

SIFY TECHNOLOGIES LTD

Form 6-K

March 31, 2009

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

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

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

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

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

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

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**FORM 6-K**  
**For the Quarter ended June 30, 2008**  
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**Currency of Presentation and Certain Defined Terms**

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

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

For your convenience, this report contains translations of some Indian rupee amounts into U.S. dollars which should not be construed as a representation that those Indian rupee or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Indian rupees, as the case may be, at any particular rate, the rate stated below, or at all. Except as otherwise stated in this report, all translations from Indian rupees to U.S. dollars contained in this report have been based on the noon buying rate in the City of New York on June 30, 2008 for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York. The noon buying rate on June 30, 2008 was Rs.42.93 per \$1.00.

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

Information contained in our websites, including our principal corporate website, [www.sifycorp.com](http://www.sifycorp.com), is not part of this report.

**Forward-looking Statements May Prove Inaccurate**

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

**Table of Contents****Sify Technologies Limited****Unaudited Condensed Consolidated Interim Balance Sheet**

(In thousands, except share data and as otherwise stated)

|  |      | As at<br>June 30,<br>2008 | As at<br>March 31,<br>2008 | As at<br>June 30, 2008<br>Convenience<br>translation<br>into<br>US\$ (Note<br>2(b)) |
|--|------|---------------------------|----------------------------|---|
|  | Note | Rs                        | Rs                         |   |
| <b>Assets</b>  |      |                           |                            |   |
| Property, plant and equipment                            | 4    | 2,412,921                 | 2,181,785                  | 56,206  |
| Intangible assets  | 5    | 184,954                   | 182,307                    | 4,308   |
| Investment in associates/equity accounted investees      | 6    | 490,095                   | 478,514                    | 11,416  |
| Restricted Cash  | 7    | 1,000                     | 1,000                      | 23  |
| Net investment in leases other than current installments |      | 3,367                     | 5,297                      | 78  |
| Lease prepayments  | 8    | 850,032                   | 568,909                    | 19,800  |
| Other assets   |      | 402,959                   | 336,525                    | 9,386   |
| Deferred tax assets                                      |      | 17,804                    | 15,570                     | 415   |
| <b>Total non-current assets</b>                          |      | <b>4,363,132</b>          | <b>3,769,907</b>           | <b>101,632</b>  |
| Inventories  |      | 32,594                    | 37,751                     | 759   |
| Trade and other receivables, net                         | 9    | 2,560,940                 | 2,220,726                  | 59,654  |
| Net investment in leases, current installments           |      | 6,979                     | 6,743                      | 163   |
| Prepayments for current assets                           |      | 157,034                   | 150,627                    | 3,658   |
| Restricted cash  | 7    | 955,000                   | 877,582                    | 22,246  |
| Cash and bank balances                                   | 7    | 652,363                   | 628,745                    | 15,196  |
| Other investments  |      | 16,534                    | 18,679                     | 385   |
| <b>Total current assets</b>                              |      | <b>4,381,444</b>          | <b>3,940,853</b>           | <b>102,061</b>  |
| <b>Total assets</b>                                      |      | <b>8,744,576</b>          | <b>7,710,760</b>           | <b>203,693</b>  |

**Table of Contents****Sify Technologies Limited****Unaudited Condensed Consolidated Interim Balance Sheet**

(In thousands, except share data and as otherwise stated)

|   | Note | As at            |                  | As at June<br>30, 2008<br>Convenience<br>translation<br>into<br>US\$ (Note<br>2(b)) |
|---|------|------------------|------------------|---|
|   |      | June 30, 2008    | March 31, 2008   |   |
|   |      | Rs               | Rs               |   |
| <b>Equity</b>   |      |                  |                  |   |
| Share capital   | 10   | 441,018          | 441,018          | 10,273  |
| Share premium   | 10   | 16,375,217       | 16,368,647       | 381,440   |
| Reserves  | 10   | 148,154          | 139,581          | 3,451   |
| Accumulated deficit   | 10   | (12,386,985)     | (12,254,262)     | (288,539)   |
| <b>Total equity attributable to equity<br/>holders of the Company</b> |      | <b>4,577,404</b> | <b>4,694,984</b> | <b>106,625</b>  |
| Minority Interest   | 10   | 208,145          | 199,907          | 4,848   |
| <b>Total Equity</b>   |      | <b>4,785,549</b> | <b>4,894,891</b> | <b>111,473</b>  |
| <b>Liabilities</b>  |      |                  |                  |   |
| Finance lease obligations, other than current<br>installments         |      | 1,772            | 2,493            | 41  |
| Employee benefits   | 11   | 61,433           | 42,250           | 1,431   |
| Other liabilities   |      | 124,303          | 124,472          | 2,895   |
| <b>Total non-current liabilities</b>                                  |      | <b>187,508</b>   | <b>169,215</b>   | <b>4,367</b>  |
| Finance lease obligations current<br>installments                     |      | 2,923            | 2,899            | 68  |
| Borrowings from banks   | 12   | 782,630          | 156,426          | 18,230  |
| Bank Overdraft  | 7    | 833,003          | 617,637          | 19,404  |
| Trade and other payables  |      | 1,608,395        | 1,501,336        | 37,466  |
| Deferred income   |      | 544,568          | 368,356          | 12,685  |
| <b>Total current liabilities</b>                                      |      | <b>3,771,519</b> | <b>2,646,654</b> | <b>87,853</b>   |
| <b>Total liabilities</b>  |      | <b>3,959,027</b> | <b>2,815,869</b> | <b>92,220</b>   |
| <b>Total equity and liabilities</b>                                   |      | <b>8,744,576</b> | <b>7,710,760</b> | <b>203,693</b>  |

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

**Table of Contents****Sify Technologies Limited****Unaudited Condensed Consolidated Interim Statements of Income**

(In thousands, except share data and as otherwise stated)

|  | Note | Quarter ended June 30, |                 | Quarter ended                                 |
|--|------|------------------------|-----------------|---|
|  |      | 2008                   | 2007            | June 30, 2008                                 |
|  |      | Rs                     | Rs              | Convenience translation into US\$ (Note 2(b)) |
| Revenue  | 13   | 1,502,627              | 1,405,101       | 35,002  |
| Cost of goods sold and services rendered                         | 14   | (885,792)              | (755,774)       | (20,633)                                      |
| Other income   |      | 18,504                 | 11,551          | 431   |
| Selling, general and administrative expense                      |      | (642,129)              | (623,284)       | (14,958)                                      |
| Depreciation and amortization expenses                           |      | (111,795)              | (120,416)       | (2,604)                                       |
| <b>Income/(loss) from operating activities</b>                   |      | <b>(118,585)</b>       | <b>(82,822)</b> | <b>(2,762)</b>                                |
| Finance Income   |      | 33,305                 | 42,538          | 776   |
| Finance Expenses   |      | (33,779)               | (9,001)         | (787)   |
| <b>Net Finance Income</b>  | 17   | <b>(474)</b>           | <b>33,537</b>   | <b>(11)</b>                                   |
| Share of profit of equity accounted investee (net of income tax) | 6    | 12,810                 | 24,703          | 298   |
| <b>Profit before tax</b>   |      | <b>(106,249)</b>       | <b>(24,582)</b> | <b>(2,475)</b>                                |
| Income tax (expense)/benefit                                     |      | (18,236)               | (15,062)        | (425)   |
| <b>Profit for the year/period</b>                                |      | <b>(124,485)</b>       | <b>(39,644)</b> | <b>(2,900)</b>                                |
| <b>Attributable to:</b>  |      |                        |                 |   |
| Equity holders of the Company                                    |      | (132,723)              | (45,322)        | (3,092)                                       |
| Minority interests   |      | 8,238                  | 5,678           | 192   |
|  |      | <b>(124,485)</b>       | <b>(39,644)</b> | <b>(2,900)</b>                                |
| <b>Earnings per share</b>  | 18   |                        |                 |   |
| Basic earnings per share   |      | (2.84)                 | (1.06)          | (0.07)  |
| Diluted earnings per share                                       |      | (2.84)                 | (1.06)          | (0.07)  |

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





**Table of Contents****Sify Technologies Limited****Unaudited Condensed Consolidated Interim Statements of Recognised Income and Expenses**

(In thousands, except share data and as otherwise stated)

|   | Note | Quarter ended June 30, |                 | Quarter ended                                 |
|---|------|------------------------|-----------------|---|
|   |      | 2008                   | 2007            | June 0, 2008                                  |
|   |      | Rs                     | Rs              | Convenience translation into US\$ (Note 2(b)) |
| Foreign currency translation differences for foreign operations             |      | (2,672)                | 26              | (62)  |
| Defined benefit plan actuarial gains (losses)                               |      | (3,618)                | (1,300)         | (84)  |
| Change in fair value of available for sale security                         |      | (1,415)                |                 | (33)  |
| Share of gains and losses from associates accounted using the equity method |      | (1,228)                | (7,290)         | (29)  |
| <b>Income and expense recognised directly in equity</b>                     |      | <b>(8,933)</b>         | <b>(8,564)</b>  | <b>(208)</b>                                  |
| Profit for the period/year  |      | (124,485)              | (39,644)        | (2,900)                                       |
| <b>Total recognized income and expense for the period/ year</b>             | 10   | <b>(133,418)</b>       | <b>(48,208)</b> | <b>(3,108)</b>                                |
| <b>Attributable to:</b>   |      |                        |                 |   |
| Equity holders of the Company   |      | (141,656)              | (53,886)        | (3,300)                                       |
| Minority Interest   |      | 8,238                  | 5,678           | 192   |
| <b>Total recognised income and expense for the year / period</b>            |      | <b>(133,418)</b>       | <b>(48,208)</b> | <b>(3,108)</b>                                |

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

**Table of Contents****Sify Technologies Limited****Unaudited Condensed Consolidated Interim Statements of Cash Flows**

|  | Quarter ended June 30, |                  | June 30,<br>2008  |
|--|------------------------|------------------|---|
|  | 2008                   | 2007             | Convenience<br>translation<br>into<br>US\$ (Note<br>2(b)) |
| (In thousands, except share data and as otherwise stated)  | Rs                     | Rs               |   |
| <b>Cash flows from / (used in) operating activities</b>    |                        |                  |   |
| Profit for the period                                      | (124,485)              | (39,644)         | (2,900)   |
| <i>Adjustments for:</i>                                    |                        |                  |   |
| Depreciation and amortization                              | 111,795                | 120,416          | 2,604   |
| Share of profit of equity accounted investees              | (12,810)               | (24,703)         | (298)   |
| Gain on sale of property, plant and equipment              | (157)                  | 205              | (4)   |
| Provision for doubtful receivables and advances            | 53,752                 | 51,030           | 1,252   |
| Stock compensation expense                                 | 17,506                 | 13,965           | 408   |
| Income tax expense   | 18,236                 | 15,062           | 425   |
| Net finance expenditure / (income)                         | 474                    | (33,537)         | 11  |
| Unrealized (gain)/ loss on account of exchange differences | (6,717)                | 32,496           | (156)   |
|  | 57,594                 | 135,290          | 1,342   |
| Change in trade and other receivables                      | (427,014)              | (368,125)        | (9,947)   |
| Change in inventories                                      | 5,158                  | 392              | 120   |
| Change in other assets                                     | (27,142)               | (83,807)         | (632)   |
| Change in trade and other payables                         | 133,275                | 207,462          | 3,104   |
| Change in employee benefits                                | 15,566                 | 5,571            | 363   |
| Change in deferred revenue                                 | 176,210                | 9,063            | 4,105   |
|  | (66,353)               | (94,154)         | (1,545)   |
| Income taxes paid  | (23,844)               | (17,594)         | (555)   |
| <b>Net cash (used in) / from operating activities</b>      | <b>(90,197)</b>        | <b>(111,748)</b> | <b>(2,100)</b>  |
| <b>Cash flows used in investing activities</b>             |                        |                  |   |
| Acquisition of property, plant and equipment               | (629,141)              | (264,546)        | (14,655)  |
| Expenditure on intangible assets                           | (56,919)               | (6,677)          | (1,326)   |
| Proceeds from sale of property, plant and equipment        | 200                    | 84               | 5   |
| Net investment in leases                                   | 1,694                  | 4,270            | 39  |
| Finance income received                                    | 64,929                 | 34,836           | 1,512   |
| <b>Net cash used in investing activities</b>               | <b>(619,237)</b>       | <b>(232,033)</b> | <b>(14,425)</b>   |

**Table of Contents****Sify Technologies Limited****Unaudited Condensed Consolidated Interim Statements of Cash Flows**

|  | <b>Quarter ended June,</b> |                    | <b>June 30,<br/>2008</b>   |
|--|----------------------------|--------------------|--|
|  | <b>2008</b>                | <b>2007</b>        | <b>Convenience<br/>translation<br/>into US\$<br/>(Note<br/>2(b))</b> |
|  | <b>Rs</b>                  | <b>Rs</b>          |  |
| (In thousands, except share data and as otherwise stated)      |                            |                    |  |
| <b>Cash flows from / (used in) financing activities</b>        |                            |                    |  |
| Proceeds from issue of share capital (including share premium) |                            | 2,047              |  |
| Proceeds from / (repayment) of borrowings                      | 626,204                    | (800,000)          | 14,587   |
| Finance expenses paid  | (30,227)                   | (9,380)            | (704)  |
| Repayment of finance lease liabilities                         | (697)                      | (711)              | (16)   |
| <b>Net cash from / (used in) financing activities</b>          | <b>595,280</b>             | <b>(808,044)</b>   | <b>13,867</b>  |
| <b>Net decrease in cash and cash equivalents</b>               | <b>(114,154)</b>           | <b>(1,151,825)</b> | <b>(2,658)</b>   |
| Cash and cash equivalents at April 1                           | 888,690                    | 3,070,157          | 20,701   |
| Effect of exchange fluctuations on cash held                   | (176)                      | (24,847)           | (4)  |
| <b>Cash and cash equivalents at period/ year end</b>           | <b>774,360</b>             | <b>1,893,485</b>   | <b>18,039</b>  |

## Supplementary information

Additions to property plant and equipment represented by finance lease obligations

1,915

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

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

**1. Reporting entity**

Sify Technologies Limited, ( Sify / the Company ) formerly known as Sify Limited, is a leading internet services provider headquartered in Chennai, India. These Unaudited Condensed Consolidated Interim Financial Statements as at and for the quarter ended June 30, 2008 comprise the Company and its subsidiaries (Sify Communications Limited, Sify Networks Private Limited and Sify International Inc) (together referred to as the Group and individually as Group entities ) and the Group s interest in associate companies. The Group is primarily involved in providing services, such as Corporate Network and Data Services, Internet Access Services, Online Portal and Content offerings and in selling hardware and software related to such services. Sify is listed in the NASDAQ Global market in United States.

**2. Basis of preparation**

**a. Statement of compliance**

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

These Unaudited Condensed Consolidated Interim Financial Statements have been approved for issue by the Board of Directors on March 30, 2009.

**b. Functional and presentation currency**

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

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

Convenience translation: Solely for the convenience of the reader, the Unaudited Condensed Consolidated Interim Financial Statements as of and for the quarter ended June 30, 2008 have been translated into United States dollars (neither the presentation currency nor the functional currency) at the noon buying rate in the New York City on June 30, 2008, for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York of U.S. \$1 = Rs.42.93. 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 June 30, 2008 or at any other date.

**c. Use of estimates and judgements**

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

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

**Table of Contents****3. Significant accounting policies**

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

*IFRIC 14, IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction* provides guidance on assessing the limit in *IAS 19* on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. *IFRIC 14* has become applicable to the Company effective April 01, 2008. The amendment does not have a significant impact on the Group.

**4. Property, plant and equipment**

| Particulars                   | Cost                |                |              | Accumulated depreciation |                     |                |              | Carrying amount as at June 30, 2008 |                  |
|-------------------------------|---------------------|----------------|--------------|--------------------------|---------------------|----------------|--------------|-------------------------------------|------------------|
|                               | As at April 1, 2008 | Additions      | Disposals    | As at June 30, 2008      | As at April 1, 2008 | for the period | Deletions    |                                     |                  |
| Building                      | 769,663             |                |              | 769,663                  | 120,924             | 6,869          |              | 127,793                             | 641,870          |
| Plant and machinery           | 3,683,632           | 157,136        | 1,170        | 3,839,598                | 2,526,445           | 61,705         | 1,170        | 2,586,980                           | 1,252,618        |
| Computer equipments           | 438,597             | 16,250         | 49           | 454,798                  | 297,049             | 18,962         | 17           | 315,994                             | 138,804          |
| Office equipment              | 116,691             | 1,356          | 293          | 117,754                  | 83,928              | 3,148          | 293          | 86,783                              | 30,971           |
| Furniture and fittings        | 422,939             | 2,632          | 72           | 425,499                  | 339,750             | 10,555         | 61           | 350,244                             | 75,255           |
| Vehicles                      | 9,174               |                |              | 9,174                    | 3,846               | 801            |              | 4,647                               | 4,527            |
| <b>Total</b>                  | <b>5,440,696</b>    | <b>177,374</b> | <b>1,584</b> | <b>5,616,486</b>         | <b>3,371,942</b>    | <b>102,040</b> | <b>1,541</b> | <b>3,472,441</b>                    | <b>2,144,045</b> |
| Add: Construction in Progress |                     |                |              |                          |                     |                |              |                                     | 268,876          |
| <b>Total</b>                  |                     |                |              |                          |                     |                |              |                                     | <b>2,412,921</b> |

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

Add: Construction in Progress

113,031

Total

**2,181,785****Leased Assets**

The Group's leased assets include certain buildings and motor vehicles. As at June 30, 2008 the net carrying amount of buildings and motor vehicles is Rs. 268,586 (March 31, 2008: Rs. 271,125) and Rs.4,526 (March 31, 2008: Rs.5,328) respectively.

**Construction in progress**

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

**5. Intangible assets**

Intangible assets comprise the following:

| Particulars             | As at June 30, 2008 | As at March 31, 2008 |
|-------------------------|---------------------|----------------------|
| Goodwill                | 49,198              | 50,796               |
| Other intangible assets | 135,756             | 131,511              |
| Total                   | 184,954             | 182,307              |

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

**Table of Contents****6. Investments in associates**

In March 2006, MF Global Overseas Limited (MFG), a Group incorporated in United Kingdom acquired 70.15% of equity share capital of MF Global Sify Securities Private Limited, formerly Man Financial-Sify Securities India Private Limited ( MF Global) from Refco Group Inc., USA ( Refco ). As at June 30, 2008, 29.85% of MF Global equity shares is held by the Company. The remaining 70.15% is owned by MFG, an unrelated third party. MFG is a subsidiary of MF Global Limited, Bermuda.

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

| <b><i>Balance Sheet</i></b>                | <b>As at<br/>June 30,<br/>2008</b> | <b>As at<br/>March 31,<br/>2008</b> |
|--|------------------------------------|-------------------------------------|
| Total Assets                               | 5,138,724                          | 7,893,663                           |
| Total Liabilities                          | 3,496,864                          | 6,290,602                           |
| Shareholders' equity                       | 1,641,860                          | 1,603,061                           |
| Total Liabilities and Shareholders' equity | 5,138,724                          | 7,893,663                           |

| <b><i>Statement of Operations</i></b> | <b>Quarter<br/>ended<br/>June 30,<br/>2008</b> | <b>Quarter<br/>ended<br/>June 30, 2007</b> |
|---------------------------------------|--|--|
| Revenues                              | 397,437  | 408,496                                    |
| Net Profit                            | 42,913   | 82,445                                     |

**7. Cash and cash equivalents**

Cash and cash equivalents as at June 30, 2008 amounted to Rs. 1,608,363 ( Rs. 2,066,154 as at June 30, 2007; Rs. 1,507,327 as at March 31, 2008). This includes cash-restricted of Rs. 956,000 (Rs. 191,777 as at June 30, 2007; Rs. 878,582 as at March 31, 2008), representing deposits held under lien against the working capital facilities availed and the bank guarantees given by the Group towards future performance obligations.

| <b><i>Non current</i></b>  | <b>As at<br/>June 30,<br/>2008</b> | <b>As at<br/>March 31,<br/>2008</b> |
|--|------------------------------------|-------------------------------------|
| Against future performance obligation                            | 1,000                              | 1,000                               |
|  | 1,000                              | 1,000                               |
| <b><i>Current</i></b>  |                                    |                                     |
| Restricted deposits held under lien against overdraft facilities | 955,000                            | 877,582                             |
| Cash and bank balances   | 652,363                            | 628,745                             |

|  |                  |                  |
|--|------------------|------------------|
| <b>Cash and cash equivalents</b>                         | <b>1,607,363</b> | <b>1,506,327</b> |
| Bank Overdrafts  | (833,003)        | (617,637)        |
| Cash and cash equivalents in the statement of cash flows | 774,360          | 888,690          |



**Table of Contents****8. Lease prepayments**

|                  | <b>As at<br/>June<br/>30, 2008</b> | <b>As at March<br/>31, 2008</b> |
|------------------|------------------------------------|---------------------------------|
| Towards Land     | 552,190                            | 553,051                         |
| Towards building | 297,842                            | 15,858                          |
|                  | <b>850,032</b>                     | <b>568,909</b>                  |

In respect of prepayments towards land, title is not expected to pass to the Group by the end of the lease term, indicating that the Group does not receive substantially all of the risks and rewards incidental to ownership and accordingly, the upfront amount paid to obtain the right to use the land is accounted for as operating lease pre-payments and are amortised over the lease term in accordance with the pattern of benefits provided.

In respect of buildings, prepayments made towards buildings accounted for as operating leases are amortised over the lease term in accordance with the pattern of benefits provided. In case prepayments are made towards building accounted for as finance leases, such prepayments are capitalized as Leasehold Buildings on the commencement of the lease term under the head Property, plant and equipment and depreciated in accordance with the depreciation policy for similar owned assets.

**9. Trade and other receivables**

Trade and other receivables comprise:

| <b>Particulars</b>                   | <b>As at<br/>June 30,<br/>2008</b> | <b>As at<br/>March 31,<br/>2008</b> |
|--------------------------------------|------------------------------------|-------------------------------------|
| Trade receivables                    | 2,006,723                          | 1,694,542                           |
| Other receivables including deposits | 554,217                            | 526,184                             |
|                                      | <b>2,560,940</b>                   | <b>2,220,726</b>                    |

Trade receivable as at June 30, 2008 and March 31, 2008 are stated net of allowance for doubtful receivables. The Group maintains an allowance for doubtful receivables based on its age and collectability. Trade receivables are not collateralised except to the extent of refundable deposits received from cybercafé franchisees and from cable television operators. Trade receivables consist of:

| <b>Particulars</b>                            | <b>As at<br/>June 30,<br/>2008</b> | <b>As at<br/>March 31,<br/>2008</b> |
|---|------------------------------------|-------------------------------------|
| Due from customers                            | 2,143,489                          | 1,777,858                           |
| Less: Allowance for doubtful debts            | 136,766                            | 83,316                              |
| <b>Balance at the end of the quarter/year</b> | <b>2,006,723</b>                   | <b>1,694,542</b>                    |

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

| <b>As at</b> | <b>As at</b> |
|--------------|--------------|
|--------------|--------------|

| <b>Particulars</b>                            | <b>June 30,<br/>2008</b> | <b>March 31,<br/>2008</b> |
|---|--------------------------|---------------------------|
| Balance at the beginning of the quarter/year  | 83,316                   | 101,624                   |
| Add : Additional provision                    | 53,752                   | 131,954                   |
| Less : Bad debts written off                  | 302                      | 150,262                   |
| <b>Balance at the end of the quarter/year</b> | <b>136,766</b>           | <b>83,316</b>             |

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

|                                     | Share capital | Share premium | Share based payments reserve | Translation Reserve | Recognised actuarial gain / (loss) | Fair value reserve | Share of gains and losses from associates accounted using equity method | Accumulated deficit | Total     | Minority interest | Total equity |
|-------------------------------------|---------------|---------------|------------------------------|---------------------|------------------------------------|--------------------|---|---------------------|-----------|-------------------|--------------|
| Balance at April 1, 2008            | 441,018       | 16,368,647    | 149,398                      | (153)               | 1,085                              | (1,080)            | (9,669)   | (12,254,262)        | 4,694,984 | 199,907           | 4,894,891    |
| Total recognized income and expense |               |               |                              | (2,672)             | (3,618)                            | (1,415)            | (1,228)   | (132,723)           | (141,656) | 8,238             | (133,418)    |
| Share-based payments                |               |               | 17,506                       |                     |                                    |                    |   |                     | 17,506    |                   | 17,506       |
| Others                              |               | 6,570         |                              |                     |                                    |                    |   |                     | 6,570     |                   | 6,570        |
| Balance at June 30, 2008            | 441,018       | 16,375,217    | 166,904                      | (2,825)             | (2,533)                            | (2,495)            | (10,897)  | (12,386,985)        | 4,577,404 | 208,145           | 4,785,544    |
| Balance at April 1, 2007            | 428,003       | 16,262,096    | 101,540                      | (316)               | 2,944                              |                    | 10,793  | (12,266,154)        | 4,538,906 | 169,765           | 4,708,671    |
| Total recognized income and expense |               |               |                              | 26                  | (1,300)                            |                    | (7,290)   | (45,322)            | (53,886)  | 5,678             | (48,208)     |
| Share-based payments                |               |               | 13,965                       |                     |                                    |                    |   |                     | 13,965    |                   | 13,965       |
| Stock options exercised             | 86            | 1,961         |                              |                     |                                    |                    |   |                     | 2,047     |                   | 2,047        |
| Balance at June 30, 2007            | 428,089       | 16,264,057    | 115,505                      | (290)               | 1,644                              |                    | 3,503   | (12,311,476)        | 4,501,032 | 175,443           | 4,676,473    |



**Table of Contents****11. Employee benefits**

|                      | <b>As at<br/>June<br/>30,<br/>2008</b> | <b>As at<br/>March 31,<br/>2008</b> |
|----------------------|--|-------------------------------------|
| Gratuity payable     | 17,430                                 | 8,592                               |
| Compensated Absences | 44,003                                 | 33,658                              |
|                      | <b>61,433</b>                          | <b>42,250</b>                       |

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

|   | <b>Quarter<br/>ended<br/>June<br/>30,<br/>2008</b> | <b>Year ended<br/>March 31,<br/>2008</b> |
|---|--|--|
| <b>Change in projected benefit obligation</b>                                 |  |  |
| Projected benefit obligation at the beginning of the period / year            | 27,332   | 20,785                                   |
| Service cost  | 3,017  | 8,533                                    |
| Interest cost   | 759  | 1,639                                    |
| Actuarial (gain)/ loss  | 5,407  | 2,393                                    |
| Benefits paid   | (837)  | (6,018)                                  |
| <b>Projected benefit obligation at the end of the period / year</b>           | <b>35,678</b>                                      | <b>27,332</b>                            |
| <b>Change in plan assets</b>  |  |  |
| Fair value of plan assets at the beginning of the period / year               | 18,741   | 8,423                                    |
| Actual return on plan assets  | 418  | 957                                      |
| Actuarial (gain) / loss   | (74)   | (423)                                    |
| Employer contributions  |  | 15,801                                   |
| Benefits paid   | (837)  | (6,018)                                  |
| <b>Fair Value of plan assets at the end of the period / year</b>              | <b>18,248</b>                                      | <b>18,740</b>                            |
|   | <b>Quarter<br/>ended<br/>June<br/>30,<br/>2008</b> | <b>Year ended<br/>March 31,<br/>2008</b> |
| Present Value of Projected benefit obligation at the end of the period / year | 35,678   | 27,332                                   |
| Funded status of the plans  | 18,248   | 18,740                                   |

|   |               |              |
|---|---------------|--------------|
| <b>Funded status net of liability recognised in the balance sheet</b> | <b>17,430</b> | <b>8,592</b> |
|---|---------------|--------------|

The components of net gratuity costs are reflected below:

|                                 | <b>Quarter<br/>ended<br/>June<br/>30,<br/>2008</b> | <b>Quarter<br/>ended<br/>June 30, 2007</b> |
|---------------------------------|--|--|
| Service cost                    | 3,017  | 2,133                                      |
| Interest cost                   | 759  | 410  |
| Expected returns on plan assets | (418)  | (239)                                      |
| <b>Net gratuity costs</b>       | <b>3,358</b>                                       | <b>2,304</b>                               |

**Table of Contents****Financial Assumptions at Balance Sheet date:**

|                               | <b>As at<br/>June 30, 2008</b> | <b>As at<br/>March 31, 2008</b> |
|-------------------------------|--------------------------------|---------------------------------|
| Discount rate                 | 8.60% p.a                      | 7.85% p.a                       |
| Salary Escalation Rate        | 8.00% p.a                      | 6.00% p.a                       |
| Rate of return on plan assets | 8.00% p.a                      | 7.50% p.a                       |

The Group assesses these assumptions with the projected long-term plans of growth and prevalent industry standards.

|   | <b>Quarter<br/>ended<br/>June 30,<br/>2008</b> | <b>Year ended<br/>March 31,<br/>2008</b> |
|---|--|--|
| <b>Historical information</b>                   |  |  |
| Present value of the defined benefit obligation | 35,678   | 27,332                                   |
| Fair value of plan assets                       | 18,248   | 18,740                                   |
| <b>Deficit in the plan</b>                      | <b>(17,430)</b>                                | <b>(8,592)</b>                           |
| Experience adjustment on plan liabilities       | 2,207  | 1,489                                    |
| Experience adjustment on plan assets            | (74)   | (423)                                    |

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

**Actuarial gains and losses recognised in equity**

|                        | <b>Quarter<br/>ended<br/>June<br/>30,<br/>2008</b> | <b>Year ended<br/>March 31,<br/>2008</b> |
|------------------------|--|--|
| <b>Particulars</b>     |  |  |
| Actuarial gain/ (loss) | (5,481)  | (2,816)                                  |

*IFRIC 14, IAS 19* The limit on a defined benefit asset, minimum funding requirements and their interaction provides guidance on assessing the limit in *IAS 19* on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. *IFRIC 14* has become applicable to the Company effective April 01, 2008. The amendment does not have a significant impact on the Group.

**Table of Contents****12. Borrowings from banks**

|                                  | <b>As at<br/>June 30,<br/>2008</b> | <b>As at<br/>March 31,<br/>2008</b> |
|----------------------------------|------------------------------------|-------------------------------------|
| Loan against Fixed Deposits      | 649,850                            | 85,000                              |
| Other working capital facilities | 132,780                            | 71,426                              |
|                                  | <b>782,630</b>                     | <b>156,426</b>                      |

1. The Group has short term borrowings of Rs. 649,850 as at June 30, 2008 (Rs.85,000 as at March 31, 2008), from its bankers for working capital requirements. The borrowings are secured by fixed deposits held by the Group. The borrowings bear interest ranging from 9%-11% p.a. and are repayable within one year from the balance sheet date.
2. Other working capital facilities are secured by a charge on the current assets and book debts of the Company. These are short term borrowings and bear interest ranging from 3.8%-4% p.a. Such facility generally is for a period that ranges from 90 to 120 days

**13. Revenue**

|                              | <b>Quarter<br/>ended<br/>June 30,<br/>2008</b> | <b>Quarter<br/>ended<br/>June 30, 2007</b> |
|------------------------------|--|--|
| <b>Rendering of Services</b> |  |  |
| Service revenue              | 1,291,839                                      | 1,177,130                                  |
| Initial franchise fee        | 8,173  | 13,279                                     |
| Installation service revenue | 54,755   | 72,075                                     |
|                              | <b>1,354,767</b>                               | <b>1,262,484</b>                           |
| <b>Sale of products</b>      | 147,860  | 142,617                                    |
|                              | <b>1,502,627</b>                               | <b>1,405,101</b>                           |

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

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



**Table of Contents****15. Personnel expenses**

|  | <b>Quarter<br/>ended<br/>June 30,<br/>2008</b> | <b>Quarter<br/>ended<br/>June 30, 2007</b> |
|--|--|--|
| Salaries and wages   | 299,183  | 213,505                                    |
| Contribution to provident fund and other funds               | 12,615   | 9,631                                      |
| Staff welfare expenses                                       | 10,340   | 7,507                                      |
| Employee Stock compensation expense (Refer to note 16)       | 17,506   | 13,965                                     |
|  | <b>339,644</b>                                 | <b>244,608</b>                             |
| Attributable to cost of goods sold and services rendered     | 196,077  | 112,397                                    |
| Attributable to selling, general and administrative expenses | 143,567  | 132,211                                    |

**16. Share-based payments**

Share based payments are designed as equity-settled plans. Under the equity settled plans, the Group had issued stock options under Associate Stock Option Plan (ASOP) 1999, ASOP 2000, ASOP 2002, ASOP 2005 and ASOP 2007. The terms and conditions of ASOP are disclosed in the Consolidated Financial Statements as at and for the year ended March 31, 2008. During the quarter ended June 30, 2008, the Company has issued 61,500 options under ASOP 2007. The fair value of share options granted during the quarter ended June 30, 2008 was estimated using the following assumptions:

1. Dividend Yield 0%
2. Assumed Volatility 48.7% - 61.7%
3. Risk free rate 3.41%
4. Expected term 3.0- 4.5 yrs

The basis of measuring fair value is consistent with that disclosed in the Consolidated Financial Statements as at and for the year ended March 31, 2008. Compensation cost recognized during the period ended June 30, 2008 is Rs.17,506, Rs.13,965 during the quarter ended June 30, 2007.

**17. Net Finance income and expense**

|  | <b>Quarter<br/>ended<br/>June<br/>30,<br/>2008</b> | <b>Quarter<br/>ended<br/>June 30, 2007</b> |
|--|--|--|
| Interest income on bank deposits                 | 32,782   | 42,128                                     |
| Interest income from leases                      | 172  | 410  |
| Others   | 351  |  |
| <b>Finance income</b>                            | <b>33,305</b>                                      | <b>42,538</b>                              |
| Interest expense on financial liabilities leases | 139  | 161  |
| Bank Charges                                     | 10,267   | 4,686                                      |
| Other interest                                   | 23,373   | 4,154                                      |
| <b>Finance expense</b>                           | <b>33,779</b>                                      | <b>9,001</b>                               |

|  |              |               |
|--|--------------|---------------|
| <b>Net finance income / (expense) recognised in profit or loss</b> | <b>(474)</b> | <b>33,537</b> |
|--|--------------|---------------|

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**Table of Contents****18. Earnings per share**

|  | <b>Quarter<br/>ended<br/>June 30,<br/>2008</b> | <b>Quarter<br/>ended<br/>June 30, 2007</b> |
|--|--|--|
| Net profit / (loss) as reported            | (132,723)                                      | (45,322)                                   |
| Weighted average number of shares Basic    | 46,665,182                                     | 42,803,988                                 |
| Profit / (loss) per share                  | (2.84)   | (1.06)                                     |
| Weighted average number of shares Dilutive | 46,665,182                                     | 42,803,988                                 |
| Profit / (loss) per share                  | (2.84)   | (1.06)                                     |

**19. Segment Reporting**

The primary operating segments of the Group are:

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

Internet access services, from homes and through cybercafés.

Online portal services and content offerings.

Other services, such as development of content for e-learning.

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 loss reviewed by the CODM is Earnings/loss before interest, taxes, depreciation and amortisation. 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:

The Group s operating segment information for the quarters ended June 30, 2008 and 2007 are presented below:

**Quarter ended June 30, 2008**

|                                 | <b>Corporate<br/>Network<br/>/<br/>Data<br/>Services</b> | <b>Internet<br/>Access<br/>Services</b> | <b>Online<br/>Portal<br/>Services</b> | <b>Consumer<br/>One</b> | <b>Other<br/>Services</b> | <b>Total</b>       |
|---------------------------------|--|---|---------------------------------------|-------------------------|---------------------------|--------------------|
|                                 |  | <b>A</b>                                | <b>B</b>                              | <b>A+B</b>              |                           |                    |
| Total segment revenue           | 991,269  | 325,306                                 | 49,180                                | 374,486                 | 136,872                   | <b>1,502,627</b>   |
| Segment expenses allocated      | (636,652)  | (357,645)                               | (57,416)                              | (415,061)               | (107,354)                 | <b>(1,159,067)</b> |
| <b>Segment operating income</b> | <b>354,617</b>   | <b>(32,339)</b>                         | <b>(8,236)</b>                        | <b>(40,575)</b>         | <b>29,518</b>             | <b>343,560</b>     |
| Unallocated Corporate expenses  |  |   |                                       |                         |                           | (387,934)          |
|                                 |  |   |                                       |                         |                           | (111,795)          |

|                                   |                  |
|-----------------------------------|------------------|
| Depreciation and<br>amortisation  |                  |
| Foreign exchange gain /<br>(loss) | 19,080           |
| Other income /<br>(expense), net  | 18,504           |
| Net interest income               | (474)            |
| Equity in profit of<br>associate  | 12,810           |
| Minority interest                 | (8,238)          |
| Income taxes                      | (18,236)         |
| <b>Net Profit/(loss)</b>          | <b>(132,723)</b> |

**Table of Contents****Quarter ended June 30, 2007**

|                                     | <b>Corporate<br/>Network<br/>/<br/>Data<br/>Services</b> | <b>Internet<br/>Access<br/>Services</b> | <b>Online<br/>Portal<br/>Services</b> | <b>Consumer<br/>One</b> | <b>Other<br/>Services</b> | <b>Total</b>       |
|-------------------------------------|--|---|---------------------------------------|-------------------------|---------------------------|--------------------|
| Total segment revenue               | 848,241  | 413,421                                 | 44,367                                | 457,788                 | 99,072                    | <b>1,405,101</b>   |
| Segment expenses<br>allocated       | (518,213)  | (381,853)                               | (78,025)                              | (459,878)               | (84,835)                  | <b>(1,062,926)</b> |
| <b>Segment Operating<br/>Income</b> | <b>330,028</b>   | <b>31,568</b>                           | <b>(33,658)</b>                       | <b>(2,090)</b>          | <b>14,237</b>             | <b>342,175</b>     |
| Unallocated Corporate<br>expenses   |  |   |                                       |                         |                           | (296,580)          |
| Depreciation and<br>Amortisation    |  |   |                                       |                         |                           | (120,416)          |
| Foreign exchange gain /<br>(loss)   |  |   |                                       |                         |                           | (19,344)           |
| Other income / (expense),<br>net    |  |   |                                       |                         |                           | 11,343             |
| Net Interest income                 |  |   |                                       |                         |                           | 33,537             |
| Equity in profit of<br>associate    |  |   |                                       |                         |                           | 24,703             |
| Minority Interest                   |  |   |                                       |                         |                           | (5,678)            |
| Income Taxes                        |  |   |                                       |                         |                           | (15,062)           |
| <b>Net Profit/(loss)</b>            |  |   |                                       |                         |                           | <b>(45,322)</b>    |

**20. Capital Commitments**

Contracts pending to be executed on capital account as at June 30, 2008 and not provided for (net of advances: Rs.355,958) amounted to Rs 227,396 [as at March 31, 2008: Rs. 111,384 (net of advances: Rs 507,157)]. In addition, the Company has a commitment to make Rs.429,190 (USD 10 million) to Emirates Integrated Telecommunications Company PJSC under the agreement for supply of capacity from the Europe India Gateway, of which the Company has already made payments amounting to Rs.42,919 (USD 1 million) as at June 30, 2008.

**21. Contingencies**

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

The Group considered that the likelihood of the loss contingency was remote and no provision for the loss contingency was necessary. Subsequent to the balance sheet date the Group has received an order in its favour from the Income Tax Authorities and has received a refund of the sums paid.

b) The Group has outstanding financial and performance guarantees for various statutory purposes and letters of credit totalling Rs.852,222 and Rs.773,961 as of June 30, 2008 and March 31, 2008 respectively. These guarantees are generally provided to governmental agencies.

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

**Table of Contents****22. Legal proceedings**

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

In July 2002, an omnibus motion to dismiss all complaints against issuers and individual defendants affiliated with issuers was filed by the entire group of issuer defendants in these similar actions. In October 2002, the cases against the Group's executive officers who were named as defendants in this action were dismissed without prejudice. In February 2003, the court in this action issued its decision on defendants' omnibus motion to dismiss. This decision denied the motion to dismiss the Section 11 claim as to the Group and virtually all of the other issuer defendants. The decision also denied the motion to dismiss the Section 10(b) claim as to numerous issuer defendants, including the Group. On June 26, 2003, the plaintiffs in the consolidated IPO class action lawsuits currently pending against Sify and over 300 other issuers who went public between 1998 and 2000, announced a proposed settlement with Sify and the other issuer defendants. The proposed settlement provided that the insurers of all settling issuers would guarantee that the plaintiffs recover \$1 billion from non-settling defendants, including the investment banks who acted as underwriters in those offerings. In the event that the plaintiffs did not recover \$1 billion, the insurers for the settling issuers would make up the difference. This proposed settlement was terminated on June 25, 2007, following the ruling by the United States Court of Appeals for the Second Circuit on December 5, 2006, reversing the District Court's granting of class certification.

On August 14, 2007, the plaintiffs filed Amended Master Allegations. On September 27, 2007, the Plaintiffs filed a Motion for Class Certification. Defendants filed a Motion to Dismiss the focus cases on November 9, 2007. On March 26, 2008, the Court ruled on the Motion to Dismiss, holding that the plaintiffs had adequately pleaded their Section 10(b) claims against the Issuer Defendants and the Underwriter Defendants in the focus cases. As to the Section 11 claim, the Court dismissed the claims brought by those plaintiffs who sold their securities for a price in excess of the initial offering price, on the grounds that they could not show cognizable damages, and by those who purchased outside the previously certified class period, on the grounds that those claims were time barred. This ruling, while not binding on the Group's case, provides guidance to all of the parties involved in this litigation. On October 2, 2008, plaintiffs requested that the class certification motion in the focus cases be withdrawn without prejudice. On October 10, 2008, the Court signed an order granting that request.

The parties intend to file a motion for preliminary approval of a proposed settlement between all parties, including the Group and its former officers and directors. Any direct financial impact of the proposed settlement is expected to be borne by the Company's insurers. The Group believes that it has sufficient insurance coverage to cover the maximum amount that it may be responsible for under the proposed settlement. The Group believes, the maximum exposure under this settlement is approximately U.S.\$338,983.05, an amount which the Group believes is fully recoverable from the Group's insurer.

The Group is a party to other legal actions. Based on the available information, as of June 30, 2008, the Group believes that it has adequate legal defenses for these actions and that the ultimate outcome of these actions will not have a material adverse effect on it.

**23. Related parties**

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

| Quarter<br>ended | Quarter<br>ended | Year ended |
|------------------|------------------|------------|
|------------------|------------------|------------|

|   | <b>June 30,<br/>2008</b> | <b>June 30,<br/>2007</b> | <b>March 31,<br/>2008</b> |
|---|--------------------------|--------------------------|---------------------------|
| <b>Transactions with related parties</b>                |                          |                          |                           |
| Payments to Directors (Fees for consultancy services)   | 60                       | 60                       | 240                       |
| Purchase of goods                                       |                          |                          | 3,796                     |
| Deposit for land and advance rent                       | 282,825                  |                          |                           |
| <b>Balance due to / receivable from related parties</b> |                          |                          |                           |
| Deposit for land and advance rent (see note below)      | 282,825                  |                          |                           |

**Note:** Represents deposit made to VALS Developers Private Limited (a company in which Mr. Ananda Raju Vegesna, Executive Director is interested) towards property lease.



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**24. Financial risks management**

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

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

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

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

In the area of treasury operations, the Group is presently exposed to counter-party risks relating to short term and medium term deposits placed with Public-Sector Banks, as also to investments made in Mutual Funds (MF). In managing this, the Group is driven by three fundamentals of prudent cash management, safety, liquidity and yield. The Chief Financial Officer is responsible for monitoring the counterparty credit risk, and has been vested with the authority to seek Board's approval to hedge such risks in case of need.

**Liquidity Risks:** Liquidity risk is the risk that one or more of Group entities may fail to meet its financial obligations on time. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses, servicing of financial obligations. In addition, the Group has concluded arrangements with well reputed Banks, and has unused lines of credit that could be drawn upon should there be a need. The Company is also in the process of negotiating additional facilities with Banks for funding its requirements. Subsequent to the balance sheet date, the Company has revised some of its long term commitments such as the ELCOT land arrangement etc and sought/obtained refund of deposits made.

**Currency Risk:** Group's exposure in USD denominated transactions gives rise to Exchange Rate fluctuation risk.

Group's policy in this regard incorporates:

Forecasting inflows and outflows denominated in US\$ for a twelve-month period

Estimating the net-exposure in foreign currency, in terms of timing and amount

Determining the extent to which exposure should be protected through one or more risk-mitigating instruments to maintain the permissible limits of uncovered exposures.

Carrying out a variance analysis between estimate and actual on an ongoing basis, and taking stop-loss action when the adverse movements breaches the 5% barrier of deviation, subject to review by Audit Committee.

**Table of Contents****25. Subsequent Events****a. Acquisition of minority interest in subsidiary**

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

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

**b. Surrender of leasehold land**

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

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

**26. Company entities**

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

\* Wound up during the period.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

*The following discussion of the financial condition and results of operations of our Company should be read in conjunction with the Unaudited Condensed Consolidated Interim Financial Statements and the related condensed notes included elsewhere in this report and the audited financial statements and the related notes contained in our Annual Report on Form 20-F for the fiscal year ended March 31, 2008. This discussion contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please see the section in this report captioned Risk Factors*

**Overview**

Sify is among the largest Internet, networking and e-Commerce services companies in India, offering end-to-end solutions with a comprehensive range of products delivered over a common Internet backbone infrastructure. This Internet backbone reaches more than 502 cities and towns in India. A significant part of the Company's revenue is derived from Corporate Services, which include corporate connectivity, network and communications solutions, security, network management services and hosting. A host of blue chip customers use Sify's corporate service offerings. Consumer services include broadband home access, dial up connectivity and the iWay cyber café chain across 201 cities and towns and online portals, such as [www.sify.com](http://www.sify.com), [www.samachar.com](http://www.samachar.com) and [www.sifymax.in](http://www.sifymax.in), that function as principal entry points and gateway for accessing the Internet by providing useful web-related services and links and related content sites specifically tailored to Indian interests worldwide. The Company's network services, Data Center operations and customer relationship management are accredited ISO 9001:2000.

**Revenues**

The primary operating segments of the Group are:

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

Consumer one which includes

Retail Internet access services, from homes and through cybercafés

Online portal and content offerings;

Other services, such as development of content for e-learning.

*Corporate network/data services*

Our corporate network/data services revenues primarily include revenue from sale of hardware and software purchased from third party vendors, connectivity services revenue, hosting services, voice services and, to a lesser extent, revenues from installation of the 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. Our connectivity services include Internet Protocol Virtual Private Network (IPVPN) services, Internet connectivity, last mile connectivity (predominantly through wireless access), messaging services, data management services (managed 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 application services revenues include revenue from Document Management Services (DMS).

**Table of Contents***Consumer One Retail Internet access services and Online Portal and content offerings*

Internet access services revenues are generated from the Internet connectivity (Internet access services) we provide to our retail customers through public access and home access services. Home access services are provided through dial-up packs and broadband connectivity, which is provided through arrangements with Cable Television Operators (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.

Online portal services and content offerings revenues include advertising revenues from the various channels of our Internet portal, [www.sify.com](http://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](http://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 e-learning. We develop and upload content for e-learning to facilitate web-based learning in various organizations. We provide e-learning services on a time-and-material or on a fixed-price basis. In Note 19 to our Unaudited Condensed Consolidated Interim Financial Statements, 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 1 Unaudited Condensed Consolidated Interim Financial Statements of this report and is incorporated herein by reference.

**Expenses***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 providing network operations, the cost of voice termination for VoIP services and other costs. Telecommunications costs include the costs of international bandwidth procured from Tata Teleservices and satellite gateway providers 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 in the 5.7 GHz range to enable connectivity to be provided on the wireless mode for the last mile. Other costs include cost incurred towards Annual Maintenance Contract (AMC), cost of installation in connectivity business, cost incurred in providing Hosting services, and Document Management Services (DMS) cost for application services. In addition, the Government of India has imposed an annual license fee of 6% of the adjusted gross revenue generated from the provision of IP-VPN services under the NLD/ILD license.

*Consumer One Retail Internet access services and Online Portal and content offerings*

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, direct costs paid to franchisees for running the cybercafés and to cable television operators for providing Internet services through cable to customers, , the cost of goods sold and services rendered includes commission paid to franchisees and cable television operators, voice termination charges for VoIP services. The Government of India also has imposed an annual license fee of 6% of the adjusted gross revenue of the VoIP. Another recurring cost included in cost of goods sold and services rendered is the personnel and related operating expenses associated with customer support and network operations.

Online portal 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

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mobile telephone short code 54545, the cost of procuring merchandise for e-commerce sales and the cost of bandwidth used for online portal services.

*Other Services*

Cost of revenues for the eLearning division includes the cost of direct manpower that is involved in the design and uploading of content for facilitating web-based learning.

*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 executives, 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 two to eight years and, in the case of buildings, 30 years. We do not amortize goodwill or indefinitely lived intangible assets recognized. We assess for impairment of long-lived assets under IAS 36 *Impairment Of Assets*. The carrying value of long-lived assets is compared with the discounted estimated future cash flows at the identifiable cash generating unit level.

**Operating Results***Quarter ended June 30, 2008 compared to quarter ended June 30, 2007*

**Revenues.** We recognized Rs.1,502.63 million (\$35.00 million) in revenues for the quarter ended June 30, 2008, as compared to Rs.1,405.10 million for the quarter ended June 30, 2007, representing an increase of Rs.97.53 million, or 6.94%. This is driven primarily by Rs.143.03 million or 16.86 % and Rs.37.79 million or 38.14 % increase in revenue from our Corporate network/data services and Other services respectively. The revenue growth has been impacted by Rs.83.29 million or 18.19 % decrease from our Consumer One services comprising of Internet access services and online portals and content offerings.

Revenue from Corporate network/data services has increased by Rs.143.03 million, or 16.86 %, from Rs.848.24 million for three months ended June 30, 2007 to Rs.991.27 million for three months period ended June 30, 2008 primarily due to (i) increase of Rs.71.31 million or 12.93% in the revenue from Connectivity Services on account of increase in the orders from the existing and new customers, (ii) increase of Rs.20.22 million or 18.35 % in Hardware/Software sales primarily on account of increased sales to the existing clients, (iii) increase of Rs.41.77 million or 66.95 % in Hosting Services primarily on account of execution of new contracts including large projects such as AT&T phase II order, (iv) increase of Rs.11.48 million or 48.11 % in Voice BPO Services on account of higher utilization as well as addition of new clients , (v) increase of Rs.9.45 million or 15.84% in Application Services due to additional growth from Document Management system (DMS) services and (vi) increase of Rs.4.20 million or 154.98% from Sify Secure Services due to installation revenues collected from the existing customers. The increase is partially offset by a decrease of Rs.13.69 million or 37.60 % in the revenue from sale , as the one time business that we had from Ministry of Company Affairs in the quarter ended June 30, 2007, was not repeated and a loss of business to the extent of Rs.1.71 million or 100 % in Managed Services as the business line is in the development phase.

Revenue from Consumer One services has decreased by Rs.83.00 million or 18.13 % from Rs.457.49 million for three months ended June 30, 2007 to Rs.374.49 million for three months ended June, 2008. This is driven by Rs.87.81 million or 21.26% decrease in revenue from our Internet Access services and by Rs.4.81 million or 10.84% increase in revenue from Portal services. Such decrease is primarily on account of (i) decrease in cybercafé revenue to the extent of Rs.50.90 million or 34.78 %, due to loss of subscribers and lower usage by the existing customers, (ii) decrease in revenue from Voice over IP services to the extent of Rs.13.50 million or 44.03% due to reduction in utilization minutes , (iii) decrease in revenue from dial up amounting to Rs.4.97 million or 87.19% on account loss of business to public sector telecom companies as they offer bundled services to the customers, (iv) decrease in revenue from broadband amounting to Rs.15.50 million or 7.04 % on account of lesser utilization as well as loss of accounts , (v) decrease of Rs.2.93 million or 28.39 % from other services relating to Internet Access services and (vi) decrease of revenue amounting to Rs.3.37 million or 46.04 % from online travel business on account of increased competition from the existing operators. These decreases

were partially offset by an increase of Rs.8.17 million or 22.05% in the revenue from by e-commerce activities due to increased business from the customers.

Revenue from Other services has increased by Rs.37.50 million or 37.73 %, from Rs.99.37 million for three months ended June 30, 2007 to Rs.136.87 million for three months ended June 30, 2008. Such increase is due to increase in the customer base in the e-learning revenue as well as Infrastructure Management System (IMS) stream.

*Cost of goods sold and services rendered.* The cost of goods sold and services rendered was Rs.885.79 million (\$20.63 million) for the quarter ended June 30, 2008 compared to Rs.755.77 million for the quarter ended June 30, 2007, representing an increase of Rs.130.02 million, or 17.20 %. This increase was due to (i) a Rs.28.63 million increase in hardware and software costs, (ii) a Rs.58.80 million increase in bandwidth costs, (iii) a Rs.85.70 million increase in directly attributable personnel costs to the technology and e-learning departments, (iv) a Rs.5.58 million increase in termination cost for VoIP services, (v) a Rs.7.30 million increase in site development expenses and (vi) a Rs. 1.15 million increase in COGS relating to e-commerce. These increases have been partly offset by a decrease of (a) Rs.26.43 million in revenue share paid to franchisees and cable television operators, (b) Rs 10.17 million in the cost of goods sold associated with sale of digital certificates (c) Rs.8.03 million in content cost and (d) Rs.12.51 in other direct costs.

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*Stock compensation expenses.* Stock compensation expenses was Rs. 17.51 million (\$0.40 million) for the quarter ended June 30, 2008, compared to Rs.13.97 million for the quarter ended June 30, 2007, representing increase of Rs.3.54 million. The increase in the charge is primarily due to due to fresh grants made during the period.

*Other Income.* Other income was Rs.18.50 million (\$0.43 million) for the quarter ended June 30, 2008, compared to Rs.11.55 million for the quarter ended June 30,2007, representing an increase of Rs 6.95 million, or 60.17%. 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 and increase in forex gain. This increase is contributed by (i) increase of Rs.3.52 million in duty credit entitlement on account of increase in export revenues during the period under review and (ii) increase of Rs.3.43 million from forex gain on account of improvement in exchange rate .

*Selling, general and administrative expenses.* Selling, general and administrative expenses were Rs.642.12 million (\$13.82 million) for the quarter ended June 30, 2008, compared to Rs.623.28 million for the quarter ended June 30, 2007, representing an increase of Rs.18.91 million, or 3.03 % due to increase in rent and infrastructure facilities.

*Depreciation and Amortisation expenses.* Depreciation and amortization expenses were Rs.111.80 million (\$2.61 million) for the quarter ended June 30,2008, compared to Rs.120.41 million for the quarter ended June 30,2007, representing a decrease of Rs.8.61 million, or (7.15%). The decrease is attributable to changes made to the economic lives of Computers and networking equipment included under property, plant and equipment.

*Income tax expense.* The income tax expense was Rs.18.24 million (\$0.42million) for the quarter ended June 30,2008,compared to Rs. 15.06 million for the quarter ended June 30, 2007,representing an increase of Rs.3.18 million, or 21.11% This increase was due to the taxable profits earned by the subsidiary.

*Net finance income.* The net finance income was Rs.(0.47) million (\$0.01) million for the quarter ended June 30, 2008, compared to Rs.33.53 million for the quarter ended June 30, 2007, representing a decrease of Rs.34.00 million, or (101.41 %). The finance income was Rs.33.31 million for the quarter ended June 30,2008,compared to Rs.42.54 million for the quarter ended June 30,2007, representing a decrease of Rs.9.23 million due to decrease in interest income from bank deposits on account of closure of fixed deposits. The finance expense was Rs. 33.78 million for the quarter ended June 30, 2008,compared to Rs.9.00 million for the quarter ended June 30, 2007, representing an increase of Rs.24.78 million due to increase in bank charges and on account increased bank borrowings.

*Share of profit of investment in associate.* The share of profit of investment in associate was Rs.12.81 million (\$0.30 million) for the quarter ended June 30,2008,compared to Rs.24.70 million for the quarter ended June 30,2007, representing a decrease of Rs. 11.89 million, or 48.13 %. The decrease was due to sluggish market conditions for MF Global Sify Securities India Private Limited.



**Table of Contents****Liquidity and Capital Resources**

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

| Particulars   | Quarter ended    |                    | June 30,2008   |
|---|------------------|--------------------|----------------|
|   | June 30, 2008    | June 30,2007       | U.S Dollars    |
| Profit / (loss) after tax                                     | (124,485)        | (39,644)           | (2,900)        |
| Other adjustments for non-cash items                          | 182,077          | 174,934            | (4,241)        |
| Income taxes paid   | (18,236)         | (15,062)           | (425)          |
| Net decrease (increase) in working capital                    | (66,353)         | (94,154)           | (1,545)        |
| Net cash from / (used in) operating activities                | (90,197)         | (111,748)          | (2,100)        |
| Net cash from / (used in) investing activities                | (619,237)        | (232,033)          | (14,425)       |
| Net cash from / (used in) financing activities                | 595,280          | (617,270)          | 13,867         |
| Effect of exchange rate changes on cash and cash equivalents  | (176)            | (24,847)           | (4)            |
| <b>Net increase / (decrease) in cash and cash equivalents</b> | <b>(114,330)</b> | <b>(1,176,672)</b> | <b>(2,662)</b> |

We intend to continue to focus on the reduction of our cash utilization and increasing our cash surplus in fiscal 2009. Our primary sources of liquidity is from net cash earned from operating activities. Based upon our present business and funding plans, we believe that our cash and cash equivalents of Rs.774.36 million (\$18.03 million) as of June 30, 2008, excluding restricted cash included in non-current assets of Rs.1.00 million (\$0.02 million). Our external sources of credit include facilities sanctioned from Indian Banks in the form of short term loans, cash credit and overdraft facilities. We believe that our cash and cash equivalents and working capital facilities are sufficient to meet our currently known requirements at least over the next twelve months. Our ongoing working capital requirements are significant affected by the profitability of our operations and we continue to periodically evaluate existing and new sources of liquidity and financing.

Cash balances held in Indian currency were Rs 1,506.32 million and Rs.1,607.36 as of March 31, 2008 and June 30, 2008, respectively. These amounts include cash and cash equivalents and restricted cash.

Cash used in operating activities for the quarter ended June 30, 2008 was Rs.90.19 million (\$2.10 million). This is due to working capital requirements of Rs.66.35 million. This is primarily contributed by increase in trade and other receivables by Rs.427.01 million, decrease in trade accounts payable by Rs.133.27 million, decrease in other assets by Rs.27.14 million and increase in deferred revenues by Rs.176.21 million.

Cash used in investing activities for the quarter ended June 30, 2008 was Rs.619.23 million (\$14.42 million) and principally consisted of establishment of a new data center and purchase of routers, modems, ports, servers and other capital equipment in connection with the expansion of our network of Rs.629.14 (\$14.65 million) and expenditure on intangible assets of Rs.56.91 million (\$1.32 million).

Cash from financing activities for the quarter ended June 30, 2008 was Rs.595.28 million (\$13.85 million) represented by borrowings from banks to the extent of Rs.626.20 million and increase in finance charges by Rs.30.22 million.

**Table of Contents****Income Tax Matters**

As of March 31, 2008, we had a business loss carry forward of approximately Rs.3,894.83 million (\$90.73 million) for financial reporting purposes. Under Indian law, loss carry forwards from a particular year may be used to offset taxable income over the next eight years.

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 2008, the corporate income tax rate was 30%, subject to a surcharge of 10% and education cess of 3%, resulting in an effective tax rate of 33.99%. For fiscal year 2009 also, the corporate income tax rate is 30%, subject to a surcharge of 10% and education cess of 3%, resulting in an effective tax rate of 33.99%. 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. Currently dividend income is exempt from tax for shareholders. Domestic companies are liable to pay a dividend distribution tax at the rate of 15% plus a surcharge and additional surcharge at the time of the distribution.

The Finance Act, 2005 had introduced income tax on fringe benefits which is in addition to the income tax charged under the Income Tax Act, 1961. Fringe benefits tax ( FBT ) is payable by every employer in respect of fringe benefits provided or deemed to have been provided by the employer to his employees during the year. An employer is required to pay FBT even if no tax is payable on the total income.

The Finance Act, 2007 had also introduced income tax on stock option grants to employees by way of Fringe Benefit Tax. As per this, FBT is payable by every employer in respect of stock options granted to its employees. FBT is calculated on the equity shares granted to the employees based on the fair market value of the equity shares on the date on which the option vests with the employee as reduced by the amount actually paid by or recovered from the employees in respect of such shares. The Act also permits the employer to recover the FBT from the employees who are exercising their options.

**Off-Balance Sheet Arrangement**

We have not entered into any off balance sheet arrangement other than contractual obligations such as operating lease arrangements disclosed below as defined by SEC final rule 67 (FR-67) Disclosures in Management's Discussion and Analysis .

**Contractual obligations**

Set forth below are our contractual obligations as of June 30, 2008:

| Contractual Obligations  | Total     | Payments due by period (Rs 000s) |           |           |           |
|--|-----------|----------------------------------|-----------|-----------|-----------|
|  |           | Less Than 1 year                 | 1-3 years | 3-5 years | > 5 years |
| Long Term Debt Obligations                                       |           |                                  |           |           |           |
| Short term borrowings  | 1,615,633 | 1,615,633                        |           |           |           |
| Finance Lease Obligations  | 4,695     | 2,923                            | 1,772     |           |           |
| Non-cancellable Operating Lease Obligations Purchase Obligations | 1,861,325 | 104,757                          | 256,825   | 233,855   | 1,265,888 |
|  | 735,200   | 484,661                          | 250,539   |           |           |

**Note**

- a) Other liabilities amounting to Rs124.30 Million

primarily  
comprise of  
deposits  
received from  
franchisees. For  
such amounts,  
the extent of the  
amount and the  
timing of  
payment / cash  
settlement are  
not readily  
estimable or  
determinable, at  
present.

Accordingly, we  
did not include  
these under  
contractual  
obligations.

- b) Standby letter of  
credit and  
guarantees  
disclosed in  
Note 21 (b) has  
not been  
included in the  
above  
mentioned table  
of contractual  
obligations.

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- c) In addition to the above noted contractual obligations, in accordance with IAS 19 *Employee Benefits*, the total accrued liability for defined benefit plans recognised as of June 30, 2008, was Rs. 61,433 and disclosed under employee benefits .
- d) Purchase obligations include a sum of Rs.128,704 payable within 1 year and a sum of Rs.250,539 payable within 1-3 years to Emirates Integrated Telecommunications PJSC towards purchase of capacity from the Europe India Gateway.

**Item 3. 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 24 of the notes to the Unaudited Condensed Consolidated Interim Financial Statements for an analysis and exposure arising out of credit risk, liquidity

**Table of Contents****Recent Accounting Pronouncements**

Following is a short description of new accounting standards becoming effective for annual financial statement periods beginning on or after 1 January 2009.

*IFRS 8 Operating Segments* introduces the management approach to segment reporting, whereby segment reporting is based on internal management reporting and replaces *IAS 14*. *IFRS 8* aligns segment reporting with the requirements of the US standard SFAS 131, Disclosures about segments of an enterprise and related information. Sify early adopted *IFRS 8* in 2008 and has made disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them.

Revised *IAS 23 Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised *IAS 23* will become mandatory for the Group's 2009-10 financial statements and will constitute a change in accounting policy for the Group. Sify will not early adopt *IAS 23*. The amendment is not expected to have a significant impact on Sify.

*IFRIC 13 Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programs for their customers. It relates to customer loyalty programs under which the customer can redeem credits for awards such as free or discounted goods or services. *IFRIC 13*, which becomes mandatory for the Group's 2009-10 financial statements, is not expected to have a significant impact on the Consolidated Financial Statements.

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

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

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

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

*IFRS 2, Share-based Payment* vesting conditions and cancellations specifies the definition of vesting conditions. Vesting conditions are only those conditions that determine whether the entity receives the services that entitle the

counterparty to the share-based payment. Conditions other than these are non-vesting conditions. The amendment is not expected to have a significant impact on Sify.

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**Item 4. Controls and Procedures**

As of the end of the period covered by this Quarterly Report on Form 6-K, 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 Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission. 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 Securities Exchange Act of 1934, as amended, 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 the end of the period covered by this Quarterly Report on Form 6-K, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at that reasonable level. There has been no change in our internal control over financial reporting identified in connection with the evaluation required by paragraph(d) of 17 CFR 240.13a-15 or 240.13a-15 or 240.15d-15 that occurred during the period covered by the quarterly report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Part II. Other Information**

**Item 1. Legal Proceedings**

The company is subject to legal proceedings and claims, which have arisen in the ordinary course of its business. These legal actions, when ultimately concluded and determined, will not, in the opinion of management, have a material effect on the results of operations or the financial position of the Company.

See Note 22 of notes to our Unaudited Condensed Consolidated Interim Financial Statements in Part I above and Note 38 of the financial statements included in our Annual Report on Form 20-F for the year ended March 31, 2008.

**Item 1A. Risk Factors**

This Quarterly 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 our Annual Report on Form 20-F for the fiscal year ended March 31, 2008. The information presented below updates and should be read in conjunction with the Risk Factors and information disclosed in our Annual Report on Form 20-F for the fiscal year ended March 31, 2008, which Risk Factors and Information are incorporated herein by reference.

For risks related to the Company and its subsidiaries, ADSs and our trading market, investments in Indian Companies and the Internet Market in India, please refer to our Annual Report for the year ended March 31, 2008 on Form 20F.

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**Item 2. Unregistered Sale of Equity Securities and Use of Proceeds**

None.

**Items 3. Defaults upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

| <b>Number</b> | <b>Description</b>  |
|---------------|---|
| 12.1          | Rule 13a-14(a) Certification of Principal Executive Officer |
| 12.2          | Rule 13a-14(a) Certification of Principal Financial Officer |
| 13.1          | Section 1350 Certification of Principal Executive Officer   |
| 13.2          | Section 1350 Certification of Principal Financial Officer   |



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**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 31, 2009

SIFY TECHNOLOGIES LIMITED

By: /s/ M P Vijay Kumar

Name: M P Vijay Kumar

Title: Chief Financial Officer

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**EXHIBIT INDEX**

| <b>Number</b> | <b>Description</b>  |
|---------------|---|
| 12.1          | Rule 13a-14(a) Certification of Principal Executive Officer |
| 12.2          | Rule 13a-14(a) Certification of Principal Financial Officer |
| 13.1          | Section 1350 Certification of Principal Executive Officer   |
| 13.2          | Section 1350 Certification of Principal Financial Officer   |

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