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

**1. Reporting entity**

Sify Technologies Limited, ('Sify' or 'the Company') formerly known as Sify Limited, is a leading internet services provider headquartered in Chennai, India. These Consolidated Financial Statements as at and for the year ended March 31, 2008 comprise the Company and its subsidiaries (India World Communications Limited, Sify Communications Limited, Sify Networks Private Limited, Sify International Inc, and Sify Americas 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 on the NASDAQ Global Market in the United States.

**2. Basis of preparation**

**a. Statement of compliance**

The accompanying Consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations as issued by the International Accounting Standards Board (IASB). The Group has applied all standards and interpretations issued by the IASB that were effective as of March 31, 2008. In addition, the Group adopted the following standard though the standard were not effective on the reporting date, March 31, 2008.

i. IFRS 8 : *Operating Segments revised version*, effective for annual periods beginning on or after January 1, 2009.

The Group has not adopted the following new Standards or revisions to existing Standards:

i. IAS 1 : *Presentation of Financial Statements*, revised version effective for annual periods beginning on or after January 1, 2009. This Standard would be adopted, by the Company as at April 1, 2009.

ii. IFRS 3 : *Business combinations*, the revised version effective for annual periods beginning on or after July 1, 2009. The revision is not expected to have a significant impact on the financial statements of the Group.

iii. IAS 23 : *Borrowing Costs*, effective for annual periods beginning on or after January 1, 2009. The revised IAS 23 will become mandatory for the Group's 2009 financial statements and will constitute a change in accounting policy for the Group. The amendment is not expected to have a significant impact on Sify.

iv. IAS 27 : *Consolidated and Separate Financial Statements*, the revised version is effective for annual periods beginning on or after July 1, 2009 and earlier application of revised IAS 27 is permissible only if the revised version of IFRS 3 is adopted.

v. IFRS 2 : *Share-based Payment - vesting conditions and cancellations*, the amendments are effective for annual periods beginning on or after January 1, 2009. The amendment is not expected to have a significant impact on Sify.

vi. IAS 32 : *Financial Instruments Presentation and IAS 1 Presentation of Financial Statements*, the amendments are effective for annual periods beginning on or after January 1, 2009. This standard would be adopted by the Company as at April 1, 2009.

vii. IFRIC 13 : *Customer Loyalty Programmes*, the Interpretation is applicable for annual periods beginning on or after July 1, 2008. IFRIC 13, which becomes mandatory for the Group's 2009 financial statements, is not expected to have a material impact on the Consolidated Financial Statements.

viii. IFRIC 14 : *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction*, the Interpretation is applicable for annual periods beginning on or after January 1, 2008. The Company will apply IFRIC 14 from April 01, 2008. The Group has not yet determined the potential effect of this interpretation.

**b. Basis of measurement**

These Consolidated Financial Statements have been prepared on the historical cost basis except for the following:

- Available for sale financial assets
- Derivative financial instruments

The above items have been measured at fair value and the methods used to measure fair values are discussed further in Note 5.

**c. 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. The U.S. dollar is the functional currency of Sify's foreign subsidiary located in the United States.

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

Convenience translation: Solely for the convenience of the reader, the financial statements as of and for the year ended March 31, 2008 have been translated into United States dollars (neither the presentation currency nor the functional currency) at the noon buying rate in the New York City on March 31, 2008, for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York of U.S. $ 1 = Rs.40.02. No representation is made that the Indian rupee amounts have been, could have been or could be converted into United States dollar at such a rate or at any other rate on March 31, 2008 or at any other date.

**d. Use of estimates and judgements**

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

In particular, areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements include the following**:**

- Business combinations (Note 6)
- Measurement of the recoverable amounts of cash-generating units containing goodwill (Note 8)
- Useful lives of Property, plant and equipment (Note 7)
- Lease classification (Note 11, 12 and 20)
- Utilization of tax losses (Note 14)
- Measurement of defined employee benefit obligations (Note 21)
- Measurement of share-based payments (Note 32)

## 3. Transition to IFRS

These consolidated financial statements being the first IFRS financial statements, are covered by IFRS 1, *First-time Adoption of International Financial Reporting Standards*. Sify has applied IFRS 1 in making the transition to IFRS, with April 1, 2006 as the date of transition to IFRS.

Immediately before adopting IFRS, Sify prepared its Consolidated Financial Statements under US GAAP (previous GAAP). Reconciliation and description of the effect of the transition from US GAAP to IFRS on equity, net income and cash flows are provided in Note 3 C.

IFRS 1 requires that all IFRS effective for the first IFRS Consolidated Financial Statements for the year ended March 31, 2008, be applied consistently and retrospectively for all fiscal years presented. However, this standard provides some optional and mandatory exemptions to this general requirement in specific cases. Accordingly, Sify has applied certain mandatory and optional exemptions from full retrospective application of IFRS as detailed below.

### A. Retrospective application of IFRS – Mandatory exemption

The Group has applied the following mandatory exemptions:

a) *Derecognition of financial assets and liabilities* –As per IAS 39, if a first time adopter derecognized non-derivative financial assets or non-derivative financial liabilities under its previous GAAP as a result of a transaction that occurred before 1 January 2004, it shall not recognise those assets and liabilities under IFRS unless they qualify for recognition as a result of a later transaction or event. Sify did not derecognize any such financial asset or liability before January 1, 2004 and hence, this exemption is not applicable

b) *Hedge accounting* – Under IAS 39 hedge accounting is applied from the date of transition only to hedging relationships that meet the requirements for hedge accounting at that date. Sify did not have any hedging relationships. Hence, this exemption is not applicable.

c) *Estimates* – Estimates made at the date of transition and during the comparative period under previous GAAP should not be changed (except for the effect of the application of accounting principles under IFRS to those estimates) unless there objective evidence that these estimates were in error. When an entity needs to make estimates under IFRS that were not required under previous GAAP, the estimates must reflect conditions at the date of transition to IFRS. On an assessment of the estimates made under previous GAAP, the Group has concluded that there is no necessity to revise the estimates under IFRS .The exemption is explained in Note 2 d.

d) *Assets classified as held for sale and discontinued operations* – IFRS 5 requires that it shall be applied prospectively to non-current assets (or disposal group) that meet the criteria to be classified as held for sale, and operations that meet the criteria to be classified as discontinued after the effective date of IFRS 5 (effective for annual periods beginning on or after January 1, 2005). This exemption requires an entity with a date of adoption after January 1, 2005 to restate its comparatives for IFRS 5 *Non–current Assets Held for Sale and Discontinued Operations*. However, Sify does not have any non- current assets that meet the held–for–sale criteria and operations that meet the criteria to be classified as discontinued operations.

### B. Exemption from Retrospective application of IFRS - Optional exemption

As per IFRS 1, the Group has elected to apply or not to apply the following optional exemptions from full retrospective application:

a) *Business combinations* –As per IFRS 1 *First Time Adoption of International Financial Reporting Standards*, an entity may elect to apply IFRS 3 *Business Combinations* retrospectively to all past business combinations apply to all business combinations after a particular date or not to apply for past business combinations. The Group has elected not to apply IFRS 3 *Business combinations* to business combinations that occurred before the date of transition to IFRS, i.e., April 1, 2006.

*b) Fair value or revaluation as deemed cost* – As per IFRS 1 *First Time Adoption of International Financial Reporting Standards*, an entity may elect to measure an item of property, plant and equipment at the date of transition to IFRS at its fair value and use that fair value as deemed cost at that date or may elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to IFRS as deemed cost at the date of valuation. The Group has not elected to measure any item of Property, plant and equipment at its fair value at the date of transition; they have been measured at cost in accordance with IAS 16.

*c) Employee benefits* – An entity adopting IFRS would have to recalculate all actuarial gains and losses from inception of each post-employment defined benefit plan if it intended to use a 'corridor' approach to recognising actuarial gains and losses. Alternatively, a first time adopter of IFRS may elect to apply the exemption to recognise all cumulative actuarial gains or losses at the date of transition to IFRS as an adjustment to opening retained earnings (or other appropriate component of equity). The Group elected to recognize all cumulative actuarial gains and losses at the transition date and actuarial gains and losses thereafter as a adjustment to a separate component of equity.

*d) Cumulative translation differences* – A first-time adopter may either apply IAS 21 retrospectively to determine the cumulative translation differences for each foreign operation that must be recognised as a separate component of equity at the date of transition or deem the cumulative translation differences to be zero at the IFRS transition date, and reclassify any amounts recognised in accordance with previous GAAP at that date as retained earnings. The exemption must be applied consistently to all foreign operations. The gain or loss on the subsequent disposal of any foreign operation must exclude translation differences that arose before the transition date if an entity elected to reset the cumulative translation. The Group has elected to apply IAS 21 retrospectively and recognised cumulative translation differences for each foreign operation as separate component of equity at the date of transition.

e) *Compound financial instruments* – IAS 32 *Financial instruments presentation* requires an entity to split a compound financial instrument at inception into separate liability and equity components. As per IFRS 1 *First Time Adoption of International Financial Reporting Standard*s, if the liability component is no longer outstanding at the date of transition to IFRS an entity need not separate the amount recognised in equity into retained earnings and issued equity. This exemption is not applicable to us as the Group has not issued any compound financial instruments.

f) *Assets and liabilities of subsidiaries, associates and joint ventures* – A parent or investor may become a first-time adopter earlier than or later than its subsidiary, associate, or joint venture investee. In these cases, IFRS 1 provides certain exemptions. Since Sify is the parent company and is preparing its consolidated financial statements for the year ended March 31, 2008 based on the financial statements of its subsidiaries prepared under IFRS, this exemption is not applicable.

g) *Designation of previously recognised financial assets and financial liabilities* - IFRS 1 permits a financial instrument to be designated as a financial asset or financial liability at fair value through profit or loss (FVTPL) or as available for sale despite this recognition not being made at the initial recognition date. There were no financial assets or liabilities to be designated as above, accordingly, this exemption is not applicable.

h) *Share–based payment* – An entity that is a first-time adopter of IFRS may elect to apply the recognition and measurement requirements for share-based payments retrospectively to all share-based payment transactions occurring before its transition date or not apply the recognition and measurement requirements regarding share-based payments retrospectively to equity instruments that were granted on or before 7 November 2002 and equity instruments that were granted after 7 November 2002 that vested before the later of the date of transition to IFRSs and 1 January 2005 or liabilities arising from share-based payment transactions that were settled before the later of the date of transition to IFRSs and 1 January 2005.

The Group does not have cash settled share-based transactions. In respect of equity instruments, the Group has not applied recognition and measurement requirements regarding share-based payments in respect of the equity awards which were granted and vested prior to 1 April 2006 i.e., the date of transition to IFRS.

i) *Insurance contracts* – The transitional provisions prescribed in IFRS 4 *Insurance Contracts* are applicable to any entity issuing insurance contracts(an insurer) The Group is not engaged in issuing insurance contracts and hence, this exemption is not applicable.

j) *Decommissioning liabilities included in the cost of property, plant and equipment* –IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. A first-time adopter need not comply with these requirements for changes in such liabilities that occurred before the date of transition to IFRS.

The Group does not have any decommissioning liabilities included in the cost of Property, plant and equipment, hence, this exemption is not applicable.

k) *Leases* – A first time adopter may apply the transitional provisions in IFRIC 4 *Determining whether an Arrangement contains a Lease*. Therefore, a first-time adopter may determine whether an arrangement existing at the date of transition to IFRS contains a lease on the basis of the facts and circumstances existing at that date. Under the previous GAAP, the Group classified its leases either as Operating or Finance leases adopting principles which are consistent with the requirements of IAS 17- *Leases*. The need for the application of IFRIC 4, *whether an arrangement contains a lease* at the date of transition does not arise. Hence, this exemption is not applicable.

*l) Service concession arrangements* – IFRIC 12 provides guidance on the accounting by operators for public-to-private service concession arrangements to private operators and clarifies how certain aspects of existing IASB literature are to be applied to service concession arrangements. The Group does not deal with such projects, hence, this exemption is not applicable.

**C. Reconciliation of equity and net income between from U.S. GAAP (previous GAAP) to IFRS**

The following reconciliation describes the effect of major differences between U.S. GAAP and IFRS on the equity as of March 31, 2007 and in the opening balance sheet as of April 1, 2006 as well as on net income for year ended March 31, 2007

**(i) Reconciliation of equity**

| | **As at April 1, 2006** | **As at March 31, 2007** |
|---|---|---|
| **Equity under US GAAP** | **4,054,509** | **4,381,090** |
| **Add :** | | |
| Recognition of import duty credit entitlement under Served from India Scheme. (Note a) | 94,628 | 66,094 |
| Adjustments relating to employee benefits. (Note b) | 5,272 | 1,990 |
| Transition date credit to share-based payment reserve (Note c) | 42,193 | - |
| Adjustment to amortization of intangible assets acquired in a business combination. (Note d) | - | 1,652 |
| Change in equity pick up of an investment accounted for using equity method. | 2,490 | 1,602 |
| Impact of opening balance sheet transitional adjustments. | - | 99,484 |
| | **4,199,092** | **4,551,912** |
| **Less :** | | |
| Additional depreciation charge in respect of recognition of import duty credit entitlement, under Served from India scheme. (Note a) | (2,907) | (4,626) |
| Recognition of additional stock compensation expense. (Note c) | (42,193) | - |
| Reversal of actuarial gain in respect of employee benefits. (Note b) | - | (5,556) |
| Impact of income taxes relating to reversal of actuarial gains. (Note b) | - | (2,824) |
| **Equity under IFRS** | **4,153,992** | **4,538,906** |

**(ii) Reconciliation of Net Income for the year ended March 31, 2007.**

| | Year ended March 31, 2007 |
|---|---:|
| **Net Income under US GAAP** | **218,291** |
| **Add:** | |
| Recognition of import duty credit entitlement under Served from India Scheme. (Note a) | 66,094 |
| Reversal of provision in respect of employee benefits. (Note b) | 1,967 |
| Tax impact of recognition of actuarial gain to equity (Note b) | 9 |
| Adjustment to amortization of intangible assets acquired in a business combination. (Note d) | 1,652 |
| **Less:** | |
| Additional depreciation charge in respect of recognition of import duty credit entitlement. (Note a) | (4,626) |
| Impact on income taxes relating to reversal of actuarial gains. (Note d) | (2,824) |
| Change in equity pick up of an investment accounted for using equity method. | (9,191) |
| **Net Income under IFRS** | **271,372** |

**a) Recognition of import duty credit entitlement**

The Group is eligible to claim certain import duty credit entitlement under "Served from India Scheme" (issued by the Government of India) in respect of the foreign exchange earnings from export of services. This import duty credit entitlement is not transferable can be availed on import of capital goods including capital spares i.e., it can be used in lieu of payment of duty of such capital goods or capital spares. Under previous GAAP, such duty credit entitlement was not recognized as income and not setup as an asset since that GAAP observes that the entitlement does not result in separate earnings process for the Group and the entitlement is not transferable. Further, the duty credit entitlement utilized for payment of import duty was netted off against the cost of asset.

Under IFRS, the Group has recognised such import duty credit entitlement as "Other Income" as it meets the definition of Income under Framework for the Preparation and Presentation of Financial Statements. This has resulted in increase in equity by Rs. 66,094 and Rs. 94,628 as at March 31, 2007 and April 1, 2006 respectively. Further, the import duty utilised and netted off against cost of asset under previous GAAP has been adjusted against the corresponding receivable under IFRS to increase the cost of property, plant and equipment by Rs. 5,969 and Rs. 28,317 as at March 31, 2007 and April 1, 2006 respectively. The corresponding depreciation impact amounted to Rs. 4,626 and Rs. 2,907 for the year ended March 31, 2007 and cumulatively upto April 1, 2006 respectively.

**b) Employee benefits**

Under previous GAAP, the Group applied discounting rates based on the high-quality fixed-income investments prevalent at the reporting date to determine the liability towards employee benefits. Under IFRS, the relevant rates shall be the rates applicable to high quality corporate bonds or in the absence of deep market for such bonds, the rates applicable to Government bonds shall be used. Accordingly, in the absence of a deep bond market in India, the Group has applied the rates applicable to Government bonds.

Further, until the date of transition, the Group adopted the corridor approach to record actuarial gains and losses under previous GAAP. Under IFRS, as mentioned in paragraph 3B(c), the Group has elected to recognize all cumulative actuarial gains and losses of defined benefit plans at the transition date as an adjustment to a separate component of equity. Subsequent to the transition date, the Group has decided to continue to recognize actuarial gains and losses of such defined benefit plans as a separate component of equity.

The aforesaid changes have resulted in increase of equity by Rs. 1,990 and Rs. 5,272 as at March 31, 2007 and April 1, 2006 respectively. Correspondingly, the net income under previous GAAP for the year ended March 31, 2007 has been increased by Rs. 1,967 (after adjusting Rs. 18 (net of tax of Rs. 9) on account of actuarial gains or losses) directly to equity.

Further, under previous GAAP, the Group adopted the recognition and disclosure provisions of SFAS No. 158 and recognised a gain of Rs. 5,556 (net of deferred tax liability of Rs. 2,824) directly into the statement of equity representing the actuarial gain as at March 31, 2007. Since the Group has recognised all cumulative actuarial gains and losses at the transition date as an adjustment to opening retained earnings, the Group reversed the actuarial gain of Rs 5,556 and the deferred tax liability of Rs. 2,824. Consequent upon such de-recognition, the equity decreased by Rs 8,380 as at March 31, 2007.

**c) Stock compensation expenses**

Under previous GAAP, the Group has determined the stock compensation expense (using modified prospective method under SFAS 123(revised 2004)) by reference to fair value of the options on the grant date for the unvested options granted before March 31, 2006. Under IFRS, the Group has applied IFRS 2 retrospectively for the options issued after November 7, 2002 and remain unvested as at the date of transition. This has resulted in a decrease of Rs. 42,193 in the retained earnings as at date of transition and a corresponding credit in share-based payment reserve shown as a separate component of equity.

**d) Amortisation of intangibles**

During the year ended March 31, 2007, under US GAAP, purchase consideration in respect of acquisition of Globe Travels has been allocated based on the estimated fair values determined by the management. The Company has completed the final allocation of purchase price during June 2007. Under US GAAP, the changes in the fair value of the intangible asset and goodwill were made prospectively. However, IFRS 3 (2004) *'Business Combinations'* requires change to be made from the date of acquisition. Therefore, the change in the fair values of intangible and goodwill has been adjusted in the comparative information presented in the Group's first IFRS financial statements. This has resulted in increase in equity by Rs. 1,652 due to decrease in the amortisation charge.

**(iii) Reconciliation of cash flows for the year ended March 31, 2007**

There is no material differences between the cash flow statement presented under IFRS and the cash flow statement presented under previous GAAP.

## 4. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements and in preparing an opening IFRS balance sheet on the date of transition i.e. April 1, 2006 except for exemptions availed under IFRS 1 (Refer to Note 3).

### a. Basis of consolidation

#### (i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power directly/indirectly to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are consolidated from the date that control commences and de-consolidated from the date that control ceases. The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Company.

#### (ii) Associates (equity accounted investees)

Associates are those entities where the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The Consolidated Financial Statements include the Group's share of the income and expenses and equity movements of equity accounted investees from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

#### (iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements.

### b. Foreign currency

#### (i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at year-end exchange rates. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which is recognised directly in equity.

#### (ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Indian Rupees at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Indian rupees using average exchange rates during the period. Exchange differences arising from the translation are taken to shareholders' equity

**c. Financial Instruments**

**(i) Non-derivative financial instruments**

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

**a) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and demand deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

**b) Available-for-sale financial assets**

Available-for-sale (AFS) financial assets are those financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss in accordance with IAS39. The AFS category includes all equity securities which are not classified as fair value through profit or loss.

Investments in equity securities and certain debt securities are initially classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items are recognised directly in equity. However, impairment losses, foreign exchange gains and losses (on AFS debt securities), interest and dividend (on AFS investments) calculated using the effective interest method are recognised in profit or loss. When an investment is de-recognised, the cumulative gain or loss in equity is transferred to profit or loss.

**c) Others**

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

**(ii) Derivative financial instruments**

Foreign exchange forward contracts are made and options are purchased to mitigate the risk of changes in foreign exchange rates associated with certain payables, receivables and forecasted transactions denominated in certain foreign currencies.

These derivative contracts do not qualify for hedge accounting under IAS 39, and are initially recognised at fair value on the date the contract is entered into and subsequently remeasured at their fair value. Gains or losses arising from changes in the fair value of the derivative contracts are recognised in the income statement. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

**(iii)** Interest, dividends, losses and gains relating to the financial liability are recognised in profit or loss. Distributions to the equity holders are recognised against equity, along with any tax effects.

**d. Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or share options are recognised as a deduction from equity, net of any tax effects.

## e. Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and where applicable accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss.

### (i) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is de-recognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

### (ii) Depreciation

Depreciation is provided on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Management's estimated useful lives for the current and previous year are as follows:

| | Estimate of useful life in years |
|---|---|
| Buildings | 28 |
| Plant and machinery comprising computers, servers etc | 2 – 5* |
| Plant and machinery comprising other items | 8* |
| Furniture and fittings | 5 |
| Office equipment | 5 |
| Motor vehicles | 3 – 5 |
| * - Revised (also refer to Note 7) | |

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

In recognizing individual assets, initial cost of which does not exceed Rs.5, materiality is applied, and such assets are depreciated in full in the year in which they are acquired.

**f. Intangible assets**

**(i) Goodwill**

Goodwill, being the difference between the consideration paid for new interests acquired by Group companies and the fair value of Group's share of net identifiable assets, liabilities and contingent liabilities as at the date of acquisition, is recognized as Intangible assets.

*Acquisitions prior to April 1, 2006*

As part of its transition to IFRS, business combinations that have occurred on or after April 1, 2006 need to be restated. In respect of acquisitions prior to 1 April 2006, goodwill, if any, represents the amount recognised under the Group's previous accounting framework, US GAAP.

*Acquisitions on or after April 1, 2006*

For acquisitions on or after 1 April 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), the Group reassesses the identification and measurement of identifiable assets, liabilities and contingent liabilities, and the measurement of the cost of acquisition, and recognise any remaining excess in profit or loss immediately on acquisition.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

*Equity accounted investees:* In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

**(ii) Other intangible assets**

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

**(iii) Subsequent expenditure**

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, are recognised in profit or loss as incurred.

**(iv) Amortisation of intangible assets with finite useful lives**

Amortisation is recognised in profit or loss on straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and previous year are as follows:

| | Estimate of useful life in years |
|---|---|
| Software | Not exceeding 3 Years |
| Technical Know-how | 5 years |
| License fees | 20 years |
| Portals and web development cost | 5 years |
| Customer contract related intangibles | 5 years |

**g. Leases**

*Assets taken on finance lease:*

At the inception of the lease, a lease arrangement is classified as either finance or operating lease, based on the substance of lease arrangement. A finance lease is recognised as an asset and a liability at the commencement of lease, at lower of the fair value of asset and present value of minimum lease payments. Initial direct costs, if any, are also capitalised and subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

*Assets taken on operating lease:*

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

*Assets given on finance lease:*

The Group is a dealer lessor for leasing various types of products sold to its customers. Profit or loss on sale of such products is recognised in accordance with the policy on outright sales. Finance income i.e., excess of gross minimum lease payments and normal selling price is recognised over the lease period.

**h. Inventories**

Inventories comprising traded hardware and software are measured at the lower of cost (determined using first-in first-out principle) and net realisable value. Inventory of Compact Disks (CD's) used for internet services are stated at weighted average cost. Cost comprises cost of purchase and all directly attributable costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**i. Impairment**

**Financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is considered to be impaired and impairment losses are incurred if objective evidence indicates that one or more events such as a loss event, the significant financial difficulty of the issuer, a breach of contract etc., which have had a negative effect on the estimated future cash flows of that asset.

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

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

**Non-financial assets**

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

The recoverable amount of an asset or cash-generating unit is the higher of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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

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

**j. Employee benefits**

Employee benefits are accrued in the period in which the associated services are rendered by employees of the Group, as detailed below:

**(a) Defined contribution plan (Provident Fund)**

In accordance with Indian law, all employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and employer make monthly contributions to the plan, each equal to a specified percentage of employee's basic salary. The Group has no further obligations under the plan beyond its monthly contributions. The Group does not have any legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Obligation for contributions to the plan is recognised as an employee benefit expense in profit or loss when it is due.

**(b) Defined Benefit Plans (Gratuity)**

In accordance with applicable Indian laws, the Group provides for gratuity, a defined benefit retirement plan (the Gratuity Plan) covering all employees. The Gratuity Plan provides a lump sum payment to vested employees, at retirement or termination of employment, an amount based on the respective employee's last drawn salary and the years of employment with the Group. Liability with regard to gratuity plan is accrued based on actuarial valuations determined using the 'projected unit credit method' at the balance sheet date, carried out by an independent actuary. Actuarial gain or loss is recognised directly in equity. The Company has an employees' gratuity fund managed by the Life Insurance Corporation of India (LIC).

**(c) Short term benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**(d) Compensated leave of absence**

The employees of the Group are entitled to compensated absence. The employees can carry forward a portion of the unutilised accrued absence and utilise it in future periods or receive cash compensation at retirement or termination of employment for the unutilised accrued compensated absence. The Group recognises an obligation for compensated absences in the period in which the employee renders the services. The Group provides for the expected cost of compensated absence as the additional amount that the Group expects to pay as a result of the unused entitlement that has accumulated based on actuarial valuations at the balance sheet date, carried out by an independent actuary.

**k. Share-based payment transactions**

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The increase in equity recognised in connection with a share based payment transaction is presented as a separate component in equity. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest. See Note 32 for further information on share-based payment transactions.

**l. Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable, will result in an outflow of economic benefits and a reliable estimate can be made in this regard. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognizes any impairment loss on the assets associated with that contract.

**m. Revenue**

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

Revenue from services rendered is recognized in the Income statement in proportion to the stage of completion of the transaction at the reporting date.

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

**(i) Corporate network/data services**

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

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

**(ii) Web hosting service**

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

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

**(iii) Internet access services**

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

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

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

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

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

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

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

The initial franchisee fee revenue is recognised at the time of commencement of operations by the franchisee. Internet access revenue and Internet telephony revenues are recognised based on usage by the customer.

**(iv) Online portal services**

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

Revenue from advertisements displayed on portals is recognised rateably over the period of contract

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

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

**(v) Other services**

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

- Revenue from barter transactions involving advertising services is recognised where the services exchanged are dissimilar, and is measured at the fair value of services received, adjusted by the amount of any cash or cash equivalents transferred.

**n. Export benefits**

Income in respect of import duty credit entitlement arising from export of services under the "Served from India Scheme" of the Government of India is recognised in the year of exports, provided there is no significant uncertainty as to the amount of entitlement and availment of the credit.

**o. Finance income and expense**

Finance income comprises interest income on demand deposits with banks. Interest income is recognised as it accrues in profit or loss, using the effective interest rate method.

Finance expense comprises interest expense on loans and borrowings and bank charges.

**p. Income taxes**

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognised for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry-forwards. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred taxes are measured on the basis of tax rates and tax laws that have been enacted / substantially enacted by the balance sheet date.

**q. Earnings per share**

The Group presents Basic and Diluted Earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which includes share options granted to employees.

## 5. Determination of fair values

The Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### (i) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings etc. is based on the market prices for similar items.

### (ii) Intangible assets

The fair value of intangible assets acquired in the business combinations is based on discounted cash flows expected to be derived from its use.

### (iii) Investments in equity and debt securities

The fair value of available-for-sale financial assets is determined by reference to their quoted price at the reporting date.

### (iv) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. However in respect of such financial instruments, fair value generally approximates the carrying amount due to the short term nature of such assets.

### (v) Derivatives

The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest rate (based on government bonds).

### (vi) Non Derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

### (vii) Share-based payment transactions

The fair value of employee stock options is measured using the Black-Scholes method. Measurement inputs include share price on grant date , exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instrument (based on historical experience and general option holder behavior), expected dividends, and the risk free interest rate (based on government bonds).

**6. Acquisition of Globe travels business**

The Group acquired Globe Travels which operated an online travel agency on May 10, 2006 to support the Group's strategy of providing end-to-end services to its users. The results of Globe Travels operations have been consolidated in the Group's consolidated financial statements from May 2006. The purchase price for the business acquisition comprised the following:

| | |
|---|---|
| Cash price | Rs.112,220 (USD 2,500) |
| Stock options (No. of options) | 140,000 |
| Earn out payments | USD 500 |

The Cash price of USD 2,500 included an amount of USD 500 as holdback amount payable upon the Airlines Reporting Corporation ("ARC") approval of the Group's application for change of ownership of the travel portal. The Group has obtained the ARC approval in August 2007 and paid the hold back amount.

The stock options have been treated as compensation cost in return for continued service and accounted for as employee compensation and not as part of the payment in the business combination. Further, the payment of earn out payments was not probable as on the date of acquisition hence, such contingent consideration has not been included in the cost of acquisition. Accordingly, the cost of acquisition comprises of only cash price of Rs.112, 220 and other incidental direct acquisition cost of Rs. 3,998.

The Company had initially allocated the purchase price to the estimated fair value of assets, determined by the management on the date of purchase of the business.

| | |
|---|---|
| Property, plant and equipment | Rs 1,246 |
| Software | 2,255 |
| Intangible assets | 85,797 |
| Goodwill | 26,920 |
| **Total** | **116,218** |

Final purchase price allocation was completed in May 2007 and in accordance with IFRS 3 (2004), the change in fair values of assets was effected from the date of acquisition. The final allocation of purchase price is given below.

| | **Final allocation** |
|---|---|
| Property, Plant and Equipment | Rs.1,246 |
| Software | 6,089 |
| Customer, contract related intangibles | 72,683 |
| Goodwill | 36,200 |
| **Total** | **116,218** |

7. **Property, plant and equipment**

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

| | Cost | | | | Accumulated depreciation | | | | Carrying amount as at March 31, 2007 |
|---|---|---|---|---|---|---|---|---|---|
| **Particulars** | **As at April 1, 2006** | **Additions** | **Disposals** | **As at March 31, 2007** | **As at April 1, 2006** | **Depreciation for the year** | **Deletions** | **As at March 31, 2007** | |
| Building | 485,156 | 149,074 | - | 634,230 | 72,901 | 21,755 | - | 94,656 | 539,574 |
| Plant and machinery | 2,828,970 | 372,645 | 20,854 | 3,180,761 | 2,069,145 | 292,653 | 20,565 | 2,341,233 | 839,528 |
| Computer equipments | 286,502 | 70,240 | 2,868 | 353,874 | 164,036 | 43,677 | 2,760 | 204,953 | 148,921 |
| Office equipment | 95,104 | 9,120 | 289 | 103,935 | 60,452 | 11,816 | 279 | 71,989 | 31,946 |
| Furniture and fittings | 349,243 | 39,222 | 1,471 | 386,994 | 263,141 | 41,921 | 1,350 | 303,712 | 83,282 |
| Vehicles | 13,764 | 8,166 | 13,164 | 8,766 | 8,029 | 3,124 | 8,714 | 2,439 | 6,327 |
| **Total** | **4,058,739** | **648,467** | **38,646** | **4,668,560** | **2,637,704** | **414,946** | **33,668** | **3,018,982** | **1,649,578** |
| Add: Construction in Progress | - | - | - | - | - | - | - | - | 23,409 |
| **Total** | **4,058,739** | **648,467** | **38,646** | **4,668,560** | **2,631,354** | **414,946** | **33,668** | **3,018,982** | **1,672,987** |

**Leased assets**

The Group's leased assets include certain buildings and motor vehicles. As at March 31, 2008 the net carrying amount of such buildings and motor vehicles is Rs. 271,125 (As at March 31, 2007: Rs. 144,639) and Rs.5,328 (As at March 31, 2007: Rs.6,327) 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.

**Change in estimate**

Based on a comprehensive evaluation, during the year ended March 31, 2008 the Group has revised the estimates of the useful lives of its networking equipment (included under plant and machinery) and computers. As a result, the expected useful life of networking equipment has been increased from 5 to 8 years and the expected useful life of computers has been decreased from 5 to 3 years. The effect of these changes on depreciation expense in current and future periods is as follows:

| | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| **Decrease / (Increase) in depreciation expense** | 110,315 | 98,650 | 61,498 | (17,674) |

## 8. Intangible assets

**Intangible assets comprise the following:**

| | March 31, 2008 | March 31, 2007 |
|---|---|---|
| (i) Goodwill | 50,796 | 50,796 |
| (ii) Other intangible assets | 131,511 | 136,953 |
| **Total** | **182,307** | **187,749** |

**(i)Goodwill**

| | March 31, 2008 | March 31, 2007 |
|---|---|---|
| Balance at the beginning of the year | 50,796 | 14,596 |
| Acquisitions through business combinations | - | 36,200 |
| **Balance at the end of the year** | **50,796** | **50,796** |
| **Net carrying amount of goodwill** | **50,796** | **50,796** |

The amount of Goodwill as of March 31, 2008 and 2007 has been allocated to the following cash generating units:

| Segment | March 31, 2008 | March 31, 2007 |
|---|---|---|
| Online Portal Services | 50,796 | 50,796 |
| **Total** | **50,796** | **50,796** |

**(ii)Other intangible assets**

| (A) Cost | Technical know-how | Portals and web content | Customer contracts related intangibles | Software | License fees | Total |
|---|---|---|---|---|---|---|
| **Balance as at 01.04.06** | **82,753** | **52,730** | **126,871** | **219,315** | **-** | **481,669** |
| Acquisitions through business combinations | - | - | 72,683 | 6,089 | - | 78,772 |
| Other acquisitions | - | - | - | 15,474 | 50,000 | 65,474 |
| **Balance as at 31.03.07** | **82,753** | **52,730** | **199,554** | **240,878** | **50,000** | **625,915** |
| Acquisitions through business combinations | - | - | - | - | - | - |
| Other acquisitions | - | - | - | 30,238 | - | 30,238 |
| **Balance as at 31.03.08** | **82,753** | **52,730** | **199,554** | **271,116** | **50,000** | **656,153** |
| **(B) Amortisation** | | | | | | |
| **Balance as at 01.04.06** | **79,240** | **50,065** | **117,433** | **193,350** | **-** | **440,088** |
| Amortisation for the year | 3,513 | 2,645 | 18,796 | 22,974 | 906 | 48,834 |
| **Balance as at 31.03.07** | **82,753** | **52,710** | **136,269** | **216,324** | **906** | **488,962** |
| Amortisation for the year | - | 20 | 13,657 | 19,503 | 2,500 | 35,680 |
| **Balance as at 31.03.08** | **82,753** | **52,730** | **149,926** | **235,827** | **3,406** | **524,642** |
| **(C) Carrying amounts** | **-** | **-** | **49,628** | **35,289** | **46,594** | **131,511** |

**9. Investment in associates/equity accounted investees**

In March 2006, MF Global Overseas Limited (MFG), a group incorporated in United Kingdom acquired 70.15% of equity share capital of MF Global Sify Securities Private Limited (MF Global), formerly Man Financial-Sify Securities India Private Limited (‘MF Global) from Refco Group Inc., USA (‘Refco’). As at March 31, 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 financial information of MF Global and its subsidiaries which is not adjusted for the percentage ownership held by the Group is presented below:

| ***Balance Sheet*** | **March 31, 2008** | **March 31, 2007** |
|---|---|---|
| Total Assets | 7,893,663 | 4,391,809 |
| Total liabilities | 6,290,602 | 3,363,145 |
| Shareholders’ equity | 1,603,061 | 1,028,664 |
| Total Liabilities and Shareholders’ equity | 7,893,663 | 4,391,809 |

| **Statement of Operations** | **For the year ended** | |
|---|---|---|
| | **March 31,2008** | **March 31,2007** |
| Revenues | 2,503,520 | 1,293,383 |
| Net Profit | 606,255 | 204,426 |

**10. Cash and Cash equivalents**

Cash and cash equivalents as at March 31, 2008 amounted to Rs. 1,507,327 (Rs. 3,071,157 as at March 31, 2007). This includes cash-restricted of Rs. 878,582 (Rs. 939,833 as at March 31, 2007), representing deposits held under lien against the working capital facilities availed and the bank guarantees given by the Group towards future performance obligations.

| *Non current* | **March 31, 2008** | **March 31, 2007** |
|---|---|---|
| Against future performance obligation | 1,000 | 1,000 |
| | | |
| *Current* | | |
| Restricted-Deposits held under lien against overdraft facilities | 877,582 | 938,833 |
| Cash & Bank balances | 628,745 | 2,131,324 |
| Cash & cash equivalents | 1,506,327 | 3,070,157 |
| Bank Overdrafts | (617,637) | - |
| Cash & cash equivalents in the statement of cash flows | 888,690 | 3,070,157 |

### 11. Net investment in leases

The Group's leasing arrangements consist of leasing various types of routers, modems and other equipment for establishing virtual private networks and providing bandwidth to its customers in its corporate connectivity business. The leases are classified as finance leases and expire after a period of three years.

The following lists the components of the net investment in sales-type leases:

| | March 31, 2008 | | | March 31, 2007 | | |
|---|---|---|---|---|---|---|
| | Minimum lease payments | Unearned income | Net investment in sales-type leases | Minimum lease payments receivable | Unearned income | Net investment in sales-type leases |
| Less than one year | 7,275 | 532 | 6,743 | 17,796 | 1,236 | 16,560 |
| Between one and five years | 5,431 | 134 | 5,297 | 12,697 | 665 | 12,032 |
| **Total** | **12,706** | **666** | **12,040** | **30,493** | **1,901** | **28,592** |

### 12. Lease prepayments

| | March 31, 2008 | March 31, 2007 |
|---|---|---|
| Leasehold land prepayments | 553,051 | 4,540 |
| Buildings | 15,858 | - |
| | **568,909** | **4,540** |

In respect of the Leasehold land of the Group, the 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.

### 13. Other assets

| | March 31, 2008 | March 31, 2007 |
|---|---|---|
| Withholding taxes | 194,328 | 105,734 |
| Other deposits | 142,197 | 69,731 |
| | **336,525** | **175,465** |

Withholding taxes represent taxes deducted at source by the customer and paid to the Government, which is adjustable against tax liability of the Company.

## 14. Deferred tax assets and liabilities

### Recognised deferred tax assets and liabilities

| | Assets / (liabilities) 2008 | 2007 |
|---|---|---|
| Property, Plant and Equipment | 1,733 | 1,671 |
| Intangible assets | 3,155 | 2,975 |
| Allowance for doubtful trade and other receivables | 10,644 | 6,040 |
| Carry forward losses | 38 | 55,418 |
| **Tax assets** | **15,570** | **66,104** |

### Movement in temporary differences during the year

| | Balance as at April 1, 2006 | Recognised in income statement | Recognised in Equity | Balance as at March 31, 2007 | Recognised in income statement | Recognised in Equity | Balance as at March 31, 2008 |
|---|---|---|---|---|---|---|---|
| Property, Plant and Equipment | - | 1,671 | - | 1,671 | 62 | | 1,733 |
| Intangible assets | - | 2,975 | - | 2,975 | 180 | | 3,155 |
| Investment in equity accounted investees | - | - | - | - | - | | - |
| Allowance for doubtful trade and other receivables | - | 6,040 | - | 6,040 | 4,604 | | 10,644 |
| Tax loss carry forwards | - | 55,418 | - | 55,418 | (55,380) | | 38 |
| Actuarial gains/losses | - | 9 | (9) | - | (957) | 957 | - |
| Others | - | - | - | - | (471) | 471 | |
| | **-** | **66,113** | **(9)** | **66,104** | **(51,962)** | **1,428** | **15,570** |

### Income tax directly recognised in equity

| | March 31,2008 | March 31,2007 |
|---|---|---|
| Actuarial (gains) or losses | 966 | (9) |
| Fair value reserve | 556 | - |
| Translation reserve | (84) | - |
| **Benefit / (expense)** | **1,438** | **(9)** |

### Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of following items:

| | March 31, 2008 | March 31, 2007 |
|---|---|---|
| Deductible temporary differences | 63,090 | 459,526 |
| Tax losses | 1,395,042 | 1,081,459 |
| | **1,458,132** | **1,540,985** |
| Of the above, tax losses of foreign operations governed by differential tax rates | 233,695 | 33,109 |

Considering the probability of availability of future taxable profit in the period in which tax losses expire, deferred tax assets have not been recognised in respect of tax losses carried forward by the Group.

**Income Tax expense**

| | March 31, 2008 | March 31, 2007 |
|---|---|---|
| **Current tax expense** | | |
| Current period | 12,013 | - |
| **Total** | **12,013** | **-** |
| | | |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | (3,456) | (10,695) |
| Recognition of previously unrecognised tax losses | - | (55,418) |
| Reversal of previously recognised tax losses | 55,418 | - |
| **Deferred tax expense** | **51,962** | **(66,113)** |
| **Total income tax (expense) / benefit** | **63,975** | **(66,113)** |

**15. Inventories**

Inventories comprise:

| **Particulars** | March 31, 2008 | March 31, 2007 |
|---|---|---|
| Communication hardware | 28,700 | 21,565 |
| Application software | 2,079 | 876 |
| Others | 6,972 | 6,244 |
| | **37,751** | **28,685** |

**16. Trade and other receivables**

Trade and other receivables comprise:

| | March 31, 2008 | March 31, 2007 |
|---|---|---|
| (i) Trade receivables, net | 1,694,542 | 1,188,406 |
| (ii) Other receivables including deposits | 526,184 | 472,858 |
| | **2,220,726** | **1,661,264** |

(i) Trade receivable as of March 31, 2008 and March 31, 2007 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:

| | March 31, 2008 | March 31, 2007 |
|---|---|---|
| Due from customers | 1,777,858 | 1,290,030 |
| Less: Allowance for doubtful receivables | 83,316 | 101,624 |
| **Balance at the end of the year** | **1,694,542** | **1,188,406** |

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

| | March 31, 2008 | March 31, 2007 |
|---|---|---|
| Balance at the beginning of the year | 101,624 | 200,047 |
| Add : Additional provision | 131,954 | 153,638 |
| Less : Bad debts written off | 150,262 | 252,061 |
| **Balance at the end of the year** | **83,316** | **101,624** |

(ii) Other receivables comprises of the following items:

| | March 31, 2008 | March 31, 2007 |
|---|---|---|
| Advances and other deposits | 420,288 | 452,178 |
| Deposits with Department of Income tax | 77,724 | 12,954 |
| Employee advances | 5,185 | 7,726 |
| | **503,197** | **472,858** |

Deposit with Department of Income Tax represents tax demands paid to the authorities under protest. Refer to note 37 (a).

**17. Prepayments for current assets**

Prepayments for current assets comprise of the following:

| | March 31, 2008 | March 31, 2007 |
|---|---|---|
| Prepayments for purchase of bandwidth | 90,129 | 48,218 |
| Prepayments related to insurance | 15,798 | 16,555 |
| Prepayments-others | 34,485 | 53,433 |
| Lease prepayments | 10,215 | 86 |
| | **150,627** | **118,292** |

**18. Other Investments**

Other Investments comprise of available for sale investments in units of mutual funds. The details of such investments are given below:

| | March 31, 2008 | | | March 31, 2007 | | |
|---|---|---|---|---|---|---|
| | Gross amount | Gains/(Loss) recognized directly in equity | Fair value | Gross amount | Gains/(Loss) recognized directly in equity | Fair value |
| Investment in mutual funds | 20,315 | (1,636) | 18,679 | - | - | - |

## 19. Capital and reserves

### Reconciliation of movement in Capital and reserves

| Attributable to equity holders of the Company | Share capital | Share premium | Share based payment reserve | Translation Reserve | Recognised actuarial gain / (loss) | Fair value reserve | Accumulated deficit | Total | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance at April 1, 2006 | 423,895 | 16,177,821 | 60,860 | - | 2,926 | - | (12,511,510) | 4,153,992 | - | 4,153,992 |
| Minority interest recognized due to divestment | - | - | - | - | - | - | - | - | 139,234 | 139,234 |
| Investment accounted for using equity method | - | - | - | - | - | - | 10,793 | 10,793 | - | 10,793 |
| Total recognised income and expense | - | - | - | (316) | 18 | - | 240,841 | 240,543 | 30,531 | 271,074 |
| Share-based payments recognized | - | - | 60,933 | - | - | - | - | 60,933 | - | 60,933 |
| Stock options exercised | 4,108 | 84,275 | (15,738) | - | - | - | - | 72,645 | - | 72,645 |
| Share options lapsed | - | - | (4,515) | - | - | - | 4,515 | - | - | - |
| **Balance at March 31, 2007** | **428,003** | **16,262,096** | **101,540** | **(316)** | **2,944** | **-** | **(12,255,361)** | **4,538,906** | **169,765** | **4,708,671** |
| Balance at April 1, 2007 | 428,003 | 16,262,096 | 101,540 | (316) | 2,944 | - | (12,255,361) | 4,538,906 | 169,765 | 4,708,671 |
| Total recognised income and expense | - | - | - | 163 | (1,859) | (1,080) | (4,696) | (7,472) | 30,142 | 22,670 |
| Investment accounted for using equity method | - | - | - | - | - | - | (9,669) | (9,669) | - | (9,669) |
| Share-based payments recognized | - | - | 56,410 | - | - | - | - | 56,410 | - | 56,410 |
| Stock options exercised | 198 | 7,219 | (2,757) | - | - | - | - | 4,660 | - | 4,660 |
| Stock options lapsed | - | - | (5,795) | - | - | - | 5,795 | - | - | - |
| Issue of share capital | 12,817 | 99,332 | - | - | - | - | - | 112,149 | - | 112,149 |
| **Balance at March 31, 2008** | **441,018** | **16,368,647** | **149,398** | **(153)** | **1,085** | **(1,080)** | **(12,263,931)** | **4,694,984** | **199,907** | **4,894,891** |

**(i) Share Capital and Share Premium**

As at March 31, 2008 the authorized share capital comprises 61,000,000 ordinary shares (as of March 31, 2007, the number of authorized shares was 50,000,000) of Rs 10 each. The holders of ordinary shares are entitled to receive dividends from time to time and are entitled to vote at meetings of the Group. All shares rank equally with regard to Group's residual assets.

The Company has entered into a Subscription Agreement with Infinity Satcom Universal Private Limited (Infinity Satcom Universal) for issuance of 12,817,000 Equity Shares of the Company with face value of Rs.10/- per share at a premium of Rs.165/-. It was approved by the Company's shareholders at the Extra ordinary General Meeting held on March 17, 2008. Infinity Satcom Universal is controlled by Ananda Raju Vegesna, Executive Director, and brother of Shri Raju Vegesna, Chairman and Managing Director.

The Company has received a sum of Rs 112,149 (comprising of Rs 12,817 towards face value and Rs 99,332 towards securities premium / share premium) Subsequent to the balance sheet date, Infinity Satcom Universal have communicated to the Company that they would focus their attention on the business of Sify Communication Limited and hence shall not contribute the balance money towards the subscription of 12,817,000 Equity Shares, as and when it is called. Accordingly, at the meeting of the Board of Directors, the shares allotted and monies already collected (Rs. 112,149 including sums towards capital and premium) have been forfeited.

**(ii) Translation reserve**

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

**(iii) Share based payment reserve**

Share based payment reserve represents the stock compensation expense recognised as a separate component of the equity.

**(iv) Fair value reserve**

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities until the investments are derecognized or impaired.

**(v) Recognised actuarial gain / loss**

Recognised actuarial gain / loss represents the cumulative actuarial gain / loss recognised directly in equity.

**20. Finance lease obligations**

The following is a schedule of future minimum capital lease commitments as at March 31, 2008:

| | March 31, 2008 | | | March 31, 2007 | | |
|---|---|---|---|---|---|---|
| | Future minimum lease payments | Interest | Present value minimum lease payments | Future minimum lease payments | Interest | Present value minimum lease payments |
| Less than one year | 3,344 | 445 | 2,899 | 2,954 | 478 | 2,476 |
| Between one and five years | 2,656 | 163 | 2,493 | 3,982 | 311 | 3,671 |
| **Total** | **6,000** | **608** | **5,392** | **6,936** | **789** | **6,147** |

## 21. Employee benefits

| | March 31, 2008 | March 31, 2007 |
|---|---|---|
| Gratuity payable | 8,592 | 12,363 |
| Compensated Absences | 33,658 | 24,635 |
| | **42,250** | **36,998** |

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

| **Change in projected benefit obligation** | March 31, 2008 | March 31, 2007 |
|---|---|---|
| Projected benefit obligation at the beginning of the year | 20,785 | 22,959 |
| Service cost | 8,533 | 8,149 |
| Interest cost | 1,639 | 1,662 |
| Actuarial (gain)/ loss | 2,393 | 604 |
| Benefits paid | (6,018) | (12,589) |
| **Projected benefit obligation at the end of the year** | **27,332** | **20,785** |
| **Change in plan assets** | | |
| Fair value of plan assets at the beginning of the year | 8,423 | 1,717 |
| Expected return on plan assets | 957 | 163 |
| Actuarial (gain) / loss | (423) | 631 |
| Employer contributions | 15,801 | 18,500 |
| Benefits paid | (6,018) | (12,589) |
| **Fair value of plan assets at the end of the year** | **18,740** | **8,422** |
| Present Value of Projected benefit obligation at the end of the year | 27,332 | 20,785 |
| Funded status of the plans | 18,740 | 8,422 |
| **Funded Status amount of liability recognised in the balance sheet** | **8,592** | **12,363** |

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

| | | |
|---|---|---|
| Service cost | 8,533 | 8,149 |
| Interest cost | 1,639 | 1,662 |
| Expected returns on plan assets | (957) | (163) |
| Amortisation | - | - |
| **Net gratuity costs** | **9,215** | **9,648** |

**Financial Assumptions at Balance Sheet date**:

| | March 31, 2008 | March 31, 2007 |
|---|---|---|
| Discount rate | 7.85% P.a | 8.15% P.a |
| Long-term rate of compensation increase | 6.00% P.a | 6.00 %P.a |
| Rate of return on plan assets | 7.50% P.a | 7.50% P.a |

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

| **Historical information** | **March 31, 2008** | **March 31, 2007** |
|---|---|---|
| Present value of the defined benefit obligation | 27,333 | 20,785 |
| Fair value of plan assets | 18,741 | 8,422 |
| **Deficit in the plan** | **(8,592)** | **(12,363)** |
| Experience adjustment on plan liabilities | 1,489 | 2,188 |
| Experience adjustment on plan assets | (423) | 631 |

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**

| | **March 31, 2008** | **March 31, 2007** |
|---|---|---|
| Actuarial gain / (loss) | (1,859) | 18 |
| | (1,859) | 18 |

**22. Other liabilities**

| | **March 31, 2008** | **March 31, 2007** |
|---|---|---|
| Franchisee and other deposits | 124,472 | 112,883 |
| | **124,472** | **112,883** |

Internet access services at home and through a network of cybercafés is provided a franchised network of cable operators in India and cybercafé operators. The Group enters into an agreement with the franchisee that establishes the rights and obligations of each party and grants each franchisee a non-exclusive license to operate the cybercafé using the Group's logo, brand and trade names. The agreement provides for payment to the Company, of an initial security deposit in consideration for establishing the franchisee relationship and providing certain initial services.

**23. Borrowings from banks**

| | **March 31, 2008** | **March 31, 2007** |
|---|---|---|
| Loan against fixed deposits | 85,000 | 800,000 |
| Other working capital facilities | 71,426 | - |
| | **156,426** | **800,000** |

The Group has short term borrowings which include:

- Loan secured against deposits of Rs. 85,000 as at March 31, 2008 (Rs. 800,000 as at March 31, 2007) from its bankers for working capital requirements. These borrowings bear interest ranging from 9%-11% p.a and are repayable within one year from the balance sheet date.

- 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 8%-10% p.a. Such facility generally is for a period that ranges from 90 to 120 days.

### 24. Trade and other payables

| | March 31, 2008 | March 31, 2007 |
|---|---|---|
| Trade payables | 613,422 | 316,935 |
| Advance from customers | 124,921 | 89,908 |
| Accrued expenses | 656,402 | 650,376 |
| Other payables | 106,591 | 149,943 |
| | **1,501,336** | **1,207,162** |

### 25. Deferred Income

Deferred revenue includes the following amounts of unearned income:

| | March 31, 2008 | March 31, 2007 |
|---|---|---|
| Corporate network/data services | 208,327 | 351,933 |
| Internet access services | 57,270 | 61,459 |
| Other services | 102,759 | 36,638 |
| | **368,356** | **450,030** |

### 26. Revenue

| | Year ended | |
|---|---|---|
| | **March 31, 2008** | **March 31, 2007** |
| **Rendering of Services** | | |
| Service revenue | 4,868,673 | 4,587,873 |
| Initial franchise fee | 43,503 | 67,269 |
| Installation service revenue | 318,466 | 256,040 |
| | **5,230,642** | **4,911,182** |
| **Sale of products** | 775,573 | 536,165 |
| | **6,006,215** | **5,447,347** |

### 27. 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 income.

**28. Other income**

| | Year ended | |
|---|---|---|
| | March 31, 2008 | March 31, 2007 |
| Duty credit entitlement | 46,152 | 66,094 |
| Gain on sale of investment in subsidiary (refer to note 29) | - | 226 |
| | **46,152** | **66,320** |

**29. Gain on sale of investment in subsidiary**

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

Pursuant to the agreement entered into with Infinity Satcom, Sify divested 26% of its holding in Sify Comm, or 4,680 shares, to Infinity Satcom Universal Private Limited (Infinity Satcom Universal), a related party, for a sale consideration of Rs.139,810 during the year ended March 31, 2006. Infinity Satcom Universal, a company incorporated under the laws of India, is owned by Ananda Raju, who is the brother of Raju Vegesna, Chairman of Sify's Board of Directors and the principal of Infinity Capital Ventures, LP ("Infinity Capital"). The amount received against the sale proceeds, was included under other liabilities and the corresponding gain on divestment of 26% was also not recognized during the year ended March 31, 2006. The NLD / ILD licenses were granted by GOI on November 21, 2006 and accordingly, during the year ended 31 March 2007, the Company has recognized a gain of Rs. 226 on the divestment of 26% holding in Sify Comm.

**30. Selling, general & administration expenses**

| | Year ended | |
|---|---|---|
| | March 31, 2008 | March 31, 2007 |
| Personnel expenses | 524,061 | 571,610 |
| Marketing and promotion expenses | 555,132 | 239,214 |
| Administrative and other expenses | 1,355,522 | 1,284,147 |
| | **2,434,715** | **2,094,971** |

Under the provisions of the Indian Income Tax Act, 1961, employers are required to pay fringe benefits tax (FBT) on the taxable value of the fringe benefits or privileges or that are provided or deemed to be provided to employees. FBT under the provisions of the Indian Income Tax Act, 1961 is Rs. 16,910 for the current year ended March 31, 2008 and Rs. 17,500 during the previous year ended March 31, 2007.

**31. Personnel expenses**

| | Year ended | |
|---|---|---|
| | March 31, 2008 | March 31, 2007 |
| Salaries and wages | 936,732 | 878,463 |
| Contribution to provident fund and other funds | 43,597 | 38,192 |
| Staff welfare expenses | 36,061 | 25,610 |
| Employee stock compensation expense | 56,410 | 60,933 |
| | **1,072,800** | **1,003,198** |
| Attributable to cost of goods sold and services rendered | 548,739 | 431,588 |
| Attributable to selling, general and administration expenses | 524,061 | 571,610 |

**32. Share-based payments**

Share based payments are designed as equity-settled plans. Under the equity settled plans, the Group had issued stock options under Associate Stock Option Plan (ASOP) 1999, ASOP 2000, ASOP 2002, ASOP 2005 and ASOP 2007. Each option entitles the holder to purchase one American Depository Share (ADS) at an exercise price determined by the Compensation committee on the date of the grant. There are no options outstanding in respect of ASOP 1999 plan as at April 1, 2006. Our stock option plans are detailed as under:

**(i) Associate Stock Option Plan 2000**

In fiscal year 2000, the Group established the Associate Stock Option Plan 2000 (the ASOP 2000 Plan) which provided for issuing stock options to eligible employees. The stock options were issued to Employees Welfare Trust on May 22, 2000 which in turn transferred these options to the eligible employees at Re. 1 each for purchasing one ADS at an exercise price determined by the Compensation committee.

The options vest over a period of 3 years as follows:
One sixth of the options: At the end of one year from the date of the grant

Two sixths of the options: At the end of two years from the date of the grant

Three sixths of the options: At the end of three years from the date of the grant.

Upon vesting, employees have 30 days in which to exercise these options.

As the number of stock options and the price of those options were made known to each allottee, the Plan has been considered as a fixed price grant. Stock option activity under the ASOP 2000 Plan is as follows:

| **No. of options granted, exercised and forfeited** | Number of options | Weighted average exercise price in Rs. | Number of options | Weighted average exercise price in Rs. |
|---|---|---|---|---|
| | **2008** | **2008** | **2007** | **2007** |
| Outstanding at beginning of the year | - | - | 2,040 | 182.47 |
| Granted | - | - | - | - |
| Forfeited | - | - | - | - |
| Expired | - | - | 2,040 | 182.47 |
| Outstanding at the end of the year | - | - | - | - |

**(ii) Associate Stock Option Plan 2002**

In fiscal year 2002, the Group established the Associate Stock Option Plan 2002 (the ASOP 2002 Plan) which provided for issuing stock options to eligible employees. On December 9, 2002, the Group issued options to the eligible employees at Re. 1 each for purchasing one ADS at an exercise price determined by the Compensation Committee.

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

One sixth of the options: At the end of one year from the date of the grant

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

Upon vesting, employees have 30 days to exercise these options.

As the number of stock options and the price of those options were made known to each allottee, the Plan has been considered as a fixed price grant. Stock option activity under the ASOP 2002 Plan is as follows:

| **No. of options granted, exercised and forfeited** | Number of options | Weighted average exercise price in Rs. | Number of options | Weighted average exercise price in Rs. |
|---|---|---|---|---|
| | **2008** | **2008** | **2007** | **2007** |
| Outstanding at beginning of the year | 6,250 | 228.74 | 376,857 | 172.83 |
| Granted | - | - | - | - |
| Forfeited | - | - | 521 | 265.35 |
| Expired | - | - | 31,323 | 188.45 |
| Exercised | 6,250 | 228.74 | 338,763 | 172.18 |
| Outstanding at the end of the year | - | - | 6,250 | 228.74 |
| Exercisable at the end of the year | - | - | 3,906 | 228.74 |

**(iii) Associate Stock Option Plan 2005**

In October 2005, the Group established the Associate Stock Option Plan 2005 (the ASOP 2005 Plan) which provided for issuing 1,900,000 stock options to eligible employees. The Group cancelled on 22nd September, 2005, all the unissued stock options pertaining to previous plans and / or the stock options surrendered or lapsed.

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

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

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

As the number of stock options and the price of those options were made known to each allottee, the Plan has been considered as a fixed price grant. Stock option activity under the ASOP 2005 Plan is as follows:

| **No. of options granted, exercised and forfeited** | Number of options | Weighted average exercise price in Rs. | Number of options | Weighted average exercise price in Rs. |
|---|---|---|---|---|
| | **2008** | **2008** | **2007** | **2007** |
| Outstanding at the beginning of the year | 868,195 | 238.32 | 1,676,400 | 286.20 |
| Granted during the year | 119,400 | 340.82 | 547,600 | 451.15 |
| Forfeited during the year | (122,442) | 376.64 | (1,268,293) | 290.32 |

| | | | | |
|---|---|---|---|---|
| Expired during the year | (28,293) | 461.51 | (15,524) | 254.01 |
| Exercised during the year | (13,567) | 238.32 | (71,988) | 238.32 |
| Replaced during the year (Refer to notes below) | (497,200) | 422.91 | - | - |
| Outstanding at the end of the year | 326,093 | 328.84 | 868,195 | 391.59 |
| Vested and exercisable at the end of the year | 235,010 | 328.84 | 54,914 | 338.66 |
| Weighted average grant date fair value of grants during the year | - | 120.00 | - | 224.86 |

**(iv) Associate Stock Option Plan 2007**

In September 2007, the Shareholders of the Group approved a new scheme for allotment of stock options to employees, the Associate Stock Option Plan 2007. Consequent upon the introduction of ASOP 2007 plan, 797,600 unissued stock options pertaining to Associate Stock Option Plan 2005 are no longer available for issuance.

The options vest over a period of 4 years as follows:

One sixth of the option quantity: At the end of one year from the date of the grant.

Five sixths of the option quantity: At the end of each quarter during the second, third and fourth year from the date of the grant in twelve equal installments.

The stock options can be exercised with a period of twelve months from the date of last vesting.

As the number of stock options and the price of those options were made known to each allottee, the Plan has been considered as a fixed price grant. Stock option activity under the ASOP 2007 Plan is as follows:

| **No. of options granted, exercised and forfeited** | **Shares arising out of options** | **Weighted average exercise price in Rs.** |
|---|---|---|
| | **Year ended March 31, 2008** | **Year ended March 31, 2008** |
| Outstanding at the beginning of the year | - | - |
| Granted during the year | 708,200 | 184.84 |
| Replaced (Refer to notes below) | (123,900) | 184.84 |
| Replacement options granted (Refer to notes below) | 621,100 | 157.35 |
| Forfeited during the year | (5,000) | 308.42 |
| Expired during the year | - | - |
| Exercised during the year | - | - |
| Outstanding at the end of the year | 1,200,400 | 157.35 |
| Vested and Exercisable at the end of the year | - | - |
| Weighted average grant date fair value of grants during the year | - | 80.78 |

A summary of information about fixed price stock options outstanding as at March 31, 2008 is furnished below:

| | Range of exercise price in Rs. | Number outstanding at March 31, 2008 | Weighted average exercise price in Rs. | Weighted average remaining contractual life | Number exercisable at March 31, 2008 | Weighted average exercise price in Rs. |
|---|---|---|---|---|---|---|
| ASOP 2005 | 238.32 - 449.16 | 326,093 | 328.84 | 0.57 to 1.07 years | 235,010 | 311.59 |
| ASOP 2007 | 157.35 | 1,200,400 | 157.35 | 3.81 years | - | - |

**Modification**

As the stock options issued under ASOP 2005 and ASOP 2007 have been out of money during the most time of the vesting period, the Group's compensation committee allowed certain employees in their approval dated January 22, 2008 to surrender their (a) unvested (b) vested and (c) unexercised stock options and obtain fresh options at a discount of 10% of the market price under ASOP 2007 prevalent at the date of modification in lieu of the surrendered stock options. This modification resulted in the revision in the exercise price as well as the service period over which the stock options vest. Consequent upon modification, 497,200 stock options of ASOP 2005 plan and 123,900 stock options of ASOP 2007 plan were replaced with an allotment of equal number of fresh options to those who surrendered

The incremental fair value of the stock options replaced was determined by reference to the difference between the fair value of the replaced stock options and the net fair value of the cancelled stock options at the date of grant of new stock options.

The incremental fair value as a result of such modification in respect of modified options amounted to Rs 20,959. In respect of modification that has occurred during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised, for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period. In respect of the modification that has occurred after vesting date, the incremental fair value granted is recognised immediately or over the vesting period if the employee is required to complete an additional period of service before becoming unconditionally entitled to those modified equity instruments. The incremental cost recognised in the current year in respect of such modified options amounted to Rs 2,120.

The assumptions used in arriving at the incremental fair value are as summarised below:

| Assumptions | Pre modification | Post modification |
|---|---|---|
| Current market price | 174.83 | 174.83 |
| Exercise price | 308.34-578.38 | 157.35 |
| Expected term | 3 - 4.5 years | 3 - 4.5 years |
| Volatility | 53.83% - 77.82% | 53.01% - 77.82% |
| Dividend yield | 0% | 0% |
| Discount rate | 2.5% | 2.5% |

**33. Financial Income and expense**

| | Year ended | |
|---|---|---|
| | **March 31, 2008** | **March 31, 2007** |
| Interest income on bank deposits | 160,262 | 153,028 |
| Interest income from leases | 1,232 | 1,164 |
| Others | 289 | - |
| **Finance income** | **161,783** | **154,192** |
| Interest expense on financial liabilities – leases | 1,826 | 389 |
| Bank charges | 46,484 | 17,428 |
| Other interest | 9,372 | 7,733 |
| **Finance expense** | **57,682** | **25,550** |
| **Net finance income / (expense) recognised in profit or loss** | **104,101** | **128,642** |

**34. Earnings per share**

| | Year ended | |
|---|---|---|
| | **March 31, 2008** | **March 31, 2007** |
| Net profit / (loss ) – as reported | (4,696) | 240,841 |
| Weighted average number of shares – Basic | 42,877,726 | 42,704,619 |
| Profit / (loss) per share | (0.11) | 5.64 |
| Weighted average number of shares – Dilutive | 43,039,675 | 42,792,514 |
| Profit / (loss) per share | (0.11) | 5.63 |

| | Year ended | |
|---|---|---|
| | **March 31, 2008** | **March 31, 2007** |
| Weighted average number of ordinary shares (Basic) | 42,877,726 | 42,704,619 |
| Effect of dilutive equivalent shares- stock options | 83,096 | 87,895 |
| Effect of partly paid shares | 78,853 | - |
| Weighted average number of equity shares and equivalent shares outstanding (Diluted) | 43,039,675 | 42,792,514 |

**35. Segment Reporting**

The primary operating segments of the Group are:

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

- Internet access services, from homes and through cybercafés,

- Online portal services and content offerings; and

- Other services, such as development of e-learning software.

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

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

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

International and national bandwidth are allocated based on actual usage at an agreed methodology between corporate and retail businesses. The bandwidth costs, bandwidth management costs viz infrastructure and manpower costs are absorbed by corporate business. The costs for retail are routed through agreed transfer price. The Group believes that the resulting allocations are reasonable.

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

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

The Group's operating segment information for the years ended March 31, 2007 and 2008 are presented below:

**Year ended March 31, 2008**

| | Corporate Network / Data Services | Internet Access Services | Online Portal Services | Other Services | Total |
|---|---|---|---|---|---|
| Total Segment Revenue | 3,993,189 | 1,545,226 | 210,766 | 257,034 | **6,006,215** |
| Segment Expenses allocated | (2,592,132) | (1,432,982) | (298,031) | (209,035) | **(4,532,180)** |
| **Segment Operating Income** | **1,401,057** | **112,244** | **(87,265)** | **47,999** | **1,474,035** |
| Unallocated corporate expenses | | | | | (1,299,070) |
| Depreciation and amortisation | | | | | (394,337) |
| Foreign exchange gain / (loss) | | | | | (22,587) |
| Other income / (expense), net | | | | | 46,152 |
| Net interest income | | | | | 104,101 |
| Share of profit in equity accounted investee | | | | | 181,127 |
| Minority interest | | | | | (30,142) |
| Income taxes | | | | | (63,975) |
| **Net Profit/(loss)** | | | | | **(4,696)** |

**Year ended March 31, 2007**

| | Corporate Network / Data Services | Internet Access Services | Online Portal Services | Other Services | Total |
|---|---|---|---|---|---|
| Total Segment Revenue | 3,163,899 | 1,846,416 | 262,904 | 174,128 | **5,447,347** |
| Segment Expenses allocated | (1,937,489) | (1,760,624) | (261,949) | (154,692) | **(4,114,754)** |
| **Segment Operating Income** | **1,226,410** | **85,792** | **955** | **19,436** | **1,332,593** |
| Unallocated corporate expenses | | | | | (927,878) |
| Depreciation and amortisation | | | | | (463,780) |
| Foreign exchange gain / (loss) | | | | | 8,332 |
| Other income / (expense), net | | | | | 66,320 |
| Net interest income | | | | | 128,642 |
| Share of profit in equity accounted investee | | | | | 61,030 |
| Minority interest | | | | | (30,531) |
| Income taxes | | | | | 66,113 |
| **Net Profit/(loss)** | | | | | **240,841** |

**36. Capital Commitments**

Contracts pending to be executed on capital account as at March 31, 2008 and not provided for (net of advances: Rs 507,157) amounted to Rs 618,541[as at March 31, 2007: Rs 75,207 (net of advances: Rs 24,043)].

**37. 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 installments. Accordingly, the Group has paid Rs. 77,724 and disclosed it under other assets as receivable from the department of income tax.

The Group obtained a legal opinion on the notice wherein it is stated that withholding taxes need not be deducted if the service provider does not have any permanent establishment in India and has not installed any equipment at its premises. The Group was able to demonstrate that international service providers did not have a permanent establishment in India had not installed any equipment at the Group's premises.

The Group considered that the likelihood of the loss contingency was remote and that no provision was necessary. The Group has an order in its favour from the Income Tax Authorities on March 28, 2008. Subsequent to the balance sheet date, the Group has also collected the refund of such amount.

b) The Group has outstanding financial and performance guarantees for various statutory purposes and letters of credit totalling Rs.641,115 and Rs.773,961 as of March 31, 2007 and March 31, 2008 respectively. These guarantees are generally provided to governmental agencies.

c) Additionally, the Group is also involved as a party to lawsuits, claims and proceedings, which arise in the ordinary course of business. The Group does not foresee any material contingency out of the pending issues

**38. 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 provides that the insurers of all settling issuers will guarantee that the plaintiffs recover $1 billion from non-settling defendants, including the investment banks who acted as underwriters in those offerings.

In the event that the plaintiffs do not recover $1 billion, the insurers for the settling issuers will make up the difference.

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

The Group is a party to additional legal actions arising in the ordinary course of business. Based on the available information, as of March 31, 2008, the Group believes that it has adequate legal defenses for these actions and that the ultimate outcome of these actions will not have a material adverse effect on it.

**39. Related parties**

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

| | March 31, 2008 | March 31, 2007 |
|---|---|---|
| **Transactions with related parties** | | |
| Payments to Directors (Fees for consultancy services) | 240 | 240 |
| Billings | - | 2,494 |
| Purchase of goods | 3,796 | - |
| Gain on divestment of 26% holding in Sify Communications Limited (also refer to note 29) | - | 226 |
| **Balances due to / receivable from related parties** | - | - |

Note: In relation to transactions relating to issue of equity shares to Infinity Satcom Universal refer to note 19(i).

**40. Financial instrument risks management**

**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.

The Group has not actively taken hedging positions to mitigate counterparty risks attributable to receivables, since such receivables relate to highly rated counterparties, and where these are retail-segment receivables or in the nature of leases, are adequately secured to mitigate the risk of loss.

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. In managing this, the Group is driven by three fundamentals of prudent cash management, safety, liquidity and yield. The credit exposure in mutual fund investments, which amounted to Rs.20.30 million as at the reporting date (previous year NIL), is inevitably subject to changes in fair values subject to market risks. The Chief Financial Officer is responsible for monitoring the counterparty credit risk, and has been vested with the authority to seek Board's approval to hedge such risks in case of need.

**Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

| | March 31, 2008 | March 31, 2007 |
|---|---|---|
| Trade and Other receivables | 1,949,595 | 1,648,310 |
| Other assets | 142,197 | 69,731 |
| Cash and cash equivalents | 1,506,327 | 3,070,157 |
| *Forward exchange contracts used for hedging:* | | |
| | 190,095 | - |

The Company does not face concentrations of risk associated with credit risk.

**Impairment losses**

The aging of trade receivables at the reporting date was:

| | Gross | Impairment | Gross | Impairment |
|---|---|---|---|---|
| | **March 31, 2008** | **March 31, 2008** | **March 31, 2007** | **March 31, 2007** |
| Not past due ( 0- 180 days ) | 1,517,500 | - | 964,033 | - |
| Past due 181 - 270 days | 131,313 | 9,974 | 190,427 | 15,535 |
| Past due 271 - 365 days | 87,253 | 31,550 | 80,494 | 31,013 |
| More than one year | 41,792 | 41,792 | 55,076 | 55,076 |
| | **1,777,858** | **83,316** | **1,290,030** | **101,624** |

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

| | March 31, 2008 | March 31, 2007 |
|---|---|---|
| Balance as at 1 April | 101,624 | 200,047 |
| Impairment loss recognised (net of write off) | (18,308) | (98,423) |
| Balance as at 31 March | 83,316 | 101,624 |

**Details of collaterals and other credit enhancements held**

| | March 31, 2008 | March 31, 2007 |
|---|---|---|
| Security deposits received for internet access services | 36,413 | 40,603 |

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables past due upto 180 days.

**Ageing of other assets**

| | March 31, 2008 Gross | March 31, 2007 Gross |
|---|---|---|
| Not past due | 142,196 | 69,731 |

**Liquidity risk**

Liquidity risk is the risk that one or more of Group entities may fail to meet its financial obligations on time.
The investments in deposits with banks as also with mutual funds are subjected to a Gap analysis updated on a monthly basis, to ensure that at any given time at least 25% of investments mature within 90 days. Besides, 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 unused credit limits as at the reporting date stood at Rs. 650 million (fund based) and Rs. 476.20 million (non-fund based).

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

**As at March 31, 2008**

| | Carrying amount | Contractual cash flows | 0-12 months | 1-2 years | 2-5 years |
|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | |
| Overdraft facilities | 617,637 | 617,637 | 617,637 | - | - |
| Other secured financing arrangements | 156,426 | 156,426 | 156,426 | - | - |
| Finance lease liabilities | 5,392 | 5,392 | 2,899 | 2,493 | - |
| Deposits received from sales partners | 124,472 | 124,472 | 53,843 | 12,499 | 58,130 |
| Trade and other payables | 1,501,336 | 1,501,336 | 1,501,336 | - | - |
| | **2,405,263** | **2,405,263** | **2,332,141** | **14,992** | **58,130** |

| | Carrying amount | Contractual cash flows | 0-12 months | 1-2 years | 2-5 years |
|---|---|---|---|---|---|
| **Derivative financial liabilities** | | | | | |
| Forward exchange contracts other than those used for hedging: | | | | | |
| Inflow | (190,095) | 188,915 | 188,915 | - | - |
| | **(190,095)** | **188,915** | **188,915** | **-** | **-** |

**As at March 31, 2007**

| | Carrying Amount | Contractual cash flows | 0-12 months | 1-2 years | 2-5 years |
|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | |
| Other secured financing arrangements | 800,000 | 800,000 | 800,000 | - | - |
| Finance lease liabilities | 6,147 | 6,147 | 2,476 | 3,671 | - |
| Deposits received from sales partners | 112,883 | 112,883 | 45,608 | 8,214 | 59,061 |
| Trade and other payables | 1,207,162 | 1,207,162 | 1,207,162 | - | - |
| | **2,126,192** | **2,126,192** | **2,055,246** | **11,885** | **59,061** |

**Currency risk**

**Exposure to 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.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

| | March 31, 2008 | March 31, 2007 | | | |
|---|---|---|---|---|---|
| | USD | USD | GBP | EURO | DHS |
| Trade receivables | 6,693 | 4,214 | 63 | - | 53 |
| Trade payables | - | 433 | - | 13 | - |
| Gross balance sheet exposure | **6,693** | **4,647** | **63** | **13** | **53** |
| Forward exchange contracts | 4,750 | - | - | - | - |
| **Net exposure** | **1,943** | **4,647** | **63** | **13** | **53** |

The following significant exchange rates applied during the year:

| | Average rate during the year ended | | Reporting date spot rate | |
|---|---|---|---|---|
| | March 31, 2008 | March 31, 2007 | March 31, 2008 | March 31, 2007 |
| USD | 40.13 | 45.12 | 40.02 | 43.10 |

**Sensitivity analysis**

A 10 percent strengthening of the Rupees against the following currencies at March 31, 2008 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

| | Equity | Profit or loss |
|---|---|---|
| **March 31, 2008** | - | 2,259 |
| **March 31, 2007** | - | 833 |

**Interest rate risk**

Interest rate risk is the risk that an upward movement in interest rate would adversely affect the borrowing costs.

**Profile**

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

| | Carrying amount | |
|---|---|---|
| | **March 31, 2008** | **March 31, 2007** |
| **Fixed rate instruments** | | |
| *Financial assets* | | |
| - Deposits | 877,582 | 938,833 |
| *Financial liabilities* | | |
| - Loans and borrowings | 774,063 | 800,000 |

**Fair value sensitivity analysis for fixed rate instruments**

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

**Cash flow sensitivity analysis for variable rate instruments**

Cash flows attributable to variable-rate instruments are not sensitive to any change in interest rate, since the exposure is nil or negligible. In the view of the Management, the fair values of fixed-rate instruments are not subject to any significant changes on account of changes in market interest rates, since fixed-rate financial assets or liabilities (not assignable or tradeable) are represented by either deposits with or loans from banks.

**41. Company entities**

| **Particulars** | **Country of incorporation** | **% of Ownership interest** | |
|---|---|---|---|
| **Significant subsidiaries** | | **March 31, 2008** | **March 31, 2007** |
| Sify Communication Limited | India | 74 | 74 |
| India World Communications Limited* | India | 100 | 100 |
| Sify International Inc | US | 100 | 100 |
| Sify Networks Private Limited | India | 100 | 100 |
| Sify Americas Inc * | US | - | 100 |
| Globe Travels Inc* | US | 100 | 100 |
| **Associates** | | | |
| MF Global-Sify securities India Private Limited | India | 29.85 | 29.85 |

** Sify Americas Inc, Globe Travels Inc. and India World Communications Limited since wound up.*