business combination.

(vi) Derivatives

The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, the fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest rate (based on government bonds). The fair value of foreign currency option contracts is determined based on the appropriate valuation techniques, considering the terms of the contract. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counter party when appropriate.

(vii) Non derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

(viii) Share-based payment transactions

The fair value of employee stock options is measured using the Black-Scholes method. Measurement inputs include share price on grant date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), expected term of the instrument (based on historical experience and general option holder behavior), expected dividends, and the risk free interest rate (based on government bonds).

Table of Contents

5. Property, plant and equipment

The following table presents the changes in property, plant and equipment during the year ended March 31, 2011

	Cost				Accumulated depreciation				Carrying amount
	As at April 01,			As at March 31,	As at April 1,	Depreciation for the		As at March 31,	as at March 31,
Particulars	**2010**	**Additions**	**Disposals**	**2011**	**2010**	**year**	**Deletions**	**2011**	**2011**
Building	777,419			777,419	177,072	27,754		204,826	572,593
Plant and machinery	5,302,696	199,591	68,928	5,433,359	2,929,688	474,168	68,246	3,335,610	2,097,749
Computer equipments	517,904	46,736	864	563,776	429,631	49,854	780	478,705	85,071
Office equipment	228,418	6,214	507	234,125	107,252	23,181	501	129,932	104,193
Furniture and fittings	706,148	15,731	8,520	713,359	445,437	64,442	6,777	503,102	210,257
Vehicles	6,191		3,262	2,929	6,191		3,262	2,929	
Total	**7,538,776**	**268,272**	**82,081**	**7,724,967**	**4,095,271**	**639,399**	**79,566**	**4,655,104**	**3,069,863**
Add: Construction in progress									690,610
Total	**7,538,776**	**268,272**	**82,081**	**7,724,967**	**4,095,271**	**639,399**	**79,566**	**4,655,104**	**3,760,473**

The following table presents the changes in property, plant and equipment during the year ended March 31, 2010

	Cost				Accumulated depreciation				Carrying amount
	As at April 01,			As at March 31,	As at April 1,	Depreciation for the		As at March 31,	as at March 31,
Particulars	**2009**	**Additions**	**Disposals**	**2010**	**2009**	**year**	**Deletions**	**2010**	**2010**
Building	769,663	7,756		777,419	148,401	28,671		177,072	600,347
Plant and machinery	4,733,122	827,043	257,469	5,302,696	2,765,920	420,314	256,546	2,929,688	2,373,008
Computer equipments	497,223	26,462	5,781	517,904	367,972	66,709	5,050	429,631	88,273
Office equipment	162,132	68,106	1,820	228,418	96,955	12,070	1,773	107,252	121,166
Furniture and fittings	628,279	101,188	23,319	706,148	389,771	77,608	21,942	445,437	260,711
Vehicles	8,269		2,078	6,191	6,420	1,360	1,589	6,191	
Total	**6,798,688**	**1,030,555**	**290,467**	**7,538,776**	**3,775,439**	**606,732**	**286,900**	**4,095,271**	**3,443,505**
Add: Construction									8,517

in progress									
Total	**6,798,688**	**1,030,555**	**290,467**	**7,538,776**	**3,775,439**	**606,732**	**286,900**	**4,095,271**	**3,452,022**

Table of Contents

The following table presents the changes in property, plant and equipment during the year ended March 31, 2009

	Cost				Accumulated depreciation				Carrying amount
	As at April 01,			As at March 31,	As at April 1,	Depreciation for the		As at March 31,	as at March 31,
Particulars	**2008**	**Additions**	**Disposals**	**2009**	**2008**	**year**	**Deletions**	**2009**	**2009**
Building	769,663			769,663	120,924	27,477		148,401	621,262
Plant and machinery	3,683,632	1,097,317	47,827	4,733,122	2,526,445	286,805	47,330	2,765,920	1,967,202
Computer equipments	438,597	58,824	198	497,223	297,049	71,001	78	367,972	129,251
Office equipment	116,691	47,090	1,649	162,132	83,928	14,673	1,646	96,955	65,177
Furniture and fittings	422,939	208,486	3,146	628,279	339,750	52,720	2,699	389,771	238,508
Vehicles	9,174		905	8,269	3,846	2,981	407	6,420	1,849
Total	**5,440,696**	**1,411,717**	**53,725**	**6,798,688**	**3,371,942**	**455,657**	**52,160**	**3,775,439**	**3,023,249**
Add: Construction in progress									237,665
Total	**5,440,696**	**1,411,717**	**53,725**	**6,798,688**	**3,371,942**	**455,657**	**52,160**	**3,775,439**	**3,260,914**

Change in estimated useful life

On the basis of a comprehensive evaluation during the year ended March 31, 2008, the Group had revised the estimated useful lives of its networking equipment (included under plant and machinery) and computers. As a result, the expected useful life of its networking equipment has been increased from 5 to 8 years and the expected useful life of computers has been decreased from 5 to 3 years. The effects of such changes on the depreciation expense for the years ended March 31, 2008, 2009, 2010 and 2011 are as follows:

	2008	**2009**	**2010**	**2011**
Decrease / (increase) in depreciation expense	110,315	98,650	61,498	(17,674)

Leased assets

The Group s leased assets include certain buildings, plant and machinery acquired under finance leases. As at March 31, 2011 the net carrying amount of buildings and plant and machinery acquired under finance leases is Rs.244,926 (March 31, 2010: Rs.255,244) and Rs.217,625 (March 31, 2010: 215,669) respectively. During the year, the Group acquired leased assets of Rs 38,111 (March 31, 2010: Rs 99,950).

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.

Capital Commitments

As of March 31, 2011 and March 31, 2010, the Company was committed to spend approximately Rs.521,562 (net of advances Rs.691,338) and Rs.30,552 (net of advances Rs.8,516) respectively, under agreements to purchase property, plant and equipment.

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 to be put into use are disclosed under construction-in-progress. As of March 31, 2011, construction work in progress includes Rs.682,825 (March 31, 2010: Nil) paid for acquisition of leasehold land together with building by way of acquisition of ordinary shares in Hermit Projects Private Limited. Also refer note 37.

Security

As at March 31,2011 properties with a carrying amount of Rs.2,615,097 (March 31, 2010: Rs.2,981,212) are subject to a registered charge to secure bank borrowings.

Table of Contents

6. Intangible assets

Intangible assets comprise the following:

	March 31, 2011	March 31, 2010
Goodwill	14,595	14,595
Other intangible assets	90,031	114,929
	104,626	**129,524**

(i) Goodwill

The following table presents the changes in goodwill during the years ended March 31, 2011 and 2010

	March 31, 2011	March 31, 2010
Balance at the beginning of the year	14,595	40,461
Effect of movement in exchange rates		(2,482)
Impairment loss recognised during the year		(23,384)
Net carrying amount of goodwill	**14,595**	**14,595**

The amount of goodwill as at March 31, 2011 and March 31, 2010 has been allocated to the online portals segment.

Impairment testing for cash-generating units containing goodwill

In May 2006, the Group acquired travel business for a consideration of US $2.5 million (Rs. 112,220) in cash along with an option to purchase 125,000 shares of Sify Technologies Limited and certain earn out payments aggregating to USD 0.5 million (Rs. 22,444). The assets acquired consist of system software, customer contracts and goodwill which collectively were considered as a cash generating unit (CGU) by management. The said business operates from India and United States.

During the year ended March 31, 2010, triggered by certain adverse market conditions such as decrease in revenue and increase in the cost of services, and other technological matters, the Group tested the carrying value of the above business for impairment. The recoverable amount of these intangibles including goodwill were determined based on the higher of the value in use (using discounted cash flow approach) and fair value less cost to sell. Fair value less cost to sell, being the higher of the two was determined as the recoverable amount of the CGU. Based on this assessment, the carrying value of the CGU was higher than its recoverable amount and as a result of the above, the group has recorded an impairment of the above intangibles including goodwill amounting to Rs 47,269 during the year ended March 31, 2010 and adjusted the carrying value of these intangibles accordingly.

During the year ended March 31, 2011, due to further decrease in revenue and continued losses in its travel business, the Group has tested the carrying value of the remaining intangibles and the recoverable amount of these intangibles were determined as Nil. Hence an impairment charge was recorded for Rs 1,857 (US $42), equal to the carrying value of the remaining intangibles as on the date of impairment testing.

The above impairment charges relate to online portal services segment.

Table of Contents

(ii) Other intangibles

The following table presents the changes in intangible assets during the years ended March 31, 2011, 2010 and 2009.

	Technical know-how	Portals and web content	Customer related intangibles	Software	License fees	Total
(A) Cost						
Balance as at March 31, 2008	**82,753**	**52,730**	**199,554**	**271,116**	**50,000**	**656,153**
Acquisitions during the year			1,016	48,099		49,115
Balance as at March 31, 2009	**82,753**	**52,730**	**200,570**	**319,215**	**50,000**	**705,268**
Acquisitions during the year				51,468		51,468
Disposals during the year		52,730				52,730
Balance as at March 31, 2010	**82,753**		**200,570**	**370,683**	**50,000**	**704,006**
Acquisitions during the year				23,397		23,397
Disposals during the year						
Balance as at March 31, 2011	**82,753**		**200,570**	**394,080**	**50,000**	**727,403**
(B) Amortization						
Balance as at April 1, 2008	**82,753**	**52,730**	**149,926**	**235,827**	**3406**	**524,642**
Amortization for the year			19,921	20,794	2,500	43,215
Balance as at March 31, 2009	**82,753**	**52,730**	**169,847**	**256,621**	**5,906**	**567,857**
Amortization for the year			6,144	41,421	2,500	50,065
Impairment loss on intangibles			22,148	1,737		23,885
Disposals during the year		52,730				52,730
Balance as at March 31, 2010	**82,753**		**198,139**	**299,779**	**8,406**	**589,077**
Amortization for the year			837	43,101	2,500	46,438
Impairment loss on intangibles			1,594	263		1,857
Balance as at March 31,2011	**82573**		**200,570**	**343,143**	**10,906**	**637,372**
(C) Carrying amounts						
As at March 31, 2009			**30,723**	**62,594**	**44,094**	**137,411**
As at March 31, 2010			**2,431**	**70,904**	**41,594**	**114,929**
As at March 31, 2011				**50,937**	**39,094**	**90,031**

Capital commitments

As of March 31, 2011, the Company was committed to spend approximately Rs.65,813 (net of advances Rs.393,849) (March 31, 2010: Rs. 184,908 (net of advances Rs.274,441) respectively, under agreements to purchase intangible assets.

Capitalized borrowing costs

During the years ended March 31, 2011, 2010 and 2009, the Company capitalized interest cost of Rs.35,852, Rs.24,553 and Rs.5,620 respectively. The rate of capitalization of interest cost for the year ended March 31, 2011, 2010 and 2009 was approximately 10.44%, 12.81% and 11.67% respectively.

Table of Contents

7. Investment in equity accounted investees

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 (MF Global), formerly Man Financial-Sify Securities India Private Limited (MF Global) from Refco Group Inc., USA (Refco). As at March 31, 2011, 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 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	**March 31, 2011**	**March 31, 2010**
Total assets	4,546,919	3,974,094
Total liabilities	2,193,943	1,851,919
Shareholders equity	2,352,976	2,122,175
Total Liabilities and shareholders equity	4,546,919	3,974,094

	For the year ended		
Statement of operations	**March 31, 2011**	**March 31, 2010**	**March 31, 2009**
Revenues	1,818,283	1,612,545	1,413,643
Net profit	241,840	307,543	216,917

During October 2010, Sify Technologies Ltd, the minority shareholder of MF Global holding 29.85 percent of the outstanding shares of the MF Global, requested MF Global s Board of Directors to reconsider certain costs charged to the MF Global by MF Global Holdings Ltd and its affiliated and associated group companies, who hold 70.15 percent of the outstanding shares of the MF Global. These charges are currently recorded in the financial statements of the MF Global for year ended 31st Mar 2008 aggregating to Rs.43,478,911 and 31st March 2009 aggregating to Rs.15,374,528. The resolution of this matter between the shareholders of MF Global remains uncertain and any financial adjustment that may arise is not presently known and accordingly no adjustment related to this matter has been provided for in MF Global s consolidated financial statements. Any financial adjustment that may arise on resolution of the said matter would be expected to be handled prospectively and therefore would be reported in the period in which it is resolved. Consequently, no adjustment related to the said matter was considered by Sify for equity method of accounting for MF Global. The auditors of MF Global have included an emphasis of matter with an explanatory paragraph in their audit report issued on the consolidated financial statements of MF Global for the three years ended March 31, 2011 in connection with such recorded cross charges. The effect of such recorded cross charge is not material to the financial statements of Sify.

8. Cash and cash equivalents

Cash and cash equivalents as per consolidated statement of financial position, as at March 31, 2011 amounted to Rs.458,559 (Rs. 517,789 as at March 31, 2010). This excludes cash-restricted of Rs.84,538 (Rs. 360,909 as at March 31, 2010), representing deposits held under lien against working capital facilities availed and bank guarantees given by the Group towards future performance obligations.

	March 31, 2011	**March 31, 2010**	**March 31, 2009**
(a) Restricted cash			
Non current			

Against future performance obligation			1,000
Current			
Bank deposits held under lien against borrowings / guarantees from banks	84,538	360,909	1,329,756
Total restricted cash	**84,538**	**360,909**	**1,329,756**
(b) Non restricted cash			
Current			
Cash and bank balances	**458,559**	**517,789**	**380,042**
Total cash (a+b)	**543,097**	**878,698**	**1,710,798**
Bank overdraft used for cash management purposes	(678,901)	(1,060,284)	(1,397,083)
Less: Non current restricted cash			(1,000)
Cash and cash equivalents for the statement of cash flows	**(135,804)**	**(181,586)**	**312,715**

Table of Contents

9. Lease prepayments

	March 31, 2011	March 31, 2010
Towards buildings*	63,068	273,911
	63,068	**273,911**

* Includes Rs. Nil (March 31, 2010: Rs 189,903) paid to VALS Developers Private Limited. Also refer note 37.

In respect of buildings, prepayments made towards buildings accounted for as operating leases are amortised over the lease term on a straight line basis.

10. Other assets

	March 31, 2011	March 31, 2010
Non current		
Other deposits (see notes below)	672,843	554,358
	672,843	**554,358**
Current		
Net investment in leases		
Financial assets included in other assets	**212,969**	**249,744**

(a) Includes Rs. Nil (March 31 2010: Rs.32,098) paid to VALS Developers Private Limited. Also refer note 37.

(b) Includes Rs. 459,872 (March 31 2010: Rs. 304,614) paid to Emirates Integrated Telecommunications Company PJSC in relation to supply of capacity from the Europe India Gateway and borrowing cost capitalized thereon.

11. Deferred tax assets and liabilities

The tax effects of significant temporary differences that resulted in deferred tax assets and a description of the items that created these differences is given below

	Assets / (liabilities)	
Recognised deferred tax assets / (liabilities)	**March 31, 2011**	**March 31, 2010**
Deferred tax assets		
Carry forward capital losses	90,892	82,869
	90,892	**82,869**
Deferred tax liabilities		
Property, plant and equipment		(76)
Intangible assets	(83)	(189)
Investment in equity accounted investees	(90,809)	(82604)

	(90,892)	**(82,869)**
Net deferred tax asset recognized in balance sheet		

Table of Contents

In assessing the realizability of the deferred income tax assets, management considers whether some portion or all of the deferred income tax assets will not be realized. The ultimate realization of the deferred income tax assets and tax loss carry forwards is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategy in making this assessment. Based on the level of historical taxable income and projections of future taxable income over the periods in which the deferred tax assets are deductible, management believes that the Company will realize the benefits of those recognized deductible differences. The amount of deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

Movement in temporary differences during the year

	Balance as at April 1, 2009	Recognised in income statement	Recognised in Equity	Balance as at March 31, 2010	Recognised in income statement	Recognised in Equity	Balance as at March 31, 2011
Property, plant and equipment	1,796	(1872)		(76)	76		
Intangible assets	2,212	(2401)		(189)	106		(83)
Allowance for doubtful trade and other receivables	4,516	(4,516)					
Tax loss carry forwards	67,735	14,371	763	82,869	8,875	(852)	90,892
Investment in equity accounted investees	(67,735)	(14,106)	(763)	(82,604)	(9,057)	852	(90,809)
	8,524	**(8,524)**					

Unrecognized deferred tax assets / (liabilities)

	As at March 31, 2011	As at March 31, 2010
Deductible temporary differences	157,928	172,136
Unrecognized tax losses	3,084,218	3,360,093
	3,242,146	**3,532,229**

Considering the probability of availability of future taxable profits in the period in which tax losses expire, deferred tax assets have not been recognised in respect of tax losses carried forward by the Group. The above tax losses expire at various dates until 2025.

Deferred tax liabilities as at March 31, 2011 and March 31, 2010 have not been recognised on undistributed profits of its subsidiaries since the group expects to realize the same in a tax free manner.

Income tax expense recognized in profit or loss

	March 31, 2011	March 31, 2010	March 31, 2009
Current tax expense / (benefit)			
Current period		(90,003)	90,003
		(90,003)	**90,003**
Deferred tax expense			

Origination and reversal of temporary differences	8,875	22,895	17,862
Recognition of previously unrecognized tax losses	(8,875)	(14,371)	(10,854)
Reversal of previously recognized tax losses			38
		8,524	**38**
Total income tax expense / (benefit)		**(81,479)**	**97,049**

Table of Contents

Income tax directly recognised in other comprehensive income

	March 31,2011	March 31,2010	March 31,2009
Actuarial (gains) or losses			
Tax effect of changes in the fair value of other investments			
Tax effect on share of profit of associate recognised in OCI			
Tax effect on foreign currency translation differences			

Income tax benefit / (expense) recognized directly in equity

Reconciliation of effective tax rate

A reconciliation of the income tax provision to the amount computed by applying the statutory income tax rate to the income before taxes is summarized below:

	Year ended March 31, 2011	Year ended March 31, 2010	Year ended March 31, 2009
Profit / (loss) before income taxes	(519,492)	(54,666)	(754,584)
Enacted tax rates in India	33.22%	33.99%	33.99%
Computed expected tax expense / (benefit)	(172,575)	(18,581)	(256,483)
Effect of:			
Share based payment expense not deductible for tax purposes	2,697	8,188	16,149
Unrecognized deferred tax assets on losses incurred during the year (net of temporary differences, if any)	194,140	41,370	359,669
Unrecognized deferred tax asset on temporary differences			
Share of profit of equity accounted investee taxed at a lower rate	(9,217)	(12,203)	(8,582)
Recognition of previously unrecognized tax losses	(15,045)	(18,774)	(13,203)
Reversal of tax expense consequent to merger (Refer note 40)		(81,479)	
Others			(501)
		(81,479)	**97,049**

12. Inventories

Inventories comprise:

	March 31, 2011	March 31, 2010
Communication hardware	2,824	19,826
Application software	12,813	1,662
	15,637	**21,488**

The entire carrying amount of inventories as at March 31, 2011 and 2010 are secured in connection with bank borrowings.

Table of Contents

13. Trade and other receivables

Trade and other receivables comprise:

	March 31, 2011	March 31, 2010
(i) Trade receivables, net	1,839,966	1,912,348
(ii) Other receivables including deposits	1,251,690	1,196,450
(iii) Construction contract in progress	94,257	86,214
	3,185,913	**3,195,012**

(i) Trade receivables as of March 31, 2011 and March 31, 2010 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 collateralized except to the extent of refundable deposits received from cybercafé franchisees and from cable television operators. The Group s exposure to credit and currency risks and impairment losses related to trade and other receivables, excluding construction work in progress is disclosed in note 39. Trade receivables consist of:

	March 31, 2011	March 31, 2010
Trade receivables from related parties		
Other trade receivables	2,055,974	2,083,054
	2,055,974	**2,083,054**
Less: Allowance for doubtful receivables	(216,008)	(170,706)
Balance at the end of the year	**1,839,966**	**1,912,348**

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

	For the year ended March 31, 2011	March 31, 2010
Balance at the beginning of the year	170,706	116,295
Add: Additional provision, net	161,922	121,987
Less: Bad debts written off	(116,620)	(67,576)
Balance at the end of the year	**216,008**	**170,706**

(ii) Other receivables comprises of the following items:

	March 31, 2011	March 31, 2010
Advances and other deposits (Refer Note (a) and (c) below)	684,016	657,609
Withholding taxes (Refer Note (b) below)	560,456	530,146
Employee advances	7,218	8,695

	1,251,690	**1,196,450**
Financial assets included in other receivables	**354,115**	**322,833**

Notes:

a) Advances and other deposits primarily comprises of receivables in the form of custom duty credit entitlement, service tax and other advances given in the ordinary course of business.

b) Includes withholding taxes recoverable from the Department of Income-tax for which the Company has filed tax returns for refund. The Company expects to realize such refund of withholding taxes within the next 12 months.

Table of Contents

14. Prepayments for current assets

Prepayments for current assets comprise of the following:

	March 31, 2011	March 31, 2010
Prepayments for purchase of bandwidth	71,256	79,402
Prepayments related to insurance	7,026	17,680
Prepayments-others	106,845	57,245
Lease prepayments	5,064	36,991
	190,191	**191,318**

15. Other investments

Other Investments comprise of investment in unquoted equity instruments classified as available for sale financial assets which are carried at cost. The details of such investments are given below:

	March 31, 2011	March 31, 2010
Investment in equity shares of Vashi Railway Station Commercial Complex Limited	150	
Investment in equity shares of Sify Empower India Foundation	10	
	160	

Table of Contents

16. Share capital and share premium

No of shares

	Year ended March 31,		
	2011	**2010**	**2009**
Issued as at April 01	53,351,498	42,820,082	55,637,082
Issued for cash*	125,000,000		
Issued for consideration other than cash		10,530,000	
Exercise of share options		1,416	
Shares forfeited**			(12,817,000)
Issued as at March 31	**178,351,498**	**53,351,498**	**42,820,082**

* Paid up Rs.2.50 per share

** Paid up Re.1/- per share

As at March 31, 2011 the authorized share capital comprises 180,000,000 ordinary shares (as of March 31, 2010, the number of authorized shares was 61,000,000) of Rs.10 each. The holders of ordinary shares are entitled to receive dividends from time to time and are entitled to vote at meetings of the Group. All shares rank equally with regard to Group s residual assets.

The Company had entered into a Subscription Agreement with Infinity Satcom Universal Private Limited (Infinity Satcom Universal) during the year ended March 31, 2008 for issuance of 12,817,000 equity shares of the Company with face value of Rs.10/- per share at a premium of Rs.165/-. It was approved by the Company s shareholders at the Extra ordinary General Meeting held on March 17, 2008. Infinity Satcom Universal is controlled by Ananda Raju Vegesna, Executive Director, and brother of Raju Vegesna, Chairman and Managing Director of Sify Technologies Limited.

The Company had received a sum of Rs.112,149 (comprising of Rs.12,817 towards face value and Rs.99,332 towards securities premium / share premium). Subsequently on August 28, 2008, Infinity Satcom Universal communicated to the Company that they would focus their attention on the business of Sify Communications Limited (erstwhile subsidiary) and hence shall not contribute the balance money towards the subscription of 12,817,000 equity shares, as and when it is called. Accordingly, at the meeting of the board of directors, the shares allotted and monies already collected (Rs.112,149 including sums towards capital and premium) have been forfeited.

During the year ended March 31, 2010 the company has issued 10,530,000 ordinary shares of Rs 10 each to the erstwhile shareholders of Sify Communication Limited as per the scheme of amalgamation. Refer note 40.

Further during the year ended March 31, 2010, 1,416 ordinary shares have been issued consequent to exercise of options under the Associate stock option plan.

During the year ended March 31, 2011, on August 4, 2010, the Board of Directors of the company approved the issuance, in a private placement, of upto an aggregate of 125,000,000 of the company s equity shares, par value Rs.10 per share (Equity shares), for an aggregate purchase price of approxiamately US $86 million, to a group of investors affiliated with the company s promoter group, including entities affiliated with Mr Raju Vegesna, the company s Chief Executive officer and Managing Director and Mr Ananda Raju Vegesna, Executive and brother of Mr Raju Vegesna (the Offering). The company s shareholders approved the terms of the Offering at the Company s Annual General Meeting held on September 27, 2010. On October 22 2010, the company entered into a Subscription Agreement with Mr Ananda Raju Vegesna, acting as representative (the Representative) of the purchasers in connection with the offering. The company issued 125,000,000 equity shares to the Representative on October 30, 2010. Also refer note 42.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Table of Contents

Share based payment reserve
Share based payment reserve represents the stock compensation expense recognised in the statement of changes in equity.
Fair value reserve
The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities until the investments are derecognized or impaired.
Recognised actuarial gain / loss
Recognised actuarial gain / loss represents the cumulative actuarial gain / loss recognised in other comprehensive income and presented within equity.
17. Finance lease obligations
The Group leases routers and other equipments under finance lease arrangements. The following is a schedule of future minimum finance lease commitments as at March 31, 2011:

	March 31, 2011			March 31, 2010		
	Future minimum lease payments	Interest	Present value minimum lease payments	Future minimum lease payments	Interest	Present value minimum lease payments
Less than one year	77,975	(17,468)	60,507	65,148	(19,178)	45,970
Between one and five years	144,357	(16,611)	127,746	182,206	(26,859)	155,347
Total	**222,332**	**(34,079)**	**188,253**	**247,354**	**(46,037)**	**201,317**

18. Employee benefits

	March 31, 2011	March 31, 2010
Gratuity payable	19,116	16,753
Compensated absences	28,672	38,054
	47,788	**54,807**

Gratuity cost
The components of gratuity costs recognised in the consolidated income statement for the years ending March 31, 2011, March 31, 2010 and March 31, 2009 consist of the following:

	March 31, 2011	March 31, 2010	March 31, 2009
Service cost	22,275	14,498	12,067
Interest cost	3,786	4,501	3,038
Expected return on plan asset	(2,875)	(2,963)	(1,672)
	23,186	**16,036**	**13,433**

Details of employee benefit obligation and plan asset are as follows:

	March 31, 2011	March 31, 2010

Present value of projected benefit obligation at the end of the year	59,571	51,046
Funded status of the plans	40,455	34,293
Recognised (asset) / liability	**19,116**	**16,753**

Table of Contents

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

Change in defined benefit obligation	**March 31, 2011**	**March 31, 2010**	**March 31, 2009**
Projected benefit obligation at the beginning of the year	51,046	43,389	27,332
Service cost	22,275	14,498	12,067
Interest cost	3,786	4,501	3,038
Actuarial (gain) / loss	(8,358)	(5,957)	3,662
Benefits paid	(9,178)	(5,385)	(2,710)
Projected benefit obligation at the end of the year	**59,571**	**51,046**	**43,389**

Change in plan assets	**March 31, 2011**	**March 31, 2010**	**March 31, 2009**
Fair value of plan assets at the beginning of the year	34,293	28,307	18,740
Expected return on plan assets	2,875	2,965	1,672
Actuarial gain / (loss)		(449)	(684)
Employer contributions	12,465	8,855	11,290
Benefits paid	(9,178)	(5,385)	(2,711)
Fair value of plan assets at the end of the year	**40,455**	**34,293**	**28,307**
Actual return on plan assets	2,875	2,513	988

Actuarial assumptions at end of the year:

The principal actuarial assumptions as on March 31, 2011, 2010 and 2009 were as follows:

	March 31, 2011	**March 31, 2010**	**March 31, 2009**
Discount rate	8.00% P.a	8.15% P.a	7.95% P.a
Long-term rate of compensation increase	8.00% P.a	8.00% P.a	8.00% P.a
Expected long term rate of return on plan assets	8.00% P.a	8.00% P.a	8.00% P.a
Average future working life time	8.60 years	11.06 years	10.99 years

Discount rate: The discount rate is based on prevailing market yields of Indian Government securities as at the end of the year for the estimated term of the obligations.

Long term rate of compensation increase: The estimates of future salary increases considered take into account inflation, seniority, promotion and other factors.

Expected long term rate of return on plan assets: This is based on the average long term rate of return expected on investments of the fund during the estimated term of the obligations.

Assumptions regarding future mortality are based on published statistics and mortality tables.

The Group assesses these assumptions with the projected long-term plans of growth and prevalent industry standards.

Historical information

	March 31, 2011	**March 31, 2010**
Experience adjustment on plan liabilities	8,064	(4,818)
Experience adjustment on plan assets		(450)

Contributions: The Group expects to contribute Rs.15,000 (March 31 2010: Rs12,000) to its gratuity fund during the year ending March 31, 2012.

Table of Contents

Plan assets: The Gratuity plan s weighted-average asset allocation at March 31, 2011 and March 31, 2010, by asset category is as follows:

	March 31, 2011	March 31, 2010
Funds managed by insurers	100%	100%

Actuarial gains and losses recognised in other comprehensive income

The amount of actuarial gains and losses recognised in other comprehensive income for the years ending March 31, 2011, 2010 and 2009 are as follows:

	March 31, 2011	March 31, 2010	March 31, 2009
Actuarial gain / (loss)	8,358	5,508	(4,346)
	8,358	**5,508**	**(4,346)**

Contributions to defined contribution plans

In accordance with Indian law, all employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and employer make monthly contributions to the plan, each equal to a specified percentage of employee s basic salary. The Group has no further obligations under the plan beyond its monthly contributions. The Group contributed Rs.53,923 Rs. 55,229 and Rs. 70,354 for the years ended March 31, 2011, 2010 and 2009.

19. Other liabilities

	March 31, 2011	March 31, 2010
Franchisee deposits and other liabilities	163,245	165,800
	163,245	**165,800**

Internet access services at home and through a network of cybercafés is provided through a franchised network of cable operators in India and cybercafé operators. The Group enters into an agreement with the franchisee that establishes the rights and obligations of each party and grants each franchisee a non-exclusive license to operate the cybercafé using the Group s logo, brand and trade names. The agreement provides for payment to the Company, of an initial security deposit in consideration for establishing the franchisee relationship and providing certain initial services.

20. Borrowings

	March 31, 2011	March 31, 2010
Current		
Term bank loans (Refer note 1 below)	216,000	216,000
Other working capital facilities (Refer note 2 below)	679,542	697,165
Borrowings from others (Refer note 3 below)	140,260	39,681
	1,035,802	**952,846**
Non current		
Term bank loans (Refer note 1 below)	113,880	325,940
Borrowings from others (Refer note 3 below)	148,728	123,484

	262,608	**449,424**

The Group has borrowings which include:

1. Term bank loans bear interest ranging from 9.50% to 13.50% p.a. The term loans are secured by way of pari-passu first charge over the unencumbered movable fixed assets acquired out of such term loans availed by the Company. Further these loans are collaterally secured by way of equitable mortgage over the office premises and also by way of pari passu second charge on the entire current assets of the Company.

Table of Contents

2. Working capital facilities include Letter of credit discounted, buyer s credit and foreign currency demand loan. These are secured by pari-passu charge on current assets of the Company and moveable assets of the company, both present and future. Foreign currency demand loan bear an interest of Libor +550 bps. Other working capital borrowings bear interest ranging from 11% to 14% p.a. Such facilities are renewable every year.

3. Borrowings from others are secured against relevant assets and software. However, the Company is in the process of obtaining no objection certificate from the bank with whom such relevant assets and software are hypothecated.

21. Trade and other payables

	March 31, 2011	March 31, 2010
Trade payables	814,777	989,020
Advance from customers	86,073	37,047
Accrued expenses	808,399	686,452
Other payables	74,139	143,145
	1,783,388	**1,855,664**
Financial liabilities included in trade and other payables	**1,725,907**	**1,798,764**

22. Deferred income

Deferred income includes the following amounts of unearned income:

	March 31, 2011	March 31, 2010
Corporate network/data services	339,549	328,309
Internet access services	28,966	24,941
Other services	44,079	65,316
	412,594	**418,566**

23. Revenue

	Year ended		
	March 31, 2011	March 31, 2010	March 31, 2009
Rendering of services			
Service revenue*	5,460,236	5,356,852	5,253,535
Initial franchise fee	10,992	11,369	30,489
Installation service revenue	812,341	288,919	235,116
	6,283,569	**5,657,140**	**5,519,140**
Sale of products	603,060	1,053,048	643,021
	6,886,629	**6,710,188**	**6,162,161**

* Including revenue arising from construction contracts (refer note 24)

Table of Contents

24. Construction contracts in progress

	Year ended		
	March 31, 2011	March 31, 2010	March 31, 2009
Contract revenue recognised for the year ended March 31, 2011	268,064	86,214	
Aggregate amounts of costs incurred and recognized profits (less recognised losses) upto the reporting date for contracts in progress	109,570	86,124	
Advances received for contracts in progress	27,860	16,441	
Gross amount due from customers for contract work presented as an asset	231,090	86,214	

25. 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 income.

26. Other income

	Year ended		
	March 31, 2011	March 31, 2010	March 31, 2009
Duty credit entitlement	38,006	82,486	79,278
Others	34,687	49,303	9,827
	72,693	**131,789**	**89,105**

27. Income from legal settlement

During the previous year, the Company received Rs 561,120 in connection with settlement of legal matters. This is pursuant to a legal suit filed by the company in the prior years. The said receipt has been recorded as income form legal settlement in the consolidated statement of income during the year ended March 31, 2010.

28. Selling, general and administrative expenses

	Year ended		
	March 31, 2011	March 31, 2010	March 31, 2009
Personnel expenses	561,385	745,067	987,585
Marketing and promotion expenses	394,057	482,554	608,318
Administrative and other expenses*	1,486,357	1,238,770	1,217,522
	2,441,799	**2,466,391**	**2,813,425**

* Includes foreign exchange gain / (loss) of Rs.12,941, Rs.9,397 and Rs.21,320 for the years ended March 31, 2011, 2010 and 2009 respectively.

Under the provisions of the Indian Income-tax Act, 1961, employers are required to pay fringe benefits tax (FBT) on the taxable value of the fringe benefits or privileges or that are provided or deemed to be provided to employees. FBT under the provisions of the Indian Income-tax Act, 1961 is Rs. Nil, Rs Nil, Rs.19,880 for the years ended March 31, 2011, 2010 and 2009 respectively. FBT is withdrawn with effect from April 1, 2009.

Table of Contents

29. Personnel expenses

	Year ended		
	March 31, 2011	**March 31, 2010**	**March 31, 2009**
Salaries and wages	1,211,183	1,269,638	1,532,378
Contribution to provident fund and other funds	77,164	77,197	70,354
Staff welfare expenses	22,296	27,499	38,225
Employee stock compensation expense	10,201	30,589	61,380
	1,320,844	**1,404,923**	**1,702,337**
Attributable to cost of goods sold and services rendered	759,459	659,856	714,752
Attributable to selling, general and administration expenses	561,385	745,067	987,585

30. 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. Each option entitles the holder to purchase one American Depository Share (ADS) at an exercise price determined by the Compensation committee on the date of the grant. There are no options outstanding in respect of ASOP 1999, ASOP 2000 and ASOP 2002 plan as at April 1, 2009. Our stock option plans are detailed as under:

(i) Associate Stock Option Plan 2005

In October 2005, the Group established the Associate Stock Option Plan 2005 (the ASOP 2005 Plan) which provided for issuing 1,900,000 stock options to eligible employees. The Group cancelled on September 22, 2005, all the unissued stock options pertaining to previous plans and / or the stock options surrendered or lapsed.

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

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

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

As the number of stock options and the price of those options were made known to each allottee, the Plan has been considered as a fixed price grant. Stock option activity under the ASOP 2005 Plan is as follows:

No. of options granted, exercised and forfeited	**Number of options**			**Weighted average exercise price in Rs.**		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
Outstanding at the beginning of the year			326,093			328.84
Granted during the year						
Forfeited during the year			(29,167)			449.16
Expired during the year			(296,926)			317.02
Exercised during the year						
Replaced during the year (Refer to notes below)						
Outstanding at the end of the year						

Vested and exercisable at the end of the year					
Weighted average grant date fair value of grants during the year					

Table of Contents

(ii) Associate Stock Option Plan 2007

In September 2007, the Shareholders of the Group approved a new scheme for allotment of stock options to employees, the Associate Stock Option Plan 2007. Consequent upon the introduction of ASOP 2007 plan, 797,600 unissued stock options pertaining to Associate Stock Option Plan 2005 are no longer available for issuance.

The options vest over a period of 4 years as follows:

One sixth of the option quantity:	At the end of one year from the date of the grant.
Five sixth of the option quantity:	At the end of each quarter during the second, third and fourth year from the date of the grant in twelve equal installments.

The stock options can be exercised within a period of twelve months from the date of last vesting.

As the number of stock options and the price of those options were made known to each allottee, the Plan has been considered as a fixed price grant. Stock option activity under the ASOP 2007 Plan is as follows:

No. of options granted, exercised and forfeited	Number of options 2011	Weighted average exercise price in Rs. 2011	Number of options 2010	Weighted average exercise price in Rs. 2010	Number of options 2009	Weighted average exercise price in Rs. 2009
Outstanding at the beginning of the year	1,078,800	149.21	1,211,900	152.51	1,200,400	157.35
Granted during the year	6,000	74.41	50,000	89.34	142,500	117.46
Replaced (Refer to notes below)						
Replacement options granted (Refer to notes below)						
Forfeited during the year	(81,801)	152.37	(93,616)	153.58	(131,000)	158.77
Expired during the year	(161,799)	158.52	(88,068)	158.01		
Exercised during the year			(1,416)	59.02		
Outstanding at the end of the year	841,200	146.58	1,078,800	149.21	1,211,900	152.51
Vested and Exercisable at the end of the year	566,908	151.36	437,210	155.55	185,167	157.35
Weighted average grant date fair value of grants during the year						71.82

The fair value of stock options granted has been measured using the Black Scholes model at the date of the grant. The Black Scholes model includes assumptions regarding dividend yields, expected volatility, expected term (or option life) and risk free interest rates. In respect of the options granted, the expected term is estimated based on the vesting term, contractual term as well as expected exercise behavior of the employees receiving the option. Expected volatility of the option is based on historical volatility, during a period equivalent to the option life, of the observed market prices of the Company s publicly traded equity shares. Dividend yield of the options is based on the recent dividend activity. Risk-free interest rates are based on the government securities yield in effect at the time of the grant. These assumptions reflect management s best estimates, but these assumptions involve inherent market uncertainties based on market conditions generally outside the Company s control. As a result, if other assumptions had been used in the current period, stock-based compensation expense could have been materially impacted. Further, if management uses different assumptions in the future periods, stock compensation expense could be materially impacted in future years.

141

Table of Contents

The estimated fair value of stock options is charged to income on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards.

The fair value of services received in return for share options granted under ASOP 2007 is based on the fair value of share options granted measured using Black Scholes model, with the following inputs:

	Year ended March 31, 2011	Year ended March 31, 2010	Year ended March 31, 2009
No. of options granted, exercised and forfeited			
Weighted average share price	82.68	99.26	130.41
Weighted average exercise price	74.41	89.34	117.46
Expected volatility	110.5% 124.7%	115.8% 136.7%	53.5% 120.0%
Option life	3 4.5 years	3 4.5 years	3 4.5 years
Expected dividends			
Risk-free interest rate	2.61%	2.43% 2.69%	1.64% 3.45%

A summary of information about fixed price stock options outstanding as at March 31, 2011 is furnished below:

	Range of exercise price in Rs.	Number outstanding at March 31, 2011	Weighted average exercise price in Rs.	Weighted average remaining contractual life	Number exercisable at March 31, 2011	Weighted average exercise price in Rs.
ASOP 2007	51.51-188.32	841,200	146.58	1.00	566,908	151.36

Modification

During the year ended March 31, 2008, the stock options issued under ASOP 2005 and ASOP 2007 had been out of money for most time of the vesting period. As a result, the Group s compensation committee allowed certain employees in their approval dated January 22, 2008 to surrender their (a) unvested (b) vested and (c) unexercised stock options and obtain fresh options at a discount of 10% of the market price under ASOP 2007 prevalent at the date of modification in lieu of the surrendered stock options. This modification resulted in the revision in the exercise price as well as the service period over which the stock options vest. Consequent upon modification, 497,200 stock options of ASOP 2005 plan and 123,900 stock options of ASOP 2007 plan were replaced with an allotment of equal number of fresh options to those who surrendered.

The incremental fair value of the stock options replaced was determined by reference to the difference between the fair value of the replaced stock options and the fair value of the cancelled stock options at the date of grant of new stock options. The incremental fair value as a result of such modification in respect of modified options amounted to Rs.20,959 during the year ended March 31, 2008. In respect of modification that has occurred during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised, for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period. In respect of the modification that has occurred after vesting date, the incremental fair value granted is recognised immediately or over the vesting period if the employee is required to complete an additional period of service before becoming unconditionally entitled to those modified equity instruments. The incremental cost recognised in respect of such modified options amounted to Rs.2,954, Rs.5,039 and Rs 8,838 for the years ended March 31, 2011, 2010 and 2009 respectively.

Table of Contents

The assumptions that were used in arriving at the incremental fair value are as summarized below:

Assumptions	Pre modification	Post modification
Current market price	174.83	174.83
Exercise price	308.34 578.38	157.35
Expected term	3 4.5 years	3 4.5 years
Volatility	53.83% 77.82%	53.01% 77.82%
Dividend yield	0%	0%
Discount rate	2.5%	2.5%

31. Financial income and expense

	Year ended		
	March 31, 2011	March 31, 2010	March 31, 2009
Interest income on bank deposits	21,360	19,489	116,495
Interest income from leases			435
Others	24,338	8,505	5,635
Finance income	**45,698**	**27,994**	**122,565**
Interest expense on lease obligations	20,117	16,476	2,243
Bank charges (including letter of credit, bill discounting and buyer s credit charges)	96,721	100,241	86,216
Interest expense on borrowings	141,784	177,156	163,201
Finance expense	**(258,622)**	**(293,873)**	**(251,660)**
Net finance income / (expense) recognised in profit or loss	**(212,924)**	**(265,879)**	**(129,095)**

32. Earnings / (loss) per share

The calculation of basic earnings / (loss) per share for the years ended March 31, 2011, 2010 and 2009 is based on the earnings / (loss) attributable to ordinary shareholders of Rs. (474,117), Rs 33,051 and Rs.(900,574) respectively and a weighted average number of shares outstanding of 65,149,443, 50,840,358, and 43,350,320 respectively, calculated as follows:

	Year ended		
	March 31, 2011	March 31, 2010	March 31, 2009
Net profit / (loss) as reported	(519,492)	17,027	(900,574)
Weighted average number of shares basic	63,317,251	50,840,358	43,350,320
Basic earnings / (loss) per share	(8.20)	0.33	(20.77)
Weighted average number of shares diluted	63,317,251	50,853,293	43,350,320
Diluted earnings / (loss) per share	(8.20)	0.33	(20.77)

Weighted average number of ordinary shares basic

	Year ended March 31,		
	2011	2010	2009
Issued fully paid ordinary shares at April 01	53,351,498	42,820,082	42,820,082
Effect of shares issued on exercise of stock options		166	

Effect of partly paid shares (Note 1)	9,965,753		530,238
Effect of shares issued consequent to amalgamation of Sify Communications Limited		8,020,110	
Weighted average number of equity shares and equivalent shares outstanding	63,317,251	50,840,358	43,350,320

Table of Contents

Weighted average number of ordinary shares diluted

	Year ended March 31,		
	2011	**2010**	**2009**
Weighted average number of ordinary shares (basic)	63,317,251	50,840,358	43,350,320
Effect of stock options		12,935	
Weighted average number of equity shares outstanding (diluted)	63,317,251	50,853,293	43,350,320

As the Company incurred a net loss attributable to ordinary shareholders for the years ended March 31, 2011 and 2009, 841,200 and 1,211,900 ordinary shares arising out of potential exercise of outstanding stock options as at March 31, 2011 and 2009 were not included in the computation of diluted earnings per share, as their effect was anti-dilutive.

Note 1: During the year, 125,000,000 ordinary shares were issued to the existing promoter group on a private placement basis. As of March 31, 2011, these shares were partly paid up to the extent of Rs 2.50 per share. Refer note 16 to the consolidated financial statements.

33. Operating leases

The Group leases office buildings and other equipment under operating lease arrangements that are renewable on a periodic basis at the option of both the lessor and the lessee. Some of the leases include rent escalation clauses. Rental expenses under these leases were Rs.326,507, Rs.329,332 and Rs.336,899 for the years ended March 31, 2011, 2010 and 2009 respectively. The schedule of future minimum rental payments in respect of operating leases is set out below:

As at March 31, 2011

Lease obligations	**Total**	**Less than 1 year**	**1-5 years**	**More than 5 years**
Non-cancellable operating lease obligations	1,884,543	105,693	588,973	1,189,877

As at March 31, 2010

Lease obligations	**Total**	**Less than 1 year**	**1-5 years**	**More than 5 years**
Non-cancellable operating lease obligations	1,608,509	119,871	407,890	1,080,748
Non-cancellable obligations towards proposed lease *	2,423,554	22,850	520,808	1,879,896

* For details on proposed lease, refer Note 37 on related parties.

34. 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 homes and through cybercafés,

Online portal services and content offerings; and

Other services, such as development of e-learning software.

144

Table of Contents

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

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

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

International and national bandwidth is allocated based on actual usage at an agreed methodology between corporate and retail businesses. The infrastructure costs are accumulated and allocated to retail through agreed transfer price. The Group believes that the resulting allocations are reasonable.

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

A significant part of the fixed assets used in the Group s business are not identifiable to any of the reportable segments and can be used interchangeably between segments. As a result the measures of segment assets and liabilities are not regularly reviewed by the CODM and hence disclosures relating to segment assets and liabilities have not been provided.

The Group s operating segment information for the years ended March 31, 2011, 2010 and 2009, are presented below:

Year ended March 31, 2011

	Corporate network / data services	**Internet access services A**	**Online portal services B**	**Consumer one (Sub-total) A+B**	**Other services**	**Total**
Segment revenue	5,671,909	403,925	122,441	526,366	688,354	6,886,629
Allocated segment expenses	(4,026,865)	(539,404)	(100,059)	(639,463)	(536,176)	(5,202,504)
Impairment loss on intangibles			(1,857)	(1,857)		(1,857)
Segment operating income / (loss)	**1,645,044**	**(135,479)**	**20,525**	**(114,954)**	**152,178**	**1,682,268**
Unallocated expenses:						

Cost of goods sold	(525,024)
Selling, general and administrative expenses	(980,354)
Depreciation and amortization	(685,836)
Other income / (expense), net	72,693
Finance income	45,698
Finance expenses	(201,969)
Share of profit of equity accounted investee	73,032
Profit / (loss) before tax	**(519,492)**
Income tax (expense) / benefit	
Profit / (loss) for the year	**(519,492)**

Table of Contents

Year ended March 31, 2010

	Corporate network / data services	Internet access services A	Online portal services B	Consumer one (Sub-total) A+B	Other services	Total
Segment revenue	5,335,268	713,929	130,842	844,771	530,149	6,710,188
Allocated segment expenses	(3,929,727)	(757,431)	(140,966)	(898,397)	(406,063)	(5,234,187)
Impairment loss on intangibles including goodwill			(47,269)	(47,269)		(47,269)
Segment operating income / (loss)	**1,405,541**	**(43,502)**	**(57,393)**	**(100,895)**	**124,086**	**1,428,732**
Unallocated expenses:						
Cost of goods sold						(477,807)
Selling, general and administrative expenses						(936,842)
Depreciation and amortization						(656,797)
Other income / (expense), net						131,789
Income from legal settlement						561,120
Finance income						27,994
Finance expenses						(223,990)
Share of profit of equity accounted investee						91,135
Profit / (loss) before tax						**(54,666)**
Income tax (expense) / benefit						81,479
Profit / (loss) for the year						**26,813**

Table of Contents

Year ended March 31, 2009

	Corporate network / data services	Internet access services A	Online portal services B	Consumer one (Sub-total) A+B	Other services	Total
Segment revenue	4,305,235	1,128,182	177,324	1,305,506	551,420	6,162,161
Allocated segment expenses	(2,842,889)	(1,295,332)	(220,967)	(1,516,299)	(473,008)	(4,832,196)
Impairment loss on goodwill			(15,200)	(15,200)		(15,200)
Segment operating income / (loss)	**1,462,346**	**(167,150)**	**(58,843)**	**(225,993)**	**78,412**	**1,314,765**
Unallocated expenses:						
Cost of goods sold						(484,478)
Selling, general and administrative expenses						(1,130,221)
Depreciation and amortization						(498,872)
Other income / (expense), net						89,105
Finance income						122,565
Finance expenses						(231,539)
Share of profit of equity accounted investee						64,091
Profit / (loss) before tax						**(754,584)**
Income tax (expense) / benefit						(97,049)
Profit / (loss) for the year						**(851,633)**

Year Reconciliations

	Cost of goods sold	Selling, general and administrative expenses	Finance expenses	Total
Year ended March 31, 2011				
Allocated segment expenses	3,684,406	1,461,445	56,653	5,202,504
Unallocated segment expenses	525,024	980,354	201,969	
Total as per income statement	**4,209,430**	**2,441,799**	**258,622**	
Year ended March 31, 2010				
Allocated segment expenses	3,618,731	1,545,573	69,883	5,234,187

Unallocated segment expenses	477,807	936,842	223,990	
Total as per income statement	**4,096,538**	**2,482,415**	**293,873**	
Year ended March 31, 2009				
Allocated segment expenses	3,128,871	1,683,204	20,121	4,832,196
Unallocated segment expenses	484,478	1,130,221	231,539	
Total as per income statement	**3,613,349**	**2,813,425**	**251,660**	

Table of Contents

Geographic segments

The Group has two geographic segments India and rest of the world. Revenues from the geographic segments based on domicile of the customer are as follows:

Description	India	Rest of the world	Total
Revenues			
Year ended March 31, 2011	4,495,801	2,390,828	6,886,629
Year ended March 31, 2010	4,950,352	1,759,836	6,710,188
Year ended March 31, 2009	5,071,137	1,091,024	6,162,161

The Group does not disclose information relating to non-current assets located in India and rest of the world as the necessary information is not available and the cost to develop it would be excessive.

35. Contingencies

a) During the previous years, the Group had received assessment orders from the Income-tax Department of India for various financial years disallowing certain expenditure like bandwidth charges and foreign currency payments for non-deduction of withholding taxes. The Company appealed against those order before Commissioner of Income Tax (Appeals) (CIT(A)) and received favourable orders. The department has filed appeals before Income Tax Appellate Tribunal (ITAT) disputing CIT(A) orders. The group believes that the appeal by the department is not sustainable and consequently no loss contingency is necessary as at March 31, 2011. Income tax claims against the company as at March 31, 2011 amounted to Rs. 84,981 (March 31, 2010: Nil)

b) Contingencies due to certain service tax claims as at March 31, 2011 amounted to Rs 243,610 (March 31, 2010: Rs. 33,280).

c) Additionally, the Group is also involved as a party to lawsuits, claims and proceedings, which arise in the ordinary course of business. The Group does not foresee any material contingency out of the pending issues.

d) The Group during the year ended March 31, 2009 entered into a contract with Emirates Integrated Telecom for the construction and supply of capacity from the Europe India Gateway. As per the contract with Emirates, the Group is required to pay its share of decommissioning costs if any that may arise in the future. No provision has been made by the Group for such decommissioning costs as the amount of provision cannot be measured reliably as at March 31, 2011.

d) In respect of contingencies arising on legal proceedings, refer Note 36.

36. Legal proceedings

(b) 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 the 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 the Sify s ADSs from the time of the Sify s Initial Public Offering (IPO) in October 1999 through December 2000. The central allegation in this action is that the underwriters in the Sify s IPO solicited and received undisclosed commissions from, and entered into undisclosed arrangements with, certain investors who purchased the 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 Sify 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 Sify 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 Sify. On June 26, 2003, the plaintiffs in the consolidated IPO class action lawsuits currently pending against the 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.

Table of Contents

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 Sify 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. On April 2, 2009, the parties lodged with the Court a motion for preliminary approval of a proposed settlement between all parties, including Sify and its former officers and directors. The proposed settlement provides the plaintiffs with $586 million in recoveries from all defendants. Under the proposed settlement, the Issuer Defendants collectively would be responsible for $100 million, which would be paid by the Issuers insurers, on behalf of the Issuer Defendants and their officers and directors.

Accordingly, any direct financial impact of the proposed settlement is expected to be borne by the Sify s insurers. On June 12, 2009, the Federal District Court granted preliminary approval of the proposed settlement. On October 6, 2009, the District Court issued an order granting final approval of the settlement. Subsequent to the final approval of Settlement agreement by the District court, there are several notices of appeal filed. Most were filed by the same parties that objected to the settlement in front of the District Court. These will likely be consolidated into a single appeal and briefing schedule will be provided shortly. Any direct financial impact of the preliminary approved settlement is expected to be borne by the Sify s insurers. Sify believes, the maximum exposure under this settlement is approximately USD 338,983, an amount which it believes is fully recoverable from the it s insurers.

b) Proceedings before Department of Telecommunications

(ii) License fees

On October 12, 2009 (as later clarified by the DoT), the Department of Telecommunications (DOT) raised a demand on the Company for INR 14 million after correcting the arithmetical error in the Assessment letter.

On February 26, 2010 DOT raised a demand on Sify Communications (erstwhile subsidiary merged with this Company) for INR 26 million.

The above demands were made by the DoT on the premise that all amounts of income (whether direct or indirect) including certain items like other income, interest on deposits, gain on foreign exchange fluctuation, profit on sale of assets & provision written back, that have not got anything to do with telecom operations of the Company or arise in connection with the Telecom business of the Company, are to be considered as income for the purpose of calculation of the license fee.

The Company has responded to the above demand notices stating that the above demands are not tenable as the demands were not in accordance with the Telecom Disputes Settlement & Appellate Tribunal (TDSAT) Order, in which Order the TDSAT has clarified in its order that the items of income which are liable for license fee and items of income on which license fees are not liable to be paid. The TDSAT Order however has been challenged and is presently pending before the Supreme Court. Till such time the Supreme Court pronounces its final verdict on this case, the TDSAT Order continues to be in force and the Company currently continues to pay the license fee in accordance with the TDSAT Order. The Company believes that it has adequate legal defenses for these demands and the ultimate outcome of these actions will not have a material adverse effect on the Company.

(ii) In November 2009, the Company received a demand notice pertaining to the allocation of spectrum in the 3.3-3.4 GHz frequency, from DoT, demanding INR 345 million (US $7.68 million) towards spectrum charges payable from the date of issue of allocation letter for 170 Base Stations. As per the notice, in case no payment is received within 15 days from the date of issue of the notice, then it would be presumed that the Company is no longer interested for the frequency assignments in 3.3-3.4 GHz band.

Table of Contents

Whilst the Company received allotment letter for Spectrum in 3.3 GHz band (3303.5/3353.5 MHz) (Total 12 MHz) the Company had neither started any operations in this frequency band nor had applied for any Operating License from DOT/ Wireless Planning Commission (WPC). Sify believes that the obligation to make payment will arise only after obtaining the operating license from DOT/WPC. It also believes that it has adequate legal defences for these demands, as the Company has not yet obtained any operative license, hence such demand is not tenable. Nevertheless, the Company has as a commitment to hold and use the spectrum in the above band has paid INR 11.56 million towards 40 Base Stations and has surrendered the remaining 130 Base Stations. The Company believes that the ultimate outcome of these actions will not have a material adverse effect.

c) The Group is party to additional legal actions arising in the ordinary course of business. Based on the available information, as at March 31, 2011, Sify believes that it has adequate legal defences for these actions and that the ultimate outcome of these actions will not have a material adverse effect. However in the event of adverse judgement in all these cases, the maximum financial exposure would be Rs 9,051 (March 31, 2010: Rs 9,051).

37. Related parties

The related parties where control / significant influence exists are subsidiaries and associates. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director whether executive or otherwise. Key management personnel includes the board of directors and other senior management executives. The other related parties are those with whom the Group has had transaction during the years ended March 31, 2011, 2010 and 2009 are as follows:

Particulars	Country of incorporation	% of Ownership interest March 31, 2011	% of Ownership interest March 31, 2010
Holding Company			
Raju Vegesna Infotech & Industries Private Limited (Refer note 16 and note 42)			
Subsidiaries			
Sify International Inc.	USA	100	100
Sify Software Limited (Formerly Sify Networks Private Limited)	India	100	100
Sify Technologies (Singapore) Pte. Limited (Incorporated on December 7, 2009)	Singapore	100	100
Associates			
MF Global-Sify Securities India Private Limited	India	29.85	29.85
Others (Entities in which the Key Management Personnel have controlling interest / significant influence and relatives of Key Management Personnel)			
Radhika Vegesna	India		
Server Engines LLC	USA		
Server Engines India Private Limited	India		
VALS Developers Private Limited	India		
Infinity Satcom Universal Private Limited	India		

Table of Contents

The following is a summary of the related party transactions for the year ended March 31, 2011:

Transactions	Holding Company	Associates	Others	Key Management Personnel***
Consultancy services received				240
Sitting fees paid				1,200
Salaries and other short term benefits				40,328
Contributions to defined contribution plans				1,913
Share based payment transactions				4,226
Issue of shares on private placement basis**	1,000,000			
Advance lease rentals and refundable deposits refunded			282,825	
Refundable lease deposit paid****			2,558	
Lease rentals paid****			2,558	
Amount of outstanding balances				
Debtors				
Advance lease rentals and refundable deposits made****			2,558	

The following is a summary of the related party transactions for the year ended March 31, 2010:

Transactions	Associates	Others	Key Management Personnel***
Consultancy services received			240
Sitting fees paid			1,240
Salaries and other short term benefits			52,441
Contributions to defined contribution plans			2,427
Share based payment transactions			9,486
Issuance of shares on amalgamation of erstwhile Sify Communications limited with Sify Technologies limited		842,837	
Amount of outstanding balances			
Debtors			
Advance lease rentals and refundable deposits made*		282,825	

The following is a summary of the related party transactions for the year ended March 31, 2009:

Transactions	Associates	Others	Key management personnel***
Sale of goods / services	6,600	734	
Advance lease rentals and refundable deposits made*		282,825	
Consultancy services received			240
Sitting fees paid			1,220
Salaries and other short term benefits			50,672
Contributions to defined contribution plans			2,389
Share based payments			33,579
Amount of outstanding balances			
Debtors	524	174	
Advance lease rentals and refundable deposits made*		282,825	

* Represents deposits made to VALS Developers Private Limited (VALS).VALS was owned and controlled by Raju Vegesna Infotech & Industries Private Limited, in which Mr. Raju Vegesna, our principal share holder and Chief Executive Officer, was holding 94.66% equity in his personal capacity. During the year ended March 31, 2009, Sify entered into an agreement for Sub Lease with VALS Developers Private Limited to take on lease on long term basis the proposed building which is in the process of being constructed. The lease agreement, when final and executed, was expected to have an initial non-cancellable term of 5 years, with a further option for Sify to renew or cancel the lease for the incremental five year terms. In terms of this Agreement for Sub Lease, Sify has paid a security deposit of Rs.125,700 and advance rental of Rs.157,125 to VALS. As per the terms of the

Table of Contents

Sub Lease, 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. On October 30, 2010,with the consent of VALS, the Board of Directors have cancelled the Agreement for Sub lease and has decided to acquire the building along with land directly through acquisition of Pace Info Com Park Private Limited (PACE), an unrelated third party, which is the owner of the land and building for total consideration of Rs.1,140,000. The above deposits would be adjusted against the consideration payable for acquiring the shares of PACE. To give effect to the above, the company has entered into an amendment Agreement with all concerned parties and VALS has assigned its rights and obligations to the company and the company paid Rs.400,000 as part consideration for the above purchase. Subsequently on May 24, 2011 and on June 9, 2011, the company has paid a further sum of Rs.50,000 each as part consideration for the above purchase. On September 28, 2011, the company has paid a further sum of Rs.127,000 as per terms of MoU and are in the process of acquiring the shares of PACE through Hermit Projects Private Limited.

** Also refer note 16 in relation to transactions relating to issue of equity shares on private placement basis to Raju Vegesna Infotech & Industries Private Limited.

*** Some of the key management personnel of the Group are also covered under the Group s gratuity plan along with other employees of the Group. Proportionate amounts of gratuity accrued under the gratuity plan have not been separately computed or included in the above disclosure.

**** The company has entered into a lease agreement with Ms Radhika Vegesna, Daughter of Mr. Ananda Raju Vegesna, Executive Director of the company, to lease the premises owned by her for a period of three years effective June 1, 2010 on a rent of Rs.256 per month and payment of refundable security deposit of Rs.2,558. This arrangement will be automatically renewed for a further period of two blocks of three years with all the terms remaining unchanged.

38. Financial instruments

Financial instruments by category

The carrying value and fair value of financial instruments by each category as at March 31, 2011 were as follows:

Particulars	Note	Loans and receivables	Financial assets / liabilities at fair value through profit and loss	Available for sale	Other financial liabilities	Total carrying value	Total fair value
Assets							
Cash and cash equivalents	8	543,097				543,097	543,097
Other assets	10	212,969				212,969	212,969
Trade receivables	13	1,839,966				1,839,966	1,839,966
Other receivables	13	354,115				354,115	354,115
Other investments	15			160		160	160
Liabilities							
Bank overdraft	8				678,091	678,091	678,091
	17				188,253	188,253	188,253

Finance lease liabilities				
Other liabilities	19	163,245	163,245	163,245
Borrowings from banks	20	1,009,422	1,009,422	1,009,422
Borrowings from others	20	288,988	288,988	288,988
Trade and other payables	21	1,725,907	1,725,907	1,725,907

Table of Contents

The carrying value and fair value of financial instruments by each category as at March 31, 2010 were as follows:

Particulars	Note	Loans and receivables	Financial assets / liabilities at fair value through profit and loss	Available for sale	Other financial liabilities	Total carrying value	Total fair value
Assets							
Cash and cash equivalents	8	878,698				878,698	878,698
Other assets	10	249,744				249,744	249,744
Trade receivables	13	1,912,348				1,912,348	1,912,348
Other receivables	13	315,835				315,835	315,835
Derivative financial instruments	13		6,998			6,998	6,998
Liabilities							
Bank overdraft	8				1,060,284	1,060,284	1,060,284
Finance lease liabilities	17				201,317	201,317	201,317
Other liabilities	19				165,800	165,800	165,800
Borrowings from banks	20				1,239,105	1,239,105	1,239,105
Borrowings from others	20				163,165	163,165	163,165
Trade and other payables	21				1,798,764	1,798,764	1,798,764

Details of financial assets pledged as collateral

The carrying amount of financial assets as March 31, 2011 and 2010 that the Group has provided as collateral for obtaining borrowings and other facilities from its bankers are as follows:

	March 31, 2011	March 31, 2010
Cash and cash equivalents	543,097	878,698
Other assets	212,969	249,744
Trade receivables	1,839,966	1,912,348
Other receivables	354,115	315,835
	2,950,147	**3,356,625**

Derivative financial instruments

Foreign exchange forward contracts and options are purchased to mitigate the risk of changes in foreign exchange rates associated with certain payables, receivables and forecasted transactions denominated in certain foreign currencies. These derivative contracts do not qualify for hedge accounting under IAS 39, and are initially recognised at fair value on the date the contract is entered into and subsequently re-measured at their fair value. Gains or losses

arising from changes in the fair value of the derivative contracts are recognised immediately in profit or loss. The counterparties for these contracts are generally banks or financial institutions. The following table gives details in respect of the notional amount of outstanding foreign exchange and option contracts as on March 31, 2011 and 2010:

	As of	
	March 31, 2011	**March 31, 2010**
Forward contracts		
In U.S. Dollars (Sell)		
In U.S Dollars (Buy)		
Option contracts		
In U.S Dollars (Sell)		67,710
In U.S Dollars (Buy)		

The Company recognized a net gain on derivative financial instruments of Rs. Nil for the year ended March 31, 2011 and a net gain of Rs.6,998 during the year ended March 31, 2010 and a net gain of Rs.2,997 during the year ended March 31, 2009.

Table of Contents

The forward exchange contracts and option contracts mature between one and twelve months. The table below summarizes the notional amounts of derivative financial instruments into relevant maturity groupings based on the remaining period as at the end of the year:

	As of	
	March 31, 2011	**March 31, 2010**
Sell:		
Not later than one month		33,855
Later than one month and not later than three months		33,855
Later than three months and not later than six months		
Later than six months and not later than one year		
		67,710

	As of	
	March 31, 2011	**March 31, 2010**
Buy:		
Not later than one month		
Later than one month and not later than three months		
Later than three months and not later than six months		
Later than six months and not later than one year		

Interest, (expenses), gains and (losses) recognized on financial assets and liabilities
Recognised in profit or loss

	Year ended		
	March 31, 2011	**March 31, 2010**	**March 31, 2009**
Loans and receivables			
Interest income on bank deposits	21,360	19,489	116,495
Interest income from leases			435
Interest income from other loans and receivables	3,871	8,505	5,635
Impairment loss of trade receivables	(161,922)	(121,987)	(84,346)
Impairment loss on finance lease receivables			(6,929)
Financial assets at fair value through profit or loss			
Net change in fair value of derivative financial instruments		6,998	2,997
Other financial liabilities			
Interest expenses on lease obligations	(20,117)	(16,476)	(2,243)
Interest expenses on borrowings from banks, others and overdrafts	(161,897)	(177,156)	(163,201)
Recognised directly in other comprehensive income			

	Year ended		
	March 31, 2011	**March 31, 2010**	**March 31, 2009**
Net change in fair value of available-for-sale financial assets			(5,361)

39. Financial Risk Management

The Group has exposure to the following risks from its use of financial instruments:

Credit risk

Liquidity risk

Market risk

Table of Contents

The Board of Directors has overall responsibility for the establishment and oversight of the Group s risk management framework. The Board of Directors have established a risk management policy to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management systems are reviewed periodically to reflect changes in market conditions and the Group s activities. The Group Audit Committee oversees how management monitors compliance with the Group s risk management policies and procedures, and reviews the risk management framework. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk: Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group s trade receivables, treasury operations and other activities that are in the nature of leases.

Trade and other receivables

The Group s exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management considers that the demographics of the Group s customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. The group is not exposed to concentration of credit risk to any one single customer since the services are provided to and products are sold to customers who are spread over a vast spectrum. 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 terms in the normal course of the business.

Cash and cash equivalents and other investments

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 also to investments made in mutual funds.

Guarantees

The Group s policy is to provide financial guarantees only to subsidiaries.

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.

Exposure to credit risk

The gross carrying amount of financial assets, net of any impairment losses recognized represents the maximum credit exposure. The maximum exposure to credit risk as at March 31, 2011 and 2010 was as follows:

	March 31, 2011	**March 31, 2010**
Cash and cash equivalents	543,097	878,698
Other assets	212,969	249,744
Trade receivables	1,839,966	1,912,348
Other receivables	354,115	315,835
Derivative financial instruments		6,998
Other investments	160	
	2,950,307	**3,363,623**

Financial assets that are past due but not impaired

There is no other class of financial assets that is past due but not impaired other than trade receivables. The age analysis of trade receivables have been considered from the date of invoice. The ageing of trade receivables, net of allowances that are past due, is given below:

Period (in days)	**March 31, 2011**	**March 31, 2010**
Past due 181 - 270 days	143,919	160,979
Past due 271 - 365 days	50,796	29,346
More than 365 days	97,596	114,932

	292,311	**305,257**

Table of Contents

See note 13 for the activity in the allowance for impairment of trade account receivables.

Financial assets that are not past due

Cash and cash equivalents, other assets, other receivables and finance lease receivables are neither past due nor impaired. Of the total trade receivables that are not past due as at March 31, 2011 amounting to Rs.1,329,698 (March 31, 2010: Rs.1,627,059) impairment to the extent of Rs Nil (March 31, 2010: 19,968) has been recorded.

Details of collateral and other credit enhancements held

	March 31, 2011	March 31, 2010
Security deposits received for internet access services	7,432	16,236

Liquidity risks: Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. 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 when due, under normal and stressed conditions, 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.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

As at March 31, 2011

	Carrying amount	Contractual cash flows	0-12 months	1-3 years	3-5 years
Non-derivative financial liabilities					
Bank overdrafts	678,901	678,901	678,901		
Finance lease liabilities	188,253	247,354	65,148	123,922	58,284
Other liabilities	163,245	163,245	163,245		
Borrowing from banks	1,009,422	1,044,455	930,067	114,388	
Borrowings from others	288,988	368,794	175,730	158,431	34,633
Trade and other payables	1,725,907	1,725,907	1,725,907		
	4,054,716	**4,228,656**	**3,738,998**	**396,741**	**92,917**

As at March 31, 2010

	Carrying amount	Contractual cash flows	0-12 months	1-3 years	3-5 years
Non-derivative financial liabilities					
Bank overdrafts	1,060,284	1,060,284	1,060,284		
Finance lease liabilities	201,317	247,354	65,148	123,922	58,284
Other liabilities	165,800	165,800	165,800		
Borrowing from banks	1,239,105	1,333,922	972,962	360,960	
Borrowings from others	163,165	207,828	57,041	91,247	59,540
Trade and other payables	1,798,764	1,798,764	1,798,764		

4,628,435	**4,813,952**	**4,119,999**	**576,129**	**117,824**

Table of Contents

Market risk: Market risk is the risk of loss of future earnings or fair values or future cash flows that may result from a change in the price of a financial instrument. The value of a financial instrument may change as a result of changes in the interest rates, foreign exchange rates and other market changes that affect market risk sensitive instruments. Market risk is attributable to all market risk sensitive financial instruments including foreign currency receivables and payables. The Group is exposed to market risk primarily related to foreign exchange rate risk (currency risk), interest rate risk and the market value of its investments. Thus the Group s exposure to market risk is a function of investing and borrowing activities and revenue generating and operating activities in foreign currencies.

Currency risk: The Group s exposure in USD, Euro and other foreign currency 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.

The Group s exposure to foreign currency risk as at March 31, 2011 was as follows:

	All amounts in respective currencies as mentioned (in thousands)								
	USD	**CAD**	**CHF**	**Euro**	**GBP**	**DHS**	**HKD**	**AED**	**SGD**
Cash and cash equivalents	495								
Trade receivables	9,700	4	522	20	116	1		1	2
Trade payables	(5,688)		(18)	(301)	(1)	(32)	(10)	(25)	(83)
Gross balance sheet exposure	**4,507**	**4**	**504**	**(281)**	**115**	**(31)**	**(10)**	**(24)**	**(81)**
Forward exchange / option contracts									
Net exposure									

The Group s exposure to foreign currency risk as at March 31, 2010 was as follows:

	All amounts in respective currencies as mentioned (in thousands)						
	USD	**CAD**	**CHF**	**Euro**	**GBP**	**DHS**	**HKD**
Cash and cash equivalents	1,198						
Trade receivables	8,869	168	209	32	96	1	
Trade payables	(4,764)			(31)	(12)		(11)
Gross balance sheet exposure	**5,303**	**168**	**209**	**1**	**84**	**1**	**(11)**
Forward exchange / option contracts	(1,500)						
Net exposure	**3,803**	**168**	**209**	**1**	**84**	**1**	**(11)**

Sensitivity analysis

A 10% strengthening of the rupee against the respective currencies as at 31 March 2011 and 2010 would have increased / (decreased) other comprehensive income and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010.

Other

	comprehensive income	Profit or loss
March 31, 2011		(21,063)
March 31, 2010		(19,367)

A 10% weakening of the rupee against the above currencies as at March 31, 2011 and 2010 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest Rate Risk: Interest rate risk is the risk that an upward movement in interest rates would adversely affect the borrowing costs of the group.

Table of Contents

Profile

At the reporting date the interest rate profile of the Group s interest bearing financial instruments were as follows:

	Carrying amount	
	March 31, 2011	March 31, 2010
Fixed rate instruments		
Financial assets		
- Fixed deposits with banks	84,765	531,192
Financial liabilities		
- Borrowings from banks	529,437	697,165
- Borrowings from others	288,988	163,165
Variable rate instruments		
Financial liabilities		
- Borrowings from banks	326,000	541,940
- Bank overdrafts	678,901	1,060,284

Fair value sensitivity for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity for variable rate instruments

An increase of 100 basis points in interest rates at the reporting date would have increased / (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis has been performed on the same basis as 2010.

	Equity	Profit or loss
March 31, 2011		(10,049)
March 31, 2010		(16,022)

A decrease of 100 basis points in the interest rates at the reporting date would have had equal but opposite effect on the amounts shown above, on the basis that all other variable remain constant.

40. Acquisition of non-controlling 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, subject to approval by the Honorable High Court of Madras and other statutory authorities. Subsequently, the Company obtained the approval of Honorable High Court on June 26, 2009 which is binding on the Company and its subsidiary Sify Communications Limited and as part of the merger, the Company issued 10,530,000 equity shares to Infinity Satcom Universal Pvt. Limited (a company promoted by the principal shareholders of Sify) and acquired the remaining 26% equity interest of Sify Communications Limited. Although the merger was approved by the High Court on June 26, 2009, which is considered as the acquisition date for accounting purposes, for Income-tax purpose the effect of merger is retrospectively applied from April 1, 2008. The acquisition of this non-controlling interest has been accounted as a transaction with equity holders in their capacity as equity holders and accordingly no goodwill has been recognized. As a result of the acquisition of non-controlling interest, the following adjustments were incorporated in the consolidated financial statements for the year ended March 31, 2010:

As a consequence of the merger, the Company was eligible under the Indian Income-tax laws to consolidate the Income-tax returns of Sify and Sify Communications Limited retrospectively from April 1, 2008. Accordingly, the taxable income reported by Sify Communications Limited for the period subsequent to April 1, 2008 has been off-set against the previously fully reserved business

losses of the Company. This resulted in the reversal of income tax liabilities aggregating to Rs.90,003 and a write off of deferred tax assets of Rs.8,524 during the year ended March 31, 2010.

Table of Contents

Consequent to the approval of the merger by the Honorable High Court on June 26, 2009, the Company was obliged to issue 10,530,000 shares which the Company has duly issued on July 16, 2009, and accordingly, the fair value of shares to be issued as at June 26, 2009 has been considered as the consideration for the acquisition of the non-controlling interest. The difference between the fair value of the consideration paid and the face value of equity shares issued is recorded as share premium and the difference between the fair value of the consideration paid and the carrying amount of non-controlling interests is recorded as an adjustment in equity and is included as part of share premium.

41. IPO listing

The Ministry of Finance of the Government of India (MoF) issued a press release dated March 31, 2006, making amendments to the Issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depository Receipt Mechanism) Scheme 1993 (the Scheme). The amendments included a statement that unlisted Companies which had accessed FCCBs, ADR/GDRs in terms of guidelines of May 22, 1998 and are not making profit, be permitted to comply with listing condition on the domestic stock exchanges within three years of having started making profit. Further, the press release states that no fresh issues of FCCBs, ADR/GDRs by such companies will be permitted without listing first in the domestic exchanges. Since the Company has made one time book profits in the financial year 2006-07, the Company has applied to MoF through its letter dated September 10, 2009, requesting the MOF:

i. to provide extension of time for listing the shares in the Indian stock exchanges

ii. to grant a special permission to issue shares on rights basis to the existing shareholders

On November 9, 2009, the MoF has informed that the Company s request was not in accordance with the existing policy. The Company again on March 4, 2010 has applied to MoF reiterating its previous request which was not favourably considered. The Company, based on a legal opinion obtained from its legal counsel, believes that there are no financial implications that would arise in connection with said press release by MoF.

42. Subsequent events

(i) Transfer of shares among the Existing Promoter Group

On August 4, 2010, the Board of Directors of the Company approved the issuance, in a private placement, of upto an aggregate of 125,000,000 of the Company s equity shares, par value Rs.10 per share (Equity shares), for an aggregate purchase price of Rs.4,000,000 (approximately US $86 million), to a group of investors affiliated with the Company s promoter group, including entities affiliated with Mr Raju Vegesna, the Company s Chief Executive officer and Managing Director and Mr. Ananda Raju Vegesna, Executive and brother of Mr Raju Vegesna (the Offering). The Company s shareholders approved the terms of the Offering at the Company s Annual General Meeting held on September 27, 2010.

On October 22 2010, the Company entered into a Subscription Agreement with Mr. Ananda Raju Vegesna, acting as representative (the Representative) of the purchasers in connection with the Offering. In pursuance of the Agreement, the Company issued and allotted 125,000,000 equity shares to M/s Raju Vegesna Infotech and Industries Private Limited (RVIIPL), a promoter group company. In accordance with Indian law, the purchase price is to be paid at such time as determined by Board of Directors of the Company. During the year, RVIIPL has paid a sum of Rs.1,000,000 (US$22.40 million) towards share capital and share premium making the shares partly paid up to the extent of Rs.2.50 per share.

On August 14, 2011, the Company received a letter from RVIIPL expressing its intention to transfer the above partly paid shares to its wholly owned subsidiary M/s Ramanand Core Investment Company Private limited (RCICPL). The Company, on August 26, 2011, registered such transfer of partly paid shares in the name of RCICPL.

Until the full purchase price is paid by the purchasers, the Company retains a lien on the equity shares purchased in connection with the Offering. The unpaid portion of the equity shares issued in the Offering do not have any voting rights and are not entitled to dividends, if declared. As of the date of this Annual Report, Mr. Vegesna has paid for half of the shares of the subscription. The Board of Directors has the sole discretion as to the timing to require Mr. Vegesna to pay the balance of the subscription price. The above transfer of shares does not change the beneficial holding of Mr. Raju Vegesna in the outstanding equity shares of the Company.

159

Table of Contents

(ii) Capital infusion by the Existing Promoter Group

Subsequently on July 29, 2011, the Company has made the first call amount of Rs 8 per share (Rs.2.50 towards share capital and Rs.5.50 towards share premium) aggregating to Rs1,000,000 (US$22.40 million) which was payable on or before August 29, 2011.

Consequent to the transfer of 125,000,000 equity shares from to M/s Raju Vegesna Infotech and Industries Private Limited to M/s Ramanand Core Investment Company Private Limited (RCICPL), the above call money of Rs.1,000,000 was paid by RCICPL on August 29, 2011.

(iii) Amendment to the Subscription Agreement with Existing Promoter Group

The Company entered into a subscription agreement, dated as of October 22, 2010, with Ananda Raju Vegesna, acting as representative (the Representative) of the purchasers (the Subscription Agreement). The purchasers are entities and affiliates of Raju Vegesna, the Chief Executive Officer and Managing Director of the Company. The Representative is the Executive Director of the Company and the brother of Raju Vegesna.

The Subscription Agreement provided for the issuance of 125,000,000 of the Company s equity shares, par value Rs. 10 per share (the Equity Shares). Pursuant to the Subscription Agreement and in accordance with Indian law, the subscription price for the Equity Shares issuable pursuant to the Subscription Agreement was to be paid by the purchasers in installments, as determined by the Board of Directors of the Company, on or prior to September 26, 2011. The Board of Directors, in accordance with the Subscription Agreement, called upon the purchasers to pay to the extent of 50% of the subscription amount aggregating to Rs.2,000,000 or approximately $44.79 million, which has been paid in full by the purchasers.

Subsequently, on September 7, 2011, the parties entered into an amendment to the Subscription Agreement (the Amendment) extending the validity of the agreement period to September 26, 2013. This Amendment provides the Board of Directors of the Company with additional time to call upon the purchasers to pay the balance money, in accordance with the terms of the Subscription Agreement, at any time before September 26, 2013.

MF Global Sify Securities India Private Limited
IFRS Consolidated Financial Statements
As at March 31, 2011 and 2010 and for the year ended March 31, 2011, 2010 and 2009
Index

Particulars	**Page No.**
Report of Independent Registered Public Accounting Firm	162
Consolidated Statement of Balance Sheet	163
Consolidated Income Statement	164
Consolidated Statement of Comprehensive Income	165
Consolidated Statement of Changes in Equity	166
Consolidated Statement of Cash Flow	167
Notes to the consolidated financial statements	168

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of MF Global Sify Securities India Private Limited

In our opinion, the accompanying Consolidated Statement of Balance Sheet, and the related Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flow (collectively consolidated financial statements) present fairly, in all material respects, the financial position of MF Global Sify Securities India Private Limited and its subsidiaries (collectively the Company) at March 31, 2011 and the results of their operations and their cash flows for the year ended March 31, 2011 in conformity with International Financial Reporting Standards as issued by the International Accounting Standard Board. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

Without qualifying our opinion, we draw your attention to Note 26 to the consolidated financial statements, which describes the uncertainty related to the outcome of the ongoing discussions between the Company s shareholders concerning the reconsideration of certain costs charged to the Company by MF Global Holdings Limited and its affiliated and associated group companies for the two years ended March 31, 2008 and March 31, 2009.

We conducted our audit of these consolidated financial statements for the year ended March 31, 2011 in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management, and evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

ASA & ASSOCIATES

Independent Registered Public Accounting Firm

Mumbai , India

October 11, 2011

Table of Contents

MF Global Sify Securities India Private Limited
(All amounts in Indian Rupees thousands, except as otherwise stated)
Consolidated Statement of Balance Sheet

	Note	As at March 31, 2011	2010
ASSETS			
Cash and bank balance	11	281,486	148,213
Cash-restricted	12	2,959,063	2,489,847
Interest bearing deposits with bank	13	93,362	295,659
Receivable from broker-dealers and clearing organizations	9	18,580	65,884
Receivable from customers (net of provision of Rs. 60,600 and Rs. 22,300 respectively)	8	447,770	437,207
Available-for-sale securities:			
Marketable, at market value	14	40,776	877
Not readily marketable (at estimated fair value)	14	92,868	11,447
Deposits with clearing organizations		173,783	110,969
Interest accrued but not due		67,124	71,443
Other assets	10	245,800	220,282
Intangible assets:			
Computer software	5.1	19,271	28,424
Memberships in exchanges	5.2	5,733	5,782
Property, plant and equipment	6	21,827	70,159
Deferred tax asset (Net)	7	79,476	17,901
Total assets		**4,546,919**	**3,974,094**
EQUITY			
Capital and reserves attributable to the Equity holders			
Ordinary shares	15	518,942	518,942
Additional paid in capital		28,968	28,968
Retained earnings		1,806,071	1,564,231
Currency translations		(232)	953
Fair value adjustments		(774)	9,081
Total Equity		**2,352,975**	**2,122,175**
LIABILITIES			
Payable to broker dealers and clearing organizations	9	264,504	139,965
Payable to customers		1,272,571	1,177,517
Borrowings	17	53,000	3,508
Accounts payable, accrued expenses, and other liabilities	19	505,605	394,327
Employee benefit obligation	18	98,264	136,602
Total Liabilities		**2,193,944**	**1,851,919**

Total liabilities and Equity	**4,546,919**	**3,974,094**

The accompanying notes form an integral part of these consolidated financial statements
These financial statements have been approved by the Board of Directors on October 11, 2011.

For and on behalf of the Board
Vineet Bhatnagar
Managing Director

Table of Contents

MF Global Sify Securities India Private Limited
(All amounts in Indian Rupees thousands, except as otherwise stated)
Consolidated Income Statement

	Note	Years ended March 31, 2011	2,010	2009
Income				
Commissions		1,391,162	1,201,594	914,969
Depository and clearing fees		33,919	35,488	34,456
Interest on fixed deposits with banks		198,412	238,491	325,547
Other Income	23	194,790	136,972	138,671
Total Income		**1,818,283**	**1,612,545**	**1,413,643**
Expenses				
Employee compensation and benefits	21	794,535	607,775	515,234
Exchange expenses and clearance fees		220,153	165,769	130,904
Brokerage to other broker-dealers		136,470	152,002	95,859
Communications and data processing		30,100	28,168	27,585
Bank Interest and guarantee commission		1,751	7,616	28,883
Depreciation and amortization		67,692	37,398	38,348
Occupancy		75,728	75,210	69,933
Write back of provision			(57,500)	
Provision for receivable from customers	22	38,300		2,925
Advertisement and business promotion		60,339	45,593	34,987
Other expenses	20	85,628	82,111	125,693
Total Expenses		**1,510,696**	**1,144,142**	**1,070,351**
Profit before income tax		**307,587**	**468,403**	**343,292**
Income tax expense	24	65,747	160,860	126,375
Profit for the year attributable to the Equity holders		**241,840**	**307,543**	**216,917**

The accompanying notes form an integral part of these consolidated financial statements
These financial statements have been approved by the Board of Directors on October 11, 2011.

For and on behalf of the Board
Vineet Bhatnagar
Managing Director

Table of Contents

MF Global Sify Securities India Private Limited
(All amounts in Indian Rupees thousands, except as otherwise stated)
Consolidated Statement of Comprehensive Income

	Years ended March 31,		
	2011	**2010**	**2009**
Net income for the year	**241,840**	**307,543**	**216,917**
Other comprehensive income			
Available for sale financial assets			
- Net change in fair value	(9,855)	1,527	(10,473)
Foreign currency translation differences			
Currency translation differences	(1,185)	(5,657)	9257
	(11,040)	**(4,130)**	**(1,216)**
Total comprehensive income for the year	**230,800**	**303,413**	**215,701**

The accompanying notes form an integral part of these consolidated financial statements
These financial statements have been approved by the Board of Directors on October 11, 2011.

For and on behalf of the Board
Vineet Bhatnagar
Managing Director

Table of Contents

MF Global Sify Securities India Private Limited
(All amounts in Indian Rupees thousands, except as otherwise stated)
Consolidated Statement of Changes in Equity

	Number of ordinary shares	Par value	Share Capital	Additional paid -in capital	Retained earnings	Currency transalation	Fair Value adjustment	Total Equity
Balance at April 1, 2008	**51,894,182**	**10**	**518,942**	**28,968**	**1,039,771**	**(2,647)**	**18,027**	**1,603,061**
Currency translation differences						9,257		**9,257**
Fair value gains, net of tax on available-for-sale financial assets							(10,473)	**(10,473)**
Net income directly recognised in equity						9,257	(10,473)	**(1,216)**
Profit for the year					216,917			**216,917**
Total recognised income and expense for the year					**216,917**	**9,257**	**(10,473)**	**215,701**
Balance at March 31, 2009	**51,894,182**	**10**	**518,942**	**28,968**	**1,256,688**	**6,610**	**7,554**	**1,818,762**
Currency translation differences						(5,657)		**(5,657)**
Fair value gains, net of tax on available-for-sale financial assets							1,527	**1,527**
Net income directly recognised in equity						(5,657)	1,527	**(4,130)**
Profit for the year					307,543			**307,543**
Total recognised income and expense for the year					**307,543**	**(5,657)**	**1,527**	**303,413**

Balance at March 31, 2010	**51,894,182**	**10**	**518,942**	**28,968**	**1,564,231**	**953**	**9,081**	**2,122,175**
Currency translation differences						(1,185)		**(1,185)**
Fair value gains, net of tax on available-for-sale financial assets							(9,855)	**(9,855)**
Net income directly recognised in equity						(1,185)	(9,855)	**(11,040)**
Profit for the year					241,840			**241,840**
Total recognised income and expense for the year					**241,840**	**(1,185)**	**(9,855)**	**230,800**
Balance at March 31, 2011	**51,894,182**	**10**	**518,942**	**28,968**	**1,806,071**	**(232)**	**(774)**	**2,352,975**

* Retain earning includes reserves amounting to Rs. 1,023 on amalgamation of subsidiary company- MF Global Capital India Private Limited ,with the company.

The accompanying notes form an integral part of these consolidated financial statements

These financial statements have been approved by the Board of Directors on October 11, 2011.

For and on behalf of the Board
Vineet Bhatnagar
Managing Director

Table of Contents

MF Global Sify Securities India Private Limited
(All amounts in Indian Rupees thousands, except as otherwise stated)
Consolidated Statement of Cash Flow

	Note	Year ended March 31, 2011	2010	2009
Cash flows from operating activities				
Profit before income tax		307,587	468,403	343,292
Adjustments for				
Depreciation and amortization		67,692	37,398	38,348
Profit on sale of Available-for-sale securities		(23,603)		(6,724)
Provision on receivable from customers	8	38,300	(57,700)	2,925
Interest on fixed deposits with banks		(198,412)	(238,491)	(325,547)
Stock appreciation rights				
Loss on Sale of Property Plant & Equipment	6		13	
Interest Income		(16,278)	(5,566)	(5,174)
Dividend Income		(1,616)	(283)	(167)
Others		(9,582)	3,963	(2,617)
Movements in working capital				
Cash-restricted	12	(469,216)	(141,985)	3,066,861
Interest bearing deposits with banks		202,297	(188,164)	(90,995)
Deposits with clearing organizations		(62,814)	9,896	30,650
Receivable from broker-dealers and clearing organizations	9	47,304	(23,656)	312,213
Receivable from customers	8	(48,863)	(207,514)	755,753
Interest accrued but not due				
Other assets	10	19,051	(3,856)	5,237
Payable to broker dealers and clearing organizations	9	124,539	(87,821)	(2,756,446)
Payable to customers		95,053	192,442	(1,509,559)
Accounts payable, accrued expenses, and other liabilities	19	111,278	42,369	(330,331)
Stock appreciation rights	16	(38,338)	88,907	23,973
Cash provided by operations		**144,379**	**(111,645)**	**(448,308)**
Interest received		16,278	5,566	5,174
Interest received on fixed deposits placed		202,731	269,218	457,503
Income taxes paid		(171,891)	(149,524)	(151,697)
Net cash provided by/(used in) by operating activities		**191,497**	**13,615**	**(137,328)**
Cash flows from investing activities				
		(39,899)	(877)	168,004

Purchase of Available for Sale Securities: Marketable, At Market Value			
Available for Sale Securities: Not readily marketable (at estimated fair value)	(57,818)		
Dividend Income	1,616	283	167
Expenditure on furniture and equipment	(4,760)	(14,288)	(35,695)
Expenditure on Computer Software	(5,671)	(25,342)	(12,118)
Sale of furniture and equipment			2,278
Net cash (used in) / provided in investing activities	**(106,532)**	**(40,224)**	**122,636**
Cash flows from financing activities			
Proceeds from loan from associate company	841,500	383,700	270,000
Repayment of loan to associate company	(788,500)	(383,700)	(270,000)
(Repaymnet of) / Proceeds from borrowings	(3,508)	(1,137)	(100,414)
Net cash provided by / (used in) financing activities	**49,492**	**(1,137)**	**(100,414)**
Effect of foreign exchange fluctuation on Cash and Bank balances	**(1,184)**	**(5,657)**	**9,257**
Net increase / (decrease) in cash and bank balance	133,273	(33,403)	(105,849)
Cash and bank balance at beginning of the period	148,213	181,616	287,465
Cash and bank balance at end of the period	**281,486**	**148,213**	**181,616**

The accompanying notes form an integral part of these consolidated financial statements
These financial statements have been approved by the Board of Directors on October 11, 2011.

For and on behalf of the Board
Vineet Bhatnagar
Managing Director

Table of Contents

MF Global Sify Securities India Private Limited

(All amounts in Indian Rupees thousands, except as otherwise stated)

Notes to the consolidated financial statements

1. General information

MF Global Sify Securities India Private Limited and its consolidated subsidiaries (hereinafter referred to as MF or the group) are engaged as a stock and commodity broker for foreign institutional investors (FIIs), mutual funds, domestic financial institutions and retail investors. The group also acts as a depository participant and provides depository services to FIIs, mutual funds, domestic financial institutions and retail investors.

MF Global Sify Securities India Private Limited (MF Global Sify) was incorporated on December 29, 1999 in India as a private limited company under the Companies Act, 1956. The address of its registered office is 2nd Floor, C block, Modern Centre, 101 K. K. Marg, Jacob Circle, Mahalaxmi, Mumbai 400 011. MF Global Sify has one wholly owned subsidiary, MF Global Commodities India Private Limited, incorporated in India. MF Global Commodities India Private Limited has one wholly owned subsidiary, MF Global Middle East DMCC incorporated in Dubai.

MF Global Overseas Limited (MFG) (formerly Man Financial Holdings Limited), a company incorporated in the United Kingdom holds 70.15% of MF Global Sify and Sify Technologies Limited (Sify) holds the balance, 29.85% of MF Global Sify s equity shares. The ultimate holding company of MF Global Sify is MF Global Holdings Limited (a company incorporated in the state of Delaware, USA and listed on the New York Stock Exchange).

These consolidated financial statements have been approved for issue by the Board of Directors on October 11, 2011.

2. Summary of significant accounting policies

2.1. Basis of preparation

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). They have been prepared under the historical cost convention, on accrual basis as modified for certain financial instruments which are measured at fair value.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the group s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.1.1. Standards, amendments and interpretations effective as at 31 March 2011

IAS 1 (revised), Presentation of financial statements . The revised standard prohibits the presentation of items of income and expenses (that is non-owner changes in equity) in the statement of changes in equity, requiring non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement.

Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

The group has elected to present two statements: an income statement and a statement of comprehensive income. The consolidated financial statements have been prepared under the revised disclosure requirements.

IFRS 2 (Amendment), Share-based payment. It clarifies that only service conditions and performance conditions are vesting conditions. All other features need to be included in the grant date fair value and do

not impact the number of awards expected to vest or the valuation subsequent to grant date. The amendment also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The group will apply the amendment from 1 April 2009. The Group has applied amendments from April 1, 2009, however this does not have any significant impact on consolidated statements.

IFRS 7 Financial *instruments Disc*losures (amendment) effective 1 January 2009, the amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

IFRIC 14, IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction; IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum-funding requirement. The Group has applied IFRIC14, IAS 19 effective April 1, 2008.

2.1.2. Amendments and interpretations effective as at 31 March 2011 but not relevant

The following standards, amendments and interpretations to published standards are effective as at 31 March 2011 but are not relevant to the group s operations:

IFRS 8 Operating Segments

IAS 23 (amendment), Borrowing costs .

IFRIC 13, Customer loyalty programmes .

Table of Contents

MF Global Sify Securities India Private Limited

(All amounts in Indian Rupees thousands, except as otherwise stated)

IFRIC 15, Agreements for the construction of real estate .

IFRIC 16, Hedges of a net investment in a foreign operation .

2.1.3. Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the group s financial year beginning on 1 April 2009 or later periods, but the group has not early adopted them:

IAS 27 (Revised), *Consolidated and Separate Financial Statements*. It requires a mandatory adoption of the 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. Purchase of some or all of the non-controlling interests (also known as minority interests) (NCI) is treated as a treasury transaction and accounted for in equity. A partial disposal of interest in a subsidiary in which the parent company loses control triggers recognition of gain or loss on the entire interest. A gain or loss is recognised on the portion that has been disposed of; a further holding gain is recognised on the interest retained, being the difference between the fair value of the interest and book value of the interest.

The revised standard requires an entity to attribute their share of net income and reserves to the NCI even if this results in the NCI having a deficit balance.

The group will apply IAS 27 (Revised) from 1 April 2011. The group does not expect the adoption of this standard to have a material effect on the consolidated financial statements.

IFRS 3 (Revised), *Business Combinations*. It has expanded the scope to include combinations by contract alone and combination of mutual entities and slightly amended the definition of business as capable of being conducted rather than are conducted and managed . All the acquisition-related costs are to be recognised as period expenses in accordance with the appropriate IFRS. Costs incurred to issue debt or equity securities will be recognised in accordance with IAS 39.

Consideration would include fair value of all interests previously held by the acquirer. Remeasurement of such interests to fair value would be through the income statement. Contingent consideration is required to be recognised at fair value even if not deemed probable of payment at the date of acquisition. All subsequent changes in debt contingent consideration are recognised in income statement and not in goodwill as required in the existing standard.

IFRS 3 (Revised) provides an explicit option, available on a transaction-by-transaction basis, to measure any NCI in the entity acquired at fair value of their proportion of identifiable assets and liabilities or full fair value. The first will result in measurement of goodwill little different from existing IFRS 3; the second approach will record goodwill on the NCI as well as on the acquired controlling interest.

The group will apply IFRS 3 (Revised) from 1 April 2011. The effect of the standards from future periods will depend on the nature and significance of any acquisitions that are subject to this standard.

IFRS 9 Financial Instruments introduces new requirements for classifying and measuring financial assets. IFRS 9 specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified in their entirety on the basis of the entity s business model for managing the financial assets

and the contractual cash flow characteristics of the financial assets.

The standard is mandatory for the group effective from April 1, 2013 with early adoption permitted. The group is in process of assessing the applicability date of the standard and its impact on the consolidated financial statements.

Revised IAS 24 (revised), Related party disclosures , issued in November 2009. It supersedes IAS 24, Related party disclosures , issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. When the revised standard is applied, the group and the parent will need to disclose any transactions between its subsidiaries and its associates.

The standard is mandatory for the group effective from April 1, 2011 with early adoption permitted. The group is in process of assessing the applicability date of the standard and its impact on the consolidated financial statements.

IFRS 5 (Amendment), *Non-current assets held-for-sale and discontinued operations* (and consequential amendment to IFRS 1, *First-time adoption*). The amendment clarifies that all of a subsidiary s assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. The group will apply the IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 April 2011.

IFRIC 17, Distributions of non-cash assets to owners. IFRIC 17 clarifies how an entity should measure distributions of assets, other than cash, when it pays dividends to its owners. The group will apply IFRIC 17 from 1 April 2011.

IAS 1 (Amendment), *Presentation of financial statements*. The amendment clarifies that classification of a liability, that can at the option of the counterparty be settled by the issue of the entity s equity instruments, on the basis of the requirements to transfer cash or other assets rather than on settlement better reflects the liquidity and solvency position of an entity. The group will apply the IAS 1 (Amendment) from 1 April 2011. It is not expected to have an impact on the group s financial statements.

IAS 7 (Amendment), Statement of cash flows is part of the IASB s annual improvements project published in April 2009. The amendment clarifies that only an expenditure that results in a recognised asset can be classified as a cash flow from investing activities. The group will apply the IAS 1 (Amendment) from 1 April 2010. It is not expected to have an impact on the group s financial statements.

Table of Contents

MF Global Sify Securities India Private Limited

(All amounts in Indian Rupees thousands, except as otherwise stated)

IAS 17 (Amendment), *Leases.* The amendment modified the criteria for classification of lease that includes both land and buildings elements requiring an entity to assess the classification of each element as a finance or an operating lease separately in the same way as leases of other assets. The group will apply the IAS 17 (Amendment) from April 1, 2011. The Company is in process of assessing the impact, if any.

2.1.4. Amendments and interpretations to existing standards that are not yet effective and not relevant for the group s operations

The following interpretations to existing standards have been published and are mandatory for the group s accounting period beginning on 1 April 2009 or later periods but are not relevant for the group s operations:

IFRIC 13, *Customer loyalty programmes,* clarifies that where goods or services are sold together with a customer loyalty incentive, the arrangement is a multiple element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values.

IFRIC 15, *Agreements for construction of real estates,* clarifies whether IAS 18, *Revenue*, or IAS 11, *Construction contracts*, should be applied to particular transactions.

IFRIC 16, *Hedges of a net investment in a foreign operation*, clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the group. The requirements of IAS 21, *The effects of changes in foreign exchange rates*, do apply to the hedged item.

IFRIC 18, Transfers of assets from customers. IFRIC 18 clarifies the accounting for arrangements where an item of property, plant and equipment, which is provided by the customer, is used to provide an ongoing service. The interpretation applies prospectively to transfers of assets from customers received on or after 1 July 2009, although some limited retrospective application is permitted.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability.

IAS 38 (Amendment), *Intangible assets*. The amendment deletes the wording that states that there is rarely, if ever support for use of a method that results in a lower rate of amortisation than the straight-line method. The amendment did not have an impact on the group s operations, as all intangible assets are amortised using the straight-line method.

2.2. Consolidation

The Company is a subsidiary of MF Global Holdings Limited, a company incorporated in the State of Delaware, USA. MF Global Holdings Limited is listed on the New York Stock Exchange.

Domestic and foreign subsidiaries considered for consolidation are as follows:

		Country of incorporation	Percentage of holding as at March 31, 2011	Percentage of holding as at March 31, 2010
	Direct subsidiaries			
1)	MF Global Commodities India Private Limited	India	100%	100%
2)	MF Global Capital India Private Limited	India		100%
	Indirect Subsidiary			

1)	MF Global Middle East DMCC	Dubai	100%	100%

The reporting date for all the above companies is March 31.

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies so as to obtain economic benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the group. All significant inter company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Table of Contents

MF Global Sify Securities India Private Limited
(All amounts in Indian Rupees thousands, except as otherwise stated)

2.3. Foreign currency translation

a) *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 MF Global Sify and its domestic subsidiaries. US dollar is the functional currency of MF Global Middle East Limited DMCC located in Dubai. These consolidated financial statements are presented in Indian Rupee (INR), which is the group s presentation currency. The results and financial position are translated into presentation currency as follows:

assets and liabilities for each balance sheet presented are translated as at the closing rate at that balance sheet date;

income and expenses for each income statement are translated at an average exchange rate; and

all resulting exchange differences are recognised as a separate component of equity.

b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

2.4. Cash and bank balance

Cash and bank balance include cash in hand and at bank, and short term deposits with an original maturity period of three months or less. The Group s exposure to credit risk is represented by the carrying value of the assets. Bank overdrafts that are an integral part of cash management and where there is a legal right of set off against positive cash balances are included in cash and bank balance. Otherwise bank overdrafts are classified as borrowings.

2.5. Restricted Cash

Individual entities within the group are members of exchange, where cash or securities are deposited or bank guarantees are issued to conduct day-to-day trading and clearance activities. As required by the respective exchange, margin obligations towards clearing organizations are determined based on open positions by clearing organizations of the exchanges.

The group classifies bank fixed deposits as restricted cash on the balance sheet, when they are either placed with banks as margin for bank guarantees issued to clearing organisation or specifically earmarked as liens to clearing organizations towards margin.

2.6. Interest bearing deposits with banks

Interest bearing deposits with bank represent fixed term deposits placed with banks earning fixed rate of interest. At the balance sheet date, these deposits are measured at amortised cost using effective interest method.

2.7. Receivables

Receivables are recognized initially at fair value. They are subsequently measured at amortised cost using the effective interest method, net of provision for impairment, if the effect of discounting is considered material. The carrying amounts, net of provision for impairment, reported in the balance sheet approximate the fair value due to their short realisation period. A provision for impairment of trade receivables is established when there is objective evidence that Group will not be able to collect all amounts due according to the original terms of receivables. The provision is established at amounts considered to be appropriate, based primarily upon Group s past credit loss experience and an evaluation of potential losses on the receivables. The amount of the provision is recognized in the income statement. Receivables include receivables from broker-dealers and clearing organizations and receivables from customers, whereas the securities owned by customers are held as collateral for receivables.

2.8. Financial instruments

Financial assets and financial liabilities are recognised in the consolidated balance sheet, when the Group becomes a party to the contractual provisions of an instrument, at fair value adjusted for transaction costs, except for financial assets classified at fair value through profit or loss where transaction costs are immediately recognised in the consolidated income statement. Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the Group has also transferred substantially all risks and rewards of ownership. Financial liabilities are de-recognised when the obligation under the liability has been discharged or cancelled.

Financial assets principally comprise investments, receivable from broker dealers, clearing organisations, customers and other receivables, bank deposits and cash and bank balance. Financial liabilities principally comprise bank overdraft, and payables to broker dealers, clearing organisations, customers, other payables and accrued expenses.

Financial assets and liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously. In many cases, even though there is a legal right to set off is in place, the lack of an intention to settle on a net basis results in the related assets and liabilities being presented gross in the balance sheet.

Table of Contents

MF Global Sify Securities India Private Limited
(All amounts in Indian Rupees thousands, except as otherwise stated)

2.9. Financial assets

The financial assets of the group are classified into following categories: loans and receivables and available for sale. The classification of financial assets depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The entity s loans and receivables comprise receivable from broker dealers, clearing organisations, customers and other receivables, investments in bank deposits and cash and bank balance and loans to staff classified under other assets in balance sheet (Notes 2.10, 2.11 and 2.12).

b) Available for sale

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories. Available for sale consists of marketable securities, which are investments in units of mutual funds and are reported at fair values. Securities not readily marketable represent investments in equity shares of BSEL, obtained by MF Global Sify pursuant to the exchange transaction under the Bombay Stock Exchange (Corporatisation and Demutualization) scheme 2005 .

After initial recognition, investments, which are classified as available-for-sale, are measured at fair value. Gains or losses, on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is transferred to the consolidated income statement. For investments that are actively traded in organised financial markets, fair value is determined by reference to quoted market price at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by using valuation techniques.

MF assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the equity securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.10.

2.10. Derivatives and Trading

Financial assets at fair value through profit or loss are financial assets held for trading or upon initial recognition are designated by the group as at fair value through profit or loss. A financial asset is primarily classified as held for trading in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets. Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the income statement within other (losses)/gains net in the period in which they arise. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at each reporting date.

2.11. Property, plant and equipment

Property, plant and equipment are stated at actual cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of premise and equipment comprises its purchase price and any costs directly attributable to bringing the asset into use, while maintenance and repairs are charged to expense when incurred.

On April 1, 2010, the Company changed (with retrospective effect) its method of calculating depreciation on fixed assets, from the Written Down Value method (WDV) to the Straight Line Method (SLM) at the rates based on management s estimates of useful lives. Management believes that such change will result in a more appropriate presentation of financial statements.

The company adopted the straight line method (SLM) of depreciation so as to write off 100% of the cost of the assets based on management s estimates of the useful lives of all the assets. Estimated useful lives over which assets are depreciated are as follows:

Type of assets	Rates (SLM) adopted by the Company
Computer systems	3 years
Office equipments	3 years
Furniture and fixtures	5 years
Vehicles	4 years

The residual values and useful economic lives of premises and equipment are reviewed annually.

Depreciation on leasehold improvements is provided using the straight line method over the shorter of the lease term or the useful life of the asset.

Table of Contents

MF Global Sify Securities India Private Limited
(All amounts in Indian Rupees thousands, except as otherwise stated)

2.12. Intangible assets

All intangible assets are stated at cost less accumulated amortisation and any accumulated impairment losses.

a) *Software*

Capitalised costs of computer software obtained for internal use represents costs incurred to purchase computer software from third parties. These capitalised costs are amortised over the period of three years on a straight line basis, if the estimated useful lives are beyond one year. However, if the estimated useful life of an asset is short i.e. less than a year, it is charged to the income statement. They are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

b) *Trading rights in Stock Exchange*

BSE membership

MF Global Sify acquired The Stock Exchange, Mumbai (the BSE) membership card on December 6, 2000. During the year 2005-06, a scheme, The Bombay Stock Exchange (Corporatisation and Demutualization) Scheme 2005 (the Scheme) was approved by the Securities Exchange Board of India with effect from August 19, 2005 which converted the BSE from an Association of Person to a corporate body in the name of Bombay Stock Exchange Limited (BSEL).

In accordance with the scheme, the members of the erstwhile BSE, in exchange of their erstwhile BSE membership cards (rights) received membership rights of BSEL (i.e. right to trade on BSEL without placement of cash deposit) as well as equity shares of BSEL. (refer to note 5.2 Membership in Exchanges)

DGCX membership

MF Global Middle East DMCC (DMCC) is registered with and has been granted a trading license by the Dubai Multi Commodities Centre on February 7, 2006. The United Arab Emirates Securities and Commodities Authority issued the DMCC a license on June 18, 2006 to operate as a broker on the Dubai Gold and Commodities Exchange (DGCX). DMCC has been admitted as a member of the DGCX on September 1, 2006. DMCC has paid and capitalized US $100 thousand towards the license of DGCX, which is assessed for impairment.

Trading rights in stock exchanges have indefinite useful life and are carried at cost less any accumulated impairment. They are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

2.13. Impairment of non financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Both external as well as internal indicators are considered by the group for impairment testing. An impairment loss is recognized for the amount by which the asset s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Non financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.14. Payables

Payables include payables to broker-dealers and clearing organizations and payable to customers. The payable to broker-dealers and clearing organizations are at fair values because of their nature of short-term maturity. Amount payable to customers include amounts due on cash and margin transactions. These are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15. Borrowings Bank overdraft

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

2.16. Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. In the event that the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects a current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.17. Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws in the countries where the group operates and generates taxable income. The tax rate of MF Global Sify and its Indian Subsidiaries is 33.2175%. MF Global Middle East DMCC, the Dubai based subsidiary operates in a tax free jurisdiction. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Table of Contents

MF Global Sify Securities India Private Limited

(All amounts in Indian Rupees thousands, except as otherwise stated)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences, if any, arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Current and deferred income tax are recognized in the income statement, except when the tax relates to items charged or credited directly to equity, in which case the tax is also dealt with directly in equity.

2.18. Employee benefits

Employee benefits are accrued in the period in which the associated services are rendered by employees of the group. The group provides employees with retirement benefits through both defined benefit and defined contribution schemes. Contributions to the defined contribution scheme are charged to the consolidated income statement as they become payable in accordance with the rules of the scheme.

a) *Provident Fund*

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

b) *Gratuity*

The Gratuity Plan is a defined benefit plan that, at retirement or termination of employment, provides all employees with a lump sum payment, which is a function of the respective employee s salary and completed years of service with the group. The group provides the gratuity benefit through annual contributions to a fund managed by the Life Insurance Corporation of India (LIC). Under this scheme, the settlement obligation remains with the group, although the LIC administers the scheme and determines the contribution premium required to be paid by the group. The liability recognised in the balance sheet in respect of gratuity plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, if any, together with adjustments for unrecognised past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of Government of India securities (representing risk-free interest rates) and that have terms to maturity approximating to the terms of the related gratuity liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income statement in the period in which they arise.

c) *Share based payment*

The group s employees participate in share-based payment plans; that is stock appreciation rights plan sponsored by MF and co-investment plan sponsored by Man Group plc. The group follows IFRS 2, *Share Based Payment*

(IFRS 2).

For Equity settled share based payments; the fair value of the employee services received in exchange for the share awards and options granted is recognised as an expense. Equity-settled share-based payments are measured at the fair value of the equity instruments at the grant date and expensed, together with a corresponding increase in equity, on a straight-line basis over the vesting period, based on the Group s estimate of shares that will eventually vest.

For cash settled share based payments; the fair value of the employee services received in exchange for the stock appreciation rights is recognised as an expense. The cost of cash-settled transactions is measured initially at fair value at the grant date. The fair value of each tranche of rights issued under the plan is expensed over the period until vesting, with recognition of a corresponding liability. The liability is remeasured at each balance sheet date up to and including the settlement date, with changes in fair value recognised in the consolidated income statement.

The impact of non-market vesting conditions is included in assumptions about the number of options that are expected to vest. At each balance sheet date, the group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement.

2.19. Revenue Recognition

a) *Commission, clearing fees, depository fee income*

Commission, clearing fees and related expenses are recorded on a trade-date basis as securities transactions occur. Depository fee income earned from customer is recognized in the period in which services are rendered.

b) *Dividend and Interest Income*

Dividend income is recognised when the right to receive the payment is established. Interest income is recognised on accrual basis using the effective interest rate method.

c) *Principal transactions*

Principal transactions include revenues from proprietary transactions. The Company records in Principal transactions the gains or losses on repurchase and resale agreements accounted for as sales and purchase transactions.

The Company does not separately amortize purchase premiums and discounts associated with proprietary transactions, as these are a component of the recorded fair value. Changes in the fair value of such securities are recorded as unrealized gains and losses within Principal transactions in the consolidated statements of operations.

Table of Contents

MF Global Sify Securities India Private Limited
(All amounts in Indian Rupees thousands, except as otherwise stated)

d) *Other*

Other revenues consist of revenues the Company earns from other normal business operations that are not otherwise included elsewhere. These include fees from clients and other.

2.20. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. All leases are classified as operating leases.

Under these arrangements, interest free deposits have been given to the lessor and are refundable at the end of lease term. The group recognises the security deposit at fair value using the market rate of interest for a deposit of similar term. The difference between the amount of security deposit and fair value is considered as prepaid lease rental, which is a non-financial asset.

The security deposit initially recognised at fair value will accrete to the amount of security deposit received through accruals as interest income over the term of security deposit and prepaid lease rental will be charged to income statement as lease rental over the lease term.

3. Financial risk management objectives and policies

3.1. Financial risk factors

The group is exposed to a variety of financial risks. The principal risks are business risk, interest rate risk, price risk, foreign currency risk, credit risk and cash liquidity risk. Each of these risks is discussed in detail below. The group monitors financial risks on a consolidated basis. The group s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance. The group has a risk management structure and processes to monitor, evaluate and manage the principal risks in conducting business.

Business Risk

The group s results of operations will be affected by many factors including economic, political and market conditions, broad trends in the brokerage and finance industry, changes in level of trading activity in the broader market place, price levels and price volatility in the derivative, equity and commodity markets, legislative and regulatory changes and competition, among other factors. In particular, the revenues of the group are substantially dependent on the volume of client transactions that it executes and clears, the volatility in the principal markets in which it operates and the prevailing interest rates.

Interest rate Risk

The group is exposed to interest rate risk primarily due to changes in interest rates on bank fixed deposits that impact the amount of interest income the group earns. Interest income is earned on fixed deposits placed with banks out of the group s funds and margin monies placed by clients. The group monitors the movement of interest rates to determine whether deposits need to be placed at fixed or floating interest rates. Investments in fixed deposits placed with banks earn fixed rate of interest. As at March 31, 2010 the carrying value of bank deposits approximates fair value of these deposits as having original maturity of less than a year. The weighted average rate of interest earned on bank fixed deposits amounted to 6.49% p.a. and 6.97% p.a. during the year ended

March 31, 2011 and March 31, 2010, respectively.

The group rolls-over fixed deposits on maturity based on the market condition and business needs; the weighted average remaining term of fixed deposits as at the balance sheet date is approximately 7.35 months and 4.8 months as at March 31, 2011 and March 31, 2010, respectively.

As at March 31, 2011, a 100 bps increase / decrease in interest rates, with all other variables held constant , would have resulted in an increase / decrease in Interest Income by Rs.18,064 (Previous year Rs. 10,377)

Price Risk

The group is subject to price risk in respect of investments held by the group in listed and unlisted equity shares and investment in money market mutual funds, which are held as available for sale securities. The impact of price risk on carrying value of these shares is not material compared to the size and operations of the group. Investments in money market funds are subject to minimum price risk due to their investment in instruments of highest safety call money market instruments. Highest Safety represents a credit rating equivalent of AAA.

Foreign Exchange Risk

The group has minimal transactional currency exposure arising from operations in currencies other than its functional currency.

Credit Risk

Credit risk is the possibility that the group may suffer a loss from the failure of clients or counterparties to meet their financial obligations at all or in a timely manner. The group acts as an agent in providing execution and clearing services for exchange-traded products. The group s clients security activities are transacted on either cash or margin basis. In the event that a client fails to satisfy its obligations for cash transactions, the group may be required to purchase or sell financial instruments at the prevailing market price to fulfil the client s obligations. The clients are required to maintain margin accounts with collateral sufficient to support their open trading positions. Initially, the group establishes each client s margin requirements to levels it believes are sufficient to cover their open positions. However, later if the client s subsequent trading activity or adverse market conditions may cause the client s previous margin payments to be inadequate to support their trading obligations, the group then serves as the exchange clearing member for the trade and thus the group would cover any shortfall and thereby expose itself to potential losses.

Table of Contents

MF Global Sify Securities India Private Limited

(All amounts in Indian Rupees thousands, except as otherwise stated)

The Credit exposure also arises in relation to fixed deposits placed with Banks. The group places fixed deposits with highly rated banks , which are reviewed on an on-going basis.

The group s policy is to place fixed deposits with credit worthy banks. The following table depicts that the majority of the group s fixed deposits are placed in highly rated banks :

	% of fixed deposits	
Investment grade	**2011**	**2010**
Highest safety	100	100
High safety		
Adequate safety		
	100	**100**

Highest Safety represents a credit rating equivalent of AAA, A1+, P1+; High Safety represents a credit rating equivalent of AA; and Adequate Safety represents a credit rating of A.

The credit exposure also arises in relation to the deposits placed with exchanges and clearing corporations, which is required as per the rules of the exchanges / clearing corporation for the company membership. The risk is inherent in our industry and is largely controlled and influenced by the regulatory bodies that impose rules on the exchanges and clearing houses.

All exchanges and clearing houses are financially sound organisations and the Company is therefore not exposed to significant credit risk.

Risk Management Process and Mitigation

The group has a separate risk management department, which monitors, evaluates and manages the risks. Client-wise position limits are set by the risk department based on the collateral placed by the respective clients. The risk department is responsible for making daily risk reports based on day-end positions of clients. Client orders are directed to the exchange only if the risk parameters set by the risk department are met. The risk department monitors client activity levels to ensure exposures are within the risk parameters of the group. Intra-day margin calls are made on the clients to reflect market movements on the client positions and may result in clients being asked to reduce positions. Generally, the group reserves the right to liquidate any client position immediately in the event of a failure to meet a margin call. For the year ended March 31, 2011 and March 31, 2010, group s bad debts as a percentage of broking income were 2.75% and 0.01%, respectively. For clearing business, the group generally mandates that initial margin be paid by the clients as deposit before they commence trading. The clients are required to provide collateral as margin to secure the performance of their obligations. The group employs the following techniques to monitor the market environment and clients risk of default based upon the exposure created by their open positions:

establishing risk parameters based on analysis of current and historical prices and price volatility;

intra-day and end of day risk limit monitoring, including intra-day position and trade monitoring to identify any accounts trading beyond pre-set limits and parameters;

market risk analysis and evaluation of adequacy of margin requirements for traded products;

intra-day stress analysis for material market moves or accounts with material position taking and

approval of margin requirements, limits and risk control of new instruments

Cash Liquidity Risk

In normal conditions, the group s core business of providing execution and clearing brokerage services is self-financing because the operations generate sufficient revenues to pay expenses as they become due. As a result, the group generally does not face a substantial cash liquidity risk that is a risk that the group will be unable to raise cash quickly enough to meet payment obligations as they arise. The group has sufficient readily available liquid assets and credit facilities to ensure that the group can meet financial obligations as they become due under both normal and distressed market conditions. The group also has committed credit lines from banks to support the business in respect of settlement and intraday requirements. The group evaluates liquidity needs by analysing the impact of liquidity stress scenarios. The following table analyses the Group s financial assets, liabilities and commitments. The amounts disclosed are the contractual undiscounted cash flows.

Table of Contents

MF Global Sify Securities India Private Limited
(All amounts in Indian Rupees thousands, except as otherwise stated)
Year ended March 31, 2011

	Within 6 months	6 months to 1 Year	2 to 3 years	After 3 years	Total
Financial Liabilities					
Payable to broker dealers and clearing organizations	264,504				**264,504**
Payable to customers	1,272,570				**1,272,570**
Borrowings	53,000				**53,000**
Accounts payable, accrued expenses, and other liabilities	505,605				**505,605**
	2,095,679				**2,095,679**

	Within 6 months	6 months to 1 Year	2 to 3 years	After 3 years	Total
The group has at its disposal following financial assets in addition to unused lines of credit.					
Cash and Bank balance	281,486				**281,486**
Cash-restricted	2,832,900	126,163			**2,959,063**
Interest bearing deposits with bank	86,523	6,839			**93,362**
Deposits with clearing organizations				173,783	**173,783**
Receivable from broker-dealers and clearing organizations	18,580				**18,580**
Receivable from customers	447,770				**447,770**
Available-for-sale securities					
Marketable, at market value	40,776				**40,776**
Interest accrued but not due	67,124				**67,124**
	3,775,159	**133,002**		**173,783**	**4,081,944**

Year ended March 31, 2010

	Within 6 months	6 months to 1 Year	2 to 3 years	After 3 years	Total
Financial Liabilities					
Payable to broker dealers and clearing organizations	139,965				139,965
Payable to customers	1,177,517				1,177,517

Borrowings	3,508				3,508
Accounts payable, accrued expenses, and other liabilities	394,327				394,327
	1,715,317				**1,715,317**

	Within 6 months	**6 months to 1 Year**	**2 to 3 years**	**After 3 years**	**Total**
The group has at its disposal following financial assets in addition to unused lines of credit.					
Cash and bank balance	148,213				148,213
Cash-restricted	2,179,803	310,044			2,489,847
Interest bearing deposits with bank	107,445	188,214			295,659
Deposits with clearing organizations				110,969	110,969
Receivable from broker-dealers and clearing organizations	65,884				65,884
Receivable from customers	437,207				437,207
Available-for-sale securities Marketable, at market value	877				877
Available-for-sale securities not readily marketable, at fair value	11,447				11,447
Interest accrued but not due	71,443				71,443
	3,022,319	**498,258**		**110,969**	**3,631,546**

Available credit facilities (undrawn) as at March 31

	As at March 31,	
	2011	**2010**
Fund based facilities (working capital)		500,000
Non fund facilities		1,060,000
Total		**1,560,000**

Table of Contents

MF Global Sify Securities India Private Limited
(All amounts in Indian Rupees thousands, except as otherwise stated)

3.2. Capital risk management

The objectives of the Group when managing capital are to safeguard the group s ability to continue as a going concern in order to provide returns for shareholders and to maintain minimal debt. Capital of the group is equity as shown in the consolidated balance sheet. The exchange in which the group is a member has stipulated minimum net worth that must be maintained. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends to shareholders, issue new shares or sell assets to reduce debt. The group has embedded in its regulatory compliance framework the necessary test to ensure the continuous and full compliance with the net worth criteria set by the Exchange at each entity level. The group has complied with the net worth requirement at each entity level during the year and as at March 31, 2011 and March 31, 2010.

3.3. Fair value estimation

The fair value of financial instruments traded in active markets (such as available-for-sale securities) is based on the quoted market price at the balance sheet date. The quoted market price used for financial assets held by the group is the closing market price. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques except for the investment in equity shares of Bombay Stock Exchange Limited.

The fair value of Investment in the equity shares of BSEL is provided by BSEL. The fair value provided by BSEL is used for valuing investment in shares for the purposes of computation of net worth of trading member.

However the Investment in BSEL have been sold by the company during the financials year March 31, 2011. Please refer to note 14 for further details.

The carrying value, less impairment provision of trade receivables, is assumed to approximate their fair values.

4. Critical accounting estimates and judgements

4.1. Critical accounting estimates

In the process of applying the group s accounting policies, management has made estimates and judgements in preparing the financial statements.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

MF makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Valuation of financial assets where there is no quoted price This determination requires significant judgement particularly in determining changes in fair value since the last formal valuation.

Impairment of non-financial assets The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations prepared on the basis of management s assumptions and estimates.

Income taxes There are transactions and calculations for which the ultimate tax determination is uncertain and would get finalized on completion of assessment by tax authorities. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Defined benefit schemes Gratuity Liability The costs of and period-end obligations under defined benefit schemes are determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these schemes, such estimates are subject to significant uncertainty. The group reviews its assumptions annually in conjunction with its independent actuary and considers this adjustment appropriate given the geographical and demographic profile of the scheme.

Share-based payment transactions Share-based payments are measured at fair value by an independent valuer using the Black-Scholes model and expensed over the vesting period based on the group s estimate of shares that will eventually vest.

4.2. Critical accounting judgements in applying the entity s accounting policy

4.2.1. Revenue recognition

MF estimates that fixed deposits placed with banks will be held till maturity while determining the accrued interest, which is unpaid on the balance sheet date. In the event 1% of such deposit is withdrawn before it s its maturity date the Interest income will be lower by Rs. 733.

Table of Contents

MF Global Sify Securities India Private Limited
(All amounts in Indian Rupees thousands, except as otherwise stated)

5. Intangible assets

5.1. Software

	Computer Software	Web Development Costs	Total
Cost			
As at March 31, 2009	63,614	207,452	271,066
Additions	25,104		25,104
Disposals		(30)	(30)
Exchange difference	(27)		(27)
As at March 31, 2010	**88,691**	**207,422**	**296,113**
Additions	5,671		5,671
Disposals			
Exchange difference	(2)		(2)
As at March 31, 2011	**94,360**	**207,422**	**301,782**
Accumulated amortisation and impairment			
As at March 31, 2009	47,540	207,452	254,992
Charge for the year	12,992		12,992
Disposals		(30)	(30)
Exchange difference	(27)		(27)
As at March 31, 2010	**60,505**	**207,422**	**267,927**
Charge for the year	14,587		14,587
Disposals			
Exchange difference	(3)		(3)
As at March 31, 2011	**75,089**	**207,422**	**282,511**
Net book amount as at March 31, 2011	**19,271**		**19,271**
March 31, 2010*	28,424		28,424

(* Including of Capital WIP of Rs. 238)

5.2. Membership in Exchanges

Membership in exchanges consists of:

a) BSE membership of Rs.1,257 and Rs 1,257 as at March 31, 2011 and 2010 respectively, and

b) DGCX membership of Rs.4,476 and Rs. 4,525 as at March 31, 2011 and 2010, respectively. DGCX membership value underwent a change due to foreign currency translation.

BSE membership

The carrying value of the erstwhile BSE membership card in the books of MF Global Sify was Rs.13,570 in August 2005. Consequent to the corporatisation of the BSE, MF Global Sify computed the fair value of the

membership rights of BSEL and shares of BSEL as follows:

Membership rights of BSEL	On the basis of the benefits which MF Global Sify would get over the current deposit based membership right of BSEL
Equity shares of BSEL	On the basis of the fair value of the equity shares of BSEL determined by management

The fair value of the membership rights of BSEL is calculated by present value over 10 years of opportunity costs incurred on current deposit and admission fees required for new membership on the date of the balance sheet. The interest rate and present value is determined @ 8% p.a. On the balance sheet date the current deposit requirement is Rs. 1,000 and admission fees (non refundable) is Rs. 250.

In accordance with the above methodology, an impairment charge arose in BSE membership rights of Rs. Nil and Rs. 3,130, which was written off to the consolidated income statement during the year ended March 31, 2011 and March 31, 2010 respectively.

Table of Contents

MF Global Sify Securities India Private Limited
(All amounts in Indian Rupees thousands, except as otherwise stated)

6. Property, Plant and Equipment*

March 31, 2010	238		238		

	Furniture and Fixtures	Computers Systems	Office equipments	Vehicles	Total
Cost					
As at March 31, 2009	8,182	165,061	36,861	13,215	223,319
Additions	288	12,982	1,018		14,288
Disposals		(6)	(7)		(13)
Exchange difference	(153)	(110)	(92)	(114)	(469)
As at March 31, 2010	**8,317**	**177,927**	**37,780**	**13,101**	237,125
Additions	50	4,498	212		4,760
Disposals					
Exchange difference	(14)	(9)	(8)	(10)	(41)
As at March 31, 2011	**8,353**	**182,416**	**37,984**	**13,091**	**241,844**
Accumulated depreciation					
As at March 31, 2009	3,170	125,391	9,485	4,733	142,779
Charge for the year	913	17,395	3,923	2,175	24,406
Disposals		(5)	(1)		(6)
Exchange difference	(72)	(77)	(32)	(32)	(213)
As at March 31, 2010	**4,011**	**142,704**	**13,375**	**6,876**	166,966
Charge for the year	2,739	25,595	20,233	4,506	53,073
Disposals					
Exchange difference	(7)	(7)	(4)	(4)	(22)
As at March 31, 2011	**6,743**	**168,292**	**33,604**	**11,378**	**220,017**
Net book amount					
As at March 31, 2011	1,610	14,124	4,380	1,713	21,827
As at March 31, 2010	4,306	35,223	24,405	6,225	70,159

Change in Estimates

On the basis of comprehensive evaluation on April 1, 2010, the Group has changed its method of calculating depreciation on fixed assets from the Written down Value method (WDV) to the Straight Line method (SLM) at the revised rates based on management s estimates of useful lives of the assets.

In View of such changes, the change of depreciation for the current year is higher by Rs. 31,395 (of which Rs.28,180 pertains to earlier periods upto March 31, 2010 and Rs. 3,232 pertains to the current year.) and the profit for the year is lower by the said amount of Rs.31,395. Correspondingly, the net block of the Fixed Asset is lower by Rs. 31,395 as at March 31, 2011.

As it is impracticable to estimate the effect of such changes on depreciation for the future periods, the same is not disclosed.

7. Deferred income tax

The movement in deferred tax assets and liabilities during the respective years is as follows:

	2011	2010
At April 1	**17,901**	**56,082**
Property Plant and Equipment	10,479	(3,422)
Provision on receivable from customers	12,765	(19,783)
Gratuity	891	59
Stock appreciation rights	24,404	(8,060)
Provision for Bonus	12,106	(8,593)
Stamp duty	930	1,618
At March 31	**79,476**	**17,901**
Comprised Of:		
Deferred Tax Assets	79,476	18,215
Deferred Tax Liabilities		(314)
	79,476	**17,901**

Table of Contents

MF Global Sify Securities India Private Limited

(All amounts in Indian Rupees thousands, except as otherwise stated)

An analysis of the gross deferred tax asset and liability balances is as follows:

	2011	2010
Deferred tax assets:		
Property Plant and Equipment	11,308	829
Provision on receivable from customers	20,129	7,364
Stock appreciation rights	31,881	7,477
Provision for Bonus	13,033	927
Stamp Duty	2,548	1,618
Gratuity	577	
	79,476	**18,215**
Deferred tax liabilities:		
Nil		(314)
		(314)

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	March 31, 2011	March 31, 2010
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	33,985	9,811
Deferred tax asset to be recovered within 12 months	45,491	8,404
	79,476	**18,215**
Deferred tax liabilities:		
Deferred tax liability to be recovered after more than 12 months		314
Deferred tax liability to be recovered within 12 months		
		314
Deferred tax Assets (net)	**79,476**	**17,901**

Deferred tax assets:	**Property Plant and Equipment**	**Provision on receivable from customers**	**Stock appreciation rights**	**Provision for Bonus**	**Gratuity**	**Stamp Duty**	**Grand Total**
Opening Balance as on April 1, 2009	**4,251**	**27,147**	**15,537**	**9,520**			56,455
Charged / (Credited) to Other	(3,325)	(19,166)	(6,605)	(8,375)		1,618	(35,853)

Comprehensive Income							
Effect of Change in Tax rates	(97)	(617)	(1,455)	(218)			(2,387)
As at March 31, 2010	**829**	**7,364**	**7,477**	**927**		**1,618**	**18,215**
Charged / (Credited) to Other Comprehensive Income	10,479	12,765	24,404	12,106	577	930	61,261
Effect of Change in Tax rates							
As at March 31, 2011	**11,308**	**20,129**	**31,881**	**13,033**	**577**	**2,548**	**79,476**

Deferred tax liabilities:	**Gratuity**	**Grand Total**
Opening Balance as on April 1, 2009	**373**	**373**
Charged / (Credited) to Other Comprehensive Income	(53)	**(53)**
Effect of Change in Tax rates	(6)	**(6)**
As at March 31, 2010	**314**	**314**
Charged / (Credited) to Other Comprehensive Income	(314)	**(314)**
Effect of Change in Tax rates		
As at March 31, 2011		

Table of Contents

MF Global Sify Securities India Private Limited

(All amounts in Indian Rupees thousands, except as otherwise stated)

8. Receivables from customers

Receivables from customers that are due for less than six months are generally not considered impaired. In respect of receivables that are neither past due nor impaired, as at the reporting date, there are no indications that the customers will not meet their payment obligations.

As at March 31, 2011, receivables of Rs.10,193 (March 31, 2010: Rs. 672) were past due but not impaired. There are no indications that these customers will not meet their payment obligations. The ageing analysis of receivables, which are not impaired, is as follows:

	As at March 31,	
	2011	**2010**
Up to 6 months	437,577	436,535
more than 6 months	10,193	672
	447,770	**437,207**

Receivables are tested individually for impairment. Based on such testing as at March 31, 2011, receivables of Rs 60,600. (March 31, 2010: Rs. 22,300) were impaired and provided for. The amount of the provision was Rs. 60,600 as at March 31, 2011 (March 31, 2010: Rs. 22,300).

The ageing of these receivables is as follows:

	As at March 31,	
	2011	**2010**
Up to 6 months	45,796	5,020
more than 6 months	14,804	17,280
	60,600	**22,300**

The carrying amounts of the group s receivables are denominated in Indian Rupees (INR):

	As at March 31,	
	2011	**2010**
	447,770	437,207
	447,770	**437,207**

Movements on the group s provision for impairment of trade receivables are as follows:

	As at March 31,		
	2011	**2010**	**2009**
As at the beginning of the year	22,300	80,000	77,075
Provision for impairment	**38,300**		2,925
Write back of provision		**(57,700)**	
As at the closing of the year	**60,600**	**22,300**	**80,000**

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above

182

Table of Contents

MF Global Sify Securities India Private Limited
(All amounts in Indian Rupees thousands, except as otherwise stated)

9. Receivable from and payable to broker-dealer and clearing organisations

Amounts receivable from and payable to broker-dealers and clearing organizations (non-interest bearing) within six months from the balance sheet date consist of the following:

	As at March 31			
	2011		2010	
	Receivable	Payable	Receivable	Payable
Clearing organizations				
- Unsettled trade	8,208	38,638	60,250	8,327
Broker-Dealer	10,372	225,866	5,634	131,638
Total	**18,580**	**264,504**	**65,884**	**139,965**

10. Other assets

	As at March 31,	
	2011	2010
Prepaid expenses	14,544	19,890
Advance tax (net of provisions)	168,746	124,124
Deposits	32,663	30,976
Loans and advances (to staff)	12,594	22,168
Gratuity Trust	2,228	3,232
Others*	15,025	19,892
	245,800	**220,282**

* includes Advances to vendors towards expenses, delayed payment charges from clients, withholding tax recoverable, etc.

11. Cash and Bank Balance

Cash and bank balance consist of:

	As at March 31,		
	2011	2010	2009
Cash in hand	0.49	32.00	20
Cash at bank	281,485.27	148,181.00	181,596
	281,485.76	**148,213.00**	**181,616**

12. Cash restricted

Restricted cash as of March 31, 2011 includes fixed deposits of Rs.100,000 (Rs. 101,647 as of March 31, 2010) placed with banks as margins for bank guarantees issued to clearing organizations and fixed deposits of Rs.2,859,062 (Rs. 2,388,200 as of March 31, 2010) specifically earmarked as liens to clearing organizations towards margins.

Excess margin placed in the form of fixed deposits or bank guarantees can be withdrawn by giving one-day notice to the clearing organizations of the exchange.

Bank guarantees outstanding are Rs.200,000 as at March 31, 2011 (2010: Rs. 191,844). Bank guarantees are generally provided to the Exchanges for the purposes of Margins. An exchange may invoke these guarantees if they suffer any losses or damage through the breach of any of the covenants contained in the agreements.

13. Interest bearing deposits with banks

Interest bearing deposits with bank represent fixed term deposits placed with banks earning fixed rate of interest. At the balance sheet date, these deposits are measured at amortised cost using effective interest method.

The net decrease in interest bearing deposits with banks by Rs. 202,297 during the year is primarily on account of cash money repaid to customers.

Table of Contents

MF Global Sify Securities India Private Limited

(All amounts in Indian Rupees thousands, except as otherwise stated)

14. Available for Sale Securities

Available for sale Securities include following:

	As at March 31,			
	2011		2010	
(a) Equity Shares (Quoted)	Quantity	Amount (Rs.)	Quantity	Amount (Rs.)
Patni Computers Systems Limited.	18,096	8,633		
Piramal Health Care Limited	4,888	2,037		
Siemens Limited	34,171	30,106		
Rural Electrification Corporation Limited			3,500	877
Bombay Stock Exchange Limited			70,694	11,447
Total (a)	**57,155**	**40,776**	**74,194**	**12,324**
Templeton India Dividend reinvestment plan	9,286,667	92,868		
Total (b)	**9,286,667**	**92,868**		

Available for sale securities (listed) as at March 31, 2010 represents error trade.

The fair value of unlisted securities is determined based on the valuations provided by Bombay Stock Exchange Limited. This value is considered as fair value of investment in the net worth computation of trading member.

15. Share capital and Dividend distribution

	As at March 31,	
	2011	2010
Authorised capital		
70,000,000 ordinary shares of Rs.10/- per share	700,000	650,000

As at March 31, 2011, 51,894,182 ordinary shares (March 31, 2010: 51,894,182 ordinary shares) of Rs.10/- each, issued and fully paid up aggregating to Rs.518,942 (March 31, 2010 Rs. 518,942)

Dividend distribution

Dividends payable to equity shareholders are based on the net income available for distribution as reported in the stand alone financial statements of MF Global Sify prepared in accordance with Indian GAAP. The net income in accordance with IFRS may, in certain years, either not be fully available or will be additionally available for distribution to equity shareholders.

Under the Companies Act, 1956 of India dividends may be paid out of the profits of a company in the year in which the dividend is declared or out of the undistributed profits of previous fiscal years. Before declaring a dividend greater than 10% of the par value of its equity shares, a company is required to transfer to its reserves a minimum percentage of its profits for that year, ranging from 2.5% to 10%, depending on the dividend percentage to be declared in such year. Dividends declared are subject to a dividend distribution tax of 16.22%.

16. *Share based payments*

Employee s Stock Appreciation Scheme

The group had introduced the Stock Appreciation Rights Plan 2006 (SARs Plan 2006), Stock Appreciation Rights Plan 2007 (SARS Plan 2007) and and Stock Appreciation Rights Plan 2008 (SARS Plan 2008) during the years end March 31, 2007, March 31, 2008 and March 31, 2009, respectively, and granted stock appreciation rights to eligible employees. The group believes that such awards better align the interests of its employees with those of its

shareholders. As per the SARS Plan, the stock appreciation rights shall vest with the employee and shall be settled in cash on the day following the fourth anniversary of the grant date. The Board of Directors of the Company has preponed the vesting date of the SARS Plan 2007 and SARS Plan 2008 from March 31, 2011 and March 31, 2012 to July 31, 2010 and March 31, 2011, respectively. The exercise price for the grant is Rs. Nil. SARs are accounted as cash settled share-based payments.

The group has granted a total of 711,247 SARs under the SARs Plan 2006, 809,500 SARs under the SARs Plan 2007 and 1,386,000 SARs under the SARs Plan 2008 to the employees. The weighted-average fair value of SARs as at March 31, 2011 is Rs 70 per unit (2010 : Rs. 86 per unit) for SARs Plan 2006, SARs plan 2007 and SARs plan 2008, respectively. The forfeited SARs are reissued to the other eligible employees, where the vesting period is from the date of reissue to the vesting date as per the initial grant of SARs. The Company has carried out an independent fair valuation of the stock appreciation rights as of March 31, 2011. The total unrecognized compensation costs relating to SARs to be recognized in the future over the remaining vesting period is estimated to be Rs. Nil and110,769 as of March 31, 2011 and March 31, 2010 respectively.

The fair value of each SARs is estimated on the date of grant using a Black-Scholes valuation model that uses the following variables:

Stock Price: Current value of the underlying asset is derived through a valuation exercise, wherein the profit earning capacity has been considered as an appropriate method of valuation.

Table of Contents

MF Global Sify Securities India Private Limited

(All amounts in Indian Rupees thousands, except as otherwise stated)

The valuation has been undertaken based on the methodology of Price Earning Capacity Value (PECV Method) for the valuation of SARS every year.

PECV Method requires determination of three parameters, which are relevant to the company whose shares are being valued. These are

Corporate tax rate Current period tax rate is considered as corporate tax rate.

Future maintainable profit Future maintainable profit is derived based on simple average adjusted PBT for each year. From the future maintainable profit, corporate tax at the corporate tax rate has been deducted to derive future maintainable profit after tax.

Expected rate of return Expected rate of return is determined based on the average price earnings multiple of comparable companies on the basis of their 12 months average market prices.

The above parameters are approved by the Board of Directors. In accordance of this, an independent valuer has provided the valuation certificate at balance sheet date.

In the valuation as at March 31, 2011 the corporate tax rate is considered at 32.45% and Expected rate of return is determined at 7.81%.

Changes in number of SARs representing stock options outstanding were as follows:

	As at March 31,		
	2011	**2010**	**2009**
As at the beginning of the year	2,879,747	2,898,747	1,512,747
Granted during the year			1,386,000
Exercised	(2,558,394)		
Forfeited	(321,353)	(120,008)	(115,500)
Reissued		100,508	115,500
Lapsed			
As at the end of the year		**2,879,747**	**2,898,747**
Exercisable at the end of the year			
Approximate remaining vesting period in years		1.24	2.98

Co-investment plan

The co-investment plan allows selected senior employees of Man Group Plc, including those of MF, to use a portion of their cash bonus to purchase shares of Man Group Plc for investment within the plan. Shares held as investment within the plan for at least three years are matched by four shares of Man Group Plc. The plan limits the total value that can be received by a participant at 100% of their cash bonus, including both of their original investment in the plan and matching shares of Man Group Plc.

MF requested Man Group Plc for application to co-investment plan for certain senior employees. Man Group Plc consented and framed an India sub-plan (Plan) of the co-investment scheme, which was approved by the board of Man Group on May 31, 2006.

During the year ended March 31, 2007, 4,476 shares of Man Group Plc were purchased by MF for its senior employees as a part of the Plan by contributing an amount of USD 200,000 (Rs.8,833 thousand) to ED & F Man Group (No.2) Employees Trust, which in turn issued 27,300 matching shares with a weighted-average grant date fair value of $ 6.84 to be held in trust. There was no forfeiture, vesting or exercise of the grant during the year. The total unrecognized compensation to be expensed is Rs.NIL. MF is no longer a part of Man Group plc. and has not participated in the co-investment plan during the year ended March 31, 2011 and March 31, 2010.

17. Borrowings

	As at March 31,

	2011	2010
Car Loan		3,508
		3,508

Aggregate maturities of the borrowings are as follows:

	As at March 31,	
	2011	**2010**
On demand or within one year	**53,000**	**1,266**
In one to three years		**2,242**
In three to five years		
	53,000	**3,508**

Table of Contents

MF Global Sify Securities India Private Limited
(All amounts in Indian Rupees thousands, except as otherwise stated)
18. Employee benefit obligation

	Years ended March 31,		
	2011	**2010**	**2009**
Gratuity	1,432	856	844
Stock appreciation rights	96,832	135,746	46,851
	98,264	**136,602**	**47,695**

The movement in the defined benefit obligation of gratuity over the period is as follows:

	Years ended March 31,		
	2011	**2010**	**2009**
Opening defined benefit obligation	9,861	9,700	9,458
Current service cost	2,879	2,853	3,000
Interest cost	715	679	755
Actuarial losses/ (gains)	3,948	(3,373)	(3,471)
Benefits paid			(42)
Closing defined benefit obligation	**17,403**	**9,859**	**9,700**

The movement in the fair value of plan assets of the year is as follows:

	Years ended March 31,		
	2011	**2010**	**2009**
Beginning of year	12,237	11,200	7,686
Expected return on plan assets	1,343	1,025	832
Actuarial (losses)/gains	(278)	11	(129)
Employer contributions	6,732		2,853
Benefits paid	(1,836)		(42)
Closing fair value of plan assets	**18,198**	**12,236**	**11,200**

The amounts recognised in the income statement in respect of gratuity are as follows:

	Years ended March 31,		
	2011	**2010**	**2009**
Current service cost	2,879	2,853	3,000
Interest cost	715	679	755
Actuarial loss	6,061	(3,384)	(3,342)
Expected return on plan asset	(1,344)	(1,025)	(832)
	8,311	**(877)**	**(419)**

The principal actuarial assumptions used were as follows:

	Years ended March 31,

	2011	2010	2009
Discount rate	8.00%	7.00%	8.00%
Expected return on plan assets	9.25%	9.25%	9.15%
Long term rate of compensation increase	6.00%	6.00%	6.00%

Mortality rates at various age groups are taken as per 1994-96 Life Insurance Corporation (LIC) Ultimate table.

19. Accounts payables, accrued expenses and other liabilities

	As at March 31,		
	2011	**2010**	**2009**
Accruals	41,758	41,489	35,541
Withholding tax payable	85,062	71,382	52,060
Bonus Payable	255,242	157,410	126,350
Other payables	123,543	124,046	138,007
Total	**505,605**	**394,327**	**351,958**

Table of Contents

MF Global Sify Securities India Private Limited
(All amounts in Indian Rupees thousands, except as otherwise stated)

20. Other Expenses

	Year ended March 31,		
	2011	**2010**	**2009**
Professional Fees	12,087	11,059	10,590
Travelling and conveyance	18,901	16,068	15,872
Books & Periodicals, Postage, printing and stationary	29,120	25,817	33,466
Loss on account of error trades (net)	10,923	12,602	12,452
Repairs & maintenance	818	145	2,717
Service fee expenses			15,735
Insurance Premium	1,248	963	19,801
Others	12,531	15,457	15,060
Total	**85,628**	**82,111**	**125,693**

21. Employee benefit expense

	Year ended March 31		
	2011	**2010**	**2009**
Salaries and bonus	670,766	508,264	483,382
Defined contribution plans	4,047	3,452	3,968
Defined benefit plans	9,134	159	285
Staff welfare expenses	14,677	6,796	2,896
Share based compensation expense	95,911	89,104	23,973
			730
	794,535	**607,775**	**515,234**

Share based compensation expense has increased during the year due to increase in fair value of SARS .

22. Provision for Doubtful Debts

The Company s allowance for doubtful accounts is based upon management s continuing review and evaluation of factors such as collateral value, aging and the financial condition of the customers. The allowance is assessed to reflect the best estimate of probable losses due to client defaults that have been incurred as of the balance sheet date. Any changes in the estimate are included in the operating results for the current period. In circumstances where a specific customer s inability to meet its financial obligation is known, the Company records a specific provision against accounts receivable to reduce the receivable to the amount that it reasonably believes will be collected. The bad debt expense aggregating to Rs. 38,300 is recognised for the years ended March 31, 2011 (PY March 31, 2010 Rs Nil).

23. Other income

	Year ended March 31,		
	2011	**2010**	**2009**
Profit on sale of available-for-sale securities	23,603		6,724
Delayed payment charges (*)	60,014	24,999	39,215
Research fees		3,072	
Referral fees (**)	57,745	51,160	2,824
Interest	16,278	5566	51990
Dividend	1,617	283	5,174

Currency Fluctuation Gain	912	7,960	167
Expenses Reversal (***)		17,567	
Principal Trading Activity	4,056		
Miscellaneous income	30,565	26,365	32,577
	194,790	**136,972**	**138,671**

(*) Delayed payment charges represents the penal charges levied to clients on account of delay in settlement of their trade related obligations.

(**) Referral fees consist of payments received for introducing clients to other MF Global associated companies.

(***) The amount of Rs 17,567 was provided in year 2009 on account of group recharges from MF Global Holdings Limited (formerly known as MF Global Limited) has been reversed during the current year on account of mutual agreement between the stakeholders.

Table of Contents

MF Global Sify Securities India Private Limited
(All amounts in Indian Rupees thousands, except as otherwise stated)

24. Income tax expense

	Year ended March 31,		
	2011	**2010**	**2009**
Current tax	127,322	122679	127269
Deferred tax (Note 7)	(61,575)	38181	(894)
	65,747	**160,860**	**126,375**

The tax on MF s profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	Year ended March 31,		
	2011	**2010**	**2009**
Net income before taxes	**307,587**	**468,403**	**343,292**
Enacted tax rates in India	33.22%	33.99%	33.99%
Computed tax expense	**102,180**	**159,210**	**116,685**
Income exempt from tax:			
Dividend	(536)	(96)	(57)
Non-deductible expenses:			
Contribution to co-investment plan	734	751	751
Others including donations, IT interest etc.	678	1,228	1,275
Recharges by parent and affiliate companies		980	8,498
Excess Provisions for earlier years reverse back in current year	(26,491)		
Income charged at lower rate	(7,171)		
(Gain) / Loss in Subsidiaries	(4,209)	(3,294)	(1,123)
Others	562	2081	346
Income taxes recognized in the statement of income	**65,747**	**160,860**	**126,375**

25. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

March 31, 2011	**Loans and receivables**	**Available for sale**	**Total**
Assets as per balance sheet			
Cash and Bank balance	281,486		**281,486**
Cash-restricted	2,959,063		**2,959,063**
Interest bearing deposits with bank	93,362		**93,362**
Deposits with clearing organizations and others	173,783		**173,783**
Receivable from broker-dealers and clearing organizations	18,580		**18,580**
Receivable from customers	447,770		**447,770**
Available-for-sale securities:			
Marketable, at market value		40,776	**40,776**

Not readily marketable (at estimated fair value)		92,868	**92,868**
Interest accrued but not due	67,124		**67,124**
Other assets	245,800		**245,800**
	4,286,968	**133,644**	**4,420,612**

	Other financial liabilities	**Total**
Liabilities as per balance sheet		
Payable to broker dealers and clearing organizations	264,504	264,504
Payable to customers	1,272,570	1,272,570
Borrowings	53,000	53,000
Accounts payable, accrued expenses, and other liabilities	505,605	505,605
	2,095,679	**2,095,679**

Table of Contents

MF Global Sify Securities India Private Limited
(All amounts in Indian Rupees thousands, except as otherwise stated)

March 31, 2010	Loans and receivables	Available for sale	Total
Assets as per balance sheet			
Cash and Bank balance	148,213		148,213
Cash-restricted	2,489,847		2,489,847
Interest bearing deposits with bank	295,659		295,659
Deposits with clearing organizations and others	110,969		110,969
Receivable from broker-dealers and clearing organizations	65,884		65,884
Receivable from customers	437,207		437,207
Available-for-sale securities:			
Marketable, at market value		877	877
Not readily marketable (at estimated fair value)		11,447	11,447
Interest accrued but not due	71,443		71,443
Other assets	203,982		203,982
	3,823,204	**12,324**	**3,835,528**

March 31, 2010	Other financial liabilities	Total
Liabilities as per balance sheet		
Payable to broker dealers and clearing organizations	139,965	139,965
Payable to customers	1,177,517	1,177,517
Borrowings	3,508	3,508
Accounts payable, accrued expenses, and other liabilities	394,327	394,327
	1,715,317	**1,715,317**

The carrying amounts reported in the balance sheet for cash and cash equivalents, receivables, amounts due to or from related parties, accounts payable and other liabilities approximate their respective fair values due to their short maturity.

26. During October 2010, Sify Technologies Limited, the minority shareholder of the Company holding 29.85 percent of the outstanding shares of the Company, requested the Company s Board of Directors to reconsider certain costs charged to the Company by MF Global Holdings Limited (the majority shareholder) and its affiliated and associated group companies, who hold 70.15 percent of the outstanding shares of the Company. These charges are currently recorded in the financial statements of the Company for year ended March 31, 2008 aggregating to Rs. 43,478,911 and March 31, 2009 aggregating to Rs. 15,374,528. The resolution of this matter between the shareholders remains uncertain and any financial adjustment that may arise is not presently known. Any financial adjustment that may arise on resolution of the said matter would be expected to be handled prospectively and therefore would be reported in the period in which it is resolved.

27. Merger of Subsidiary Company

The Scheme of Amalgamation (the Scheme) of MF Global Capital India Private Limited (MFGCIPL) [the Transferor Company] with MF Global Sify Securities India Private Limited (MFGSSIPL) [the Transferee Company] was sanctioned by the Bombay High Court on March 25, 2011 and the order sanctioning the Scheme was filed with the Registrar of Companies at Mumbai on April 15, 2011 (the Effective Date).

Accordingly, pursuant to the Scheme, the undertaking of the erstwhile MFGCIPL (comprising all of its properties and assets (whether movable or immovable, tangible or intangible) such as security deposits, licenses, permits, quotas, approvals, leases, tenancy rights, permissions, incentives if any, and all other rights, title, interests, contracts, consent, approvals or powers of every nature and descriptions shall without any further act, instrument or deed stand transferred to and vested in and/or deemed to be transferred to and vested in the Transferee Company, free from all encumbrances, but subject to subsisting charges and pledges, if any. All debts, liabilities, contingent liabilities, financial commitments, duties and obligations pertaining to the Transferor Company, whether provided for or not in the books of account of the Transferor Company and whether disclosed or undisclosed in its Balance Sheet has been transferred to and vested with MFGSSIPL retrospectively with effect from April 1, 2010 (the Appointed Date). The Scheme has accordingly been given effect to in these financial statements.

28. Commitments and contingencies

a) *Contingent Liabilities*

(i) Guarantee given by scheduled banks on behalf of the company in favour of commodity Exchange Rs. 200,000 (PY ending March 31, 2010 Rs.190,000).

(ii) Claims against the company not acknowledged as debts Rs. 15,030 (PY. ending March 31, 2010 Rs. 15,030).

Table of Contents

MF Global Sify Securities India Private Limited

(All amounts in Indian Rupees thousands, except as otherwise stated)

b) *Operating lease commitments MF as lessee*

The group has obligations under long term operating leases with initial non-cancellable terms in excess of one year. Aggregate annual rentals for office space as of March 31, 2011, are approximately as listed below:

	As at March 31, 2011	2010
Not later than 1 year	59,409	59,087
Later than 1 year and not later than 5 years	20,346	13,771
Later than 5 years		
Total minimum lease commitments	**79,755**	**72,858**

Rent expense for the current year aggregated to Rs. 59,979 (2010: Rs. 61,694) and is included in the occupancy expense line item on the consolidated statements of income.

c) *Contingencies*

The group is a member of various exchanges that trade and clear securities, commodities and/or futures contracts. Associated with its membership, the group may be required to pay a proportionate share of the financial obligations of another member who may default on its obligations to the exchange. While the rules governing different exchange memberships vary, in general the group s exposure would be restricted only to the extent of amounts receivable from the exchange and would arise only if the exchange had previously exhausted its resources. However, based on its experience, the company expects the risk of loss to be remote.

29. Related party transactions

The share capital of MF is held jointly by MF Global Overseas Limited and Sify Technologies Limited. The ultimate holding company of MF Global Sify is MF Global Holdings Limited.

a) Related Party Relationship

Related parties where control exists:

Nature of Relationship	**Related Party**
Holding enterprises:	MF Global Overseas Limited
Ultimate Holding company:	MF Global Holdings Limited
Party having substantial interest:	Sify Technologies Limited

Other related parties with whom transactions have taken place:

Nature of Relationship	**Related Party**
Subsidiary companies:	MF Global Commodities India Private Limited
	MF Global Middle East DMCC
Fellow subsidiary companies: (where transactions exist)	MF Global India Private Limited
	MF Global Holdings HK Limited
	MF Global Hong Kong Limited
	MF Global Australia Limited
	MF Global Singapore Limited

	MF Global Finance & Investment Services India Private Limited MF Global Centralised Services India Private Limited MF Global UK Limited MF Global Inc (DE)
Key management personnel:	Mr. Vineet Bhatnagar Mr. Rajendra Bhambhani Mr. Randy MacDonald# (#Joined with effect from July 28, 2010) Mr. Laurence O Connell* (*resigned with effect from May 25, 2010)

Table of Contents

MF Global Sify Securities India Private Limited
(All amounts in Indian Rupees thousands, except as otherwise stated)

b) Transactions involving services

	Year ended March 31,		
	2011	**2010**	**2009**
Services provided by MF to:			
Holding companies			
Reimbursement of Expenses		539	3,205
Fellow Subsidiary Companies			
Referral Fees	57,750	51,162	51,992
Brokerage Income	5,333		5,185
Reimbursement of Expenses	5,165	5,646	8,715
	68,248	**57,347**	**69,097**
Services received by MF from:			
Holding companies			
Service Fees			9,349
Bank Guarantee Commission	72	497	1,692
Insurance Premium		(17,567)	17,842
Purchase / AMC of Computer Hardware			6,600
Fellow Subsidiary Companies			
Lease Line Charges			1,675
IB Commission Expense	4,691	2,006	1,454
Interest Expense	1,562	888	1,039
Service Fees			6,386
Membership & Subscription	6,368	3,266	247
	12,693	**(10,910)**	**46,284**
Loan Taken and Repaid (Net)	(5,300)	383,700	270,000

c) Key management compensation

	Year ended March 31,		
	2011	**2010**	**2009**
Salaries and other short-term employee benefits	122,410	71,361	63,112
Other long-term benefits (Co-Investment Plan)		2,208	2,208
Share-based payments		19,653	5,420
	122,410	**93,222**	**70,740**

d) Year-end balances arising from transactions involving services

Due To Related Parties			
MF Global Holdings Ltd.		32,857	34,005

MF Global UK Ltd.	57,953	19,213
MF Global Inc. DE	6,372	3,504
MF Global Holdings USA Inc.	2,014	2,036
MF Global Singapore Pte Ltd.	1,028	1,529
MF Global Holdings HK Ltd.		699
MF Global Finance and Investment Services India Private Limited	53,000	
MF Global Australia Limited	125	
	153,349	**60,986**

Due from Related Parties		
MF Global Inc. DE	179	361
MF Global Mauritius Pvt. Ltd.	1,116	1,399
MF Global Singapore Pte Ltd.	1,243	2,347
MF Global Holdings HK Ltd.	109	
MF Global HK Ltd.	269	
MF Global UK Ltd.	1,697	2,257
MF Global Overseas Limited		3,292
MF Global India Pvt. Ltd.	1,153	
MF Global Centralised Services India Pvt. Ltd.		1,287
MF Global FXA Securites Limited	200	
	5,966	**10,943**

For and on behalf of the Board
Vineet Bhatnagar
Managing Director

Table of Contents

Item 19. Exhibits

Number	Description
1.1	Amended Articles of Association of Sify Technologies Limited. (1)
1.2	Memorandum of Association of Sify Technologies Limited. (2)
1.3	Amendment of Memorandum of Association. (3)
2.1	Deposit Agreement, dated as of October 18, 1999, among Sify Technologies Limited, Citibank, N.A. and holders from time to time of American Depository Shares evidenced by American Depository Receipts issued thereunder (including, as an exhibit, the form of American Depository Receipt). (4)
2.2	Amendment No. 1 to Deposit Agreement among Sify Technologies Limited, Citibank, N.A. and holders from time to time of American Depository Shares evidenced by American Depository Receipts issued thereunder (including, as an exhibit, the form of American Depository Receipt). (4)
2.3	Amendment No. 2 to Deposit Agreement among Sify Technologies Limited, Citibank, N.A. and holders from time to time of American Depository Shares evidenced by American Depository Receipts issued thereunder (including, as an exhibit, the form of American Depository Receipt). (5)
2.4	Subscription Agreement dated November 10, 2005 between Sify Technologies Limited and Infinity Capital Ventures, LP. (9)
2.5	Standstill Agreement dated November 10, 2005 by and among Sify Technologies Limited, Infinity Capital Ventures, LP and Mr Raju Vegesna. (9)
2.6	Shareholders Agreement dated December 20, 2005 between Sify Technologies Limited, Infinity Satcom Universal (P) Limited, and Sify Communications Limited(erstwhile subsidiary). (10)
2.7	Shareholders Agreement dated November 25, 2005 between Sify Technologies Limited and Man Financial. (11)
4.1	Associate Stock Option Plan 2000 (6)
4.2	Associate Stock Option Plan 2002 (6)
4.3	Associate Stock Option Plan 2005 (12)
4.4	Associate Stock Option Plan 2007 (14)
4.5	Form of Indemnification Agreement. (7)
4.6	License Agreement for Provision of Internet Service, including Internet Telephony dated as of April 1, 2002 by and between Sify Technologies Limited and the Government of India, Ministry of

	Communications and Information Technology, Department of Telecommunications, Telecom Commission. (3)
4.7	Bank Guarantee, dated as of November 4, 1998. (2)
4.8	Agreement, dated November 10, 2004, between Sify Technologies Limited, Satyam Computer Services Limited, SAIF Investment Company Limited and Venture Tech Solutions Pvt. Ltd. (8)
4.9	Subscription Agreement dated March 24, 2008 between Sify Technologies Limited and Infinity Satcom Universal Private Limited. (13)
4.10	Scheme of Amalgamation between Sify Communications Limited with Sify Technologies Limited and their respective shareholders (15)
4.11	Subscription agreement dated October 22, 2010 between Sify Technologies Limited and Mr Ananda Raju Vegesna, Representative of the entities and affiliates in India of Mr Raju Vegesna, Chief Executive and Managing Director of the company. (16)
4.12	Amendment to subscription agreement dated September 7, 2011 between Sify Technologies Limited and Mr Ananda Raju Vegesna, Representative of the entities and affiliates in India of Mr Raju Vegesna, Chief Executive and Managing Director of the company. (17)

Table of Contents

Number	Description
8.1	List of Subsidiaries.
11.1	Code of Conduct and Conflict of Interest Policy (6)
12.1	Rule 13a-14(a) Certification of Chief Executive Officer
12.2	Rule 13a-14(a) Certification of Chief Financial Officer
13.1	Section 1350 Certification of Chief Executive Officer
13.2	Section 1350 Certification of Chief Financial Officer
15.1	Consent of ASA & Associates in respect of Sify Technologies Limited
15.2	Consent of Price Waterhouse in respect of MF Global Sify Securities Private Limited
15.3	Consent of KPMG in respect of Sify Technologies Limited

(1) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on October 17, 2007 and incorporated herein by reference.

(2) Previously filed as an exhibit to Amendment No. 1 to the Registration Statement on Form F-1 filed with the Commission on October 4, 1999 and incorporated herein by reference.

(3) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on October 17, 2007 and incorporated herein by reference.

(4) Previously filed as an exhibit to the Post-Effective Amendment No. 1 to Form F-6 filed with the Commission on January 5, 2000 and incorporated herein by reference.

(5) Previously filed as an exhibit to the Registration Statement on Form S-8 (File No. 333-101322) filed with Commission on November 20, 2002 and incorporated herein by reference.

(6) Previously filed as an exhibit to the Annual Report on Form 20-F filed with the Commission on June 29, 2004 and incorporated herein by reference.

(7) Previously filed as an exhibit to Amendment No. 2 to the Registration Statement on Form F-2 filed with the Commission on October 13, 1999 and incorporated herein by reference.

(8) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on November 30, 2004 and incorporated herein by reference.

(9) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on November 21, 2005 and incorporated herein by reference.

(10) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on December 7, 2005 and incorporated herein by reference.

(11) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on December 23, 2005 and incorporated herein by reference.

(12) Previously filed as an exhibit to the Annual Report on Form 20-F filed with the Commission on June 30, 2006 and incorporated herein by reference.

(13) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on April 14, 2008 and incorporated herein by reference.

(14) Previously filed as an exhibit to the Report on Form 20-F filed with the Commission on October 11, 2008 and incorporated herein by reference.

(15) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on January 23, 2009 and incorporated herein by reference.

(16) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on November 15, 2010 and incorporated herein by reference.

(17) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on September 8, 2011 and incorporated herein by reference.

Table of Contents

SIGNATURES

The company hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

SIFY TECHNOLOGIES LIMITED

By: /s/ Raju Vegesna
Name: Raju Vegesna
Title: Chief Executive Officer

By: /s/ MP Vijay Kumar
Name: M P Vijay Kumar
Title: Chief Financial Officer

Date: October 12, 2011

Table of Contents

Exhibits

Number	Description
1.1	Amended Articles of Association of Sify Technologies Limited. (1)
1.2	Memorandum of Association of Sify Technologies Limited. (2)
1.3	Amendment of Memorandum of Association. (3)
2.1	Deposit Agreement, dated as of October 18, 1999, among Sify Technologies Limited, Citibank, N.A. and holders from time to time of American Depository Shares evidenced by American Depository Receipts issued thereunder (including, as an exhibit, the form of American Depository Receipt). (4)
2.2	Amendment No. 1 to Deposit Agreement among Sify Technologies Limited, Citibank, N.A. and holders from time to time of American Depository Shares evidenced by American Depository Receipts issued thereunder (including, as an exhibit, the form of American Depository Receipt). (4)
2.3	Amendment No. 2 to Deposit Agreement among Sify Technologies Limited, Citibank, N.A. and holders from time to time of American Depository Shares evidenced by American Depository Receipts issued thereunder (including, as an exhibit, the form of American Depository Receipt). (5)
2.4	Subscription Agreement dated November 10, 2005 between Sify Technologies Limited and Infinity Capital Ventures, LP. (9)
2.5	Standstill Agreement dated November 10, 2005 by and among Sify Technologies Limited, Infinity Capital Ventures, LP and Mr Raju Vegesna. (9)
2.6	Shareholders Agreement dated December 20, 2005 between Sify Technologies Limited, Infinity Satcom Universal (P) Limited, and Sify Communications Limited(erstwhile subsidiary). (10)
2.7	Shareholders Agreement dated November 25, 2005 between Sify Technologies Limited and Man Financial. (11)
4.1	Associate Stock Option Plan 2000 (6)
4.2	Associate Stock Option Plan 2002 (6)
4.3	Associate Stock Option Plan 2005 (12)
4.4	Associate Stock Option Plan 2007 (14)
4.5	Form of Indemnification Agreement. (7)
4.6	License Agreement for Provision of Internet Service, including Internet Telephony dated as of April 1, 2002 by and between Sify Technologies Limited and the Government of India, Ministry of

	Communications and Information Technology, Department of Telecommunications, Telecom Commission. (3)
4.7	Bank Guarantee, dated as of November 4, 1998. (2)
4.8	Agreement, dated November 10, 2004, between Sify Technologies Limited, Satyam Computer Services Limited, SAIF Investment Company Limited and Venture Tech Solutions Pvt. Ltd. (8)
4.9	Subscription Agreement dated March 24, 2008 between Sify Technologies Limited and Infinity Satcom Universal Private Limited. (13)
4.10	Scheme of Amalgamation between Sify Communications Limited with Sify Technologies Limited and their respective shareholders (15)
8.1	List of Subsidiaries.
11.1	Code of Conduct and Conflict of Interest Policy (6)
12.1	Rule 13a-14(a) Certification of Chief Executive Officer
12.2	Rule 13a-14(a) Certification of Chief Financial Officer

Table of Contents

Number	Description
13.1	Section 1350 Certification of Chief Executive Officer
13.2	Section 1350 Certification of Chief Financial Officer
15.1	Consent of ASA & Associates in respect of Sify Technologies Limited
15.2	Consent of Price Waterhouse in respect of MF Global Sify Securities Private Limited
15.3	Consent of KPMG in respect of Sify Technologies Limited

(1) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on October 17, 2007 and incorporated herein by reference.

(2) Previously filed as an exhibit to Amendment No. 1 to the Registration Statement on Form F-1 filed with the Commission on October 4, 1999 and incorporated herein by reference.

(3) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on October 17, 2007 and incorporated herein by reference.

(4) Previously filed as an exhibit to the Post-Effective Amendment No. 1 to Form F-6 filed with the Commission on January 5, 2000 and incorporated herein by reference.

(5) Previously filed as an exhibit to the Registration Statement on Form S-8 (File No. 333-101322) filed with Commission on November 20, 2002 and incorporated herein by reference.

(6) Previously filed as an exhibit to the Annual Report on Form 20-F filed with the Commission on June 29, 2004 and incorporated herein by reference.

(7) Previously filed as an exhibit to Amendment No. 2 to the Registration Statement on Form F-2 filed with the Commission on October 13, 1999 and incorporated herein by reference.

(8) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on November 30, 2004 and incorporated herein by reference.

(9) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on November 21, 2005 and incorporated herein by reference.

(10) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on December 7, 2005 and incorporated herein by reference.

(11) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on December 23, 2005 and incorporated herein by reference.

(12) Previously filed as an exhibit to the Annual Report on Form 20-F filed with the Commission on June 30, 2006 and incorporated herein by reference.

(13) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on April 14, 2008 and incorporated herein by reference.

(14) Previously filed as an exhibit to the Report on Form 20-F filed with the Commission on October 11, 2008 and incorporated herein by reference

(15) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on January 23, 2009 and incorporated herein by reference

(16) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on November 15, 2010 and incorporated herein by reference.

(17) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on September 8, 2011 and incorporated herein by reference.