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

1. Reporting entity

Sify Technologies Limited, ('Sify' or 'the Company') formerly known as Sify Limited, is a leading internet services provider headquartered in Chennai, India. These Consolidated Financial Statements comprise the Company and its subsidiaries (Sify Software Limited, Sify Technologies (Singapore) Pte. Limited and Sify International Inc.) (together referred to as the 'Group' and individually as 'Group entities') and the Group's interest in MF Global Sify Securities India Private Limited, an equity accounted investee. The Group is primarily involved in providing services, such as Corporate Network and Data Services, Internet Access Services, Online Portal and Content offerings and in selling hardware and software related to such services. Sify is listed on the NASDAQ Global Market in the United States.

2. Basis of preparation

a. Statement of compliance

The accompanying Consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations as issued by the International Accounting Standards Board (IASB).

These Consolidated Financial Statements have been approved for issue by the Board of Directors on November 30, 2010.

b. Basis of measurement

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

- Available for sale financial assets are measured at fair value
- Derivative financial instruments are measured at fair value
- Financial instruments at fair value through profit or loss are measured at fair value.
- The defined benefit asset is recognised as the net total of the plan assets, plus unrecognised past service cost and unrecognised actuarial losses, less unrecognized actuarial gains and the present value of the defined benefit obligation.
- In relation to lease prepayments, the initial fair value of the security deposit, is estimated as the present value of the refundable amount, discounted using the market interest rates for similar instruments. The difference between the initial fair value and the refundable amount of the deposit is recognized as a lease prepayment.

The above items have been measured at fair value and the methods used to measure fair values are discussed further in Note 4.

c. Functional and presentation currency

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

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

Convenience translation (unaudited): Solely for the convenience of the reader, the financial statements as of and for the year ended March 31, 2010 have been translated into United States dollars (neither the presentation currency nor the functional currency of the Group) based on the reference rate in the City of Mumbai on March 31, 2010, for cable transfers in Indian rupees as published by the Reserve Bank of India which was Rs.45.14 per $1.00. No representation is made that the Indian rupee amounts have been, could have been or could be converted into United States dollar at such a rate or at any other rate on March 31, 2010 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 in which the estimates are revised and in future periods affected.

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

- Measurement of the recoverable amounts of cash-generating units containing goodwill (Note 6)
- Useful lives of property, plant and equipment (Note 3 e and Note 5)
- Useful lives of intangible assets (Note 3 f and Note 6)
- Lease classification (Note 3 g, 9, 17 and 31)
- Utilization of tax losses (Note 11)
- Measurement of defined employee benefit obligations (Note 18)
- Measurement of share-based payments (Note 30 and Note 31)
- Valuation of financial instruments (Note 3 c, 4, 38 and 39)
- Provisions and contingencies (Note 3 m and 35)

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements .

a. Basis of consolidation

(i) Subsidiaries

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

(ii) Associates (equity accounted investees)

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

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

b. Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies on initial recognition are translated to the respective functional currencies of Group entities at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rates at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities denominated in a foreign currency and measured at historical cost are translated at the exchange rate prevalent at the date of transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale financial assets that are not monetary items, are recognised directly in other comprehensive income.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Indian Rupees at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Indian rupees using average exchange rates during the period. Foreign currency differences are recognised in other comprehensive income. Such differences are captured in the foreign currency translation reserve “FCTR” within other components of equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

c. Financial instruments

(i) Non-derivative financial instruments

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

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. However if the instrument is recognized as at fair value through profit or loss then any directly attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

Non-derivative financial assets

a) Available-for-sale financial assets

Available-for-sale (AFS) financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss in accordance with IAS 39.

Investments in equity and certain debt securities are initially recognised at fair value and classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items are recognised directly in other comprehensive income. When an investment is de-recognised, the cumulative gain or loss in equity is transferred to profit or loss. These are presented as current assets unless the management intends to dispose of the assets after 12 months from the balance sheet date.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are presented as current assets, except for those maturing later than 12 months after the balance sheet date which are presented as non-current assets. Loans and receivables are initially measured at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method, less any impairment loss. Loans and receivables are represented by trade receivables, unbilled revenue, cash and cash equivalents. Cash and cash equivalents comprise cash balances and demand deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

c) Others

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

Non-derivative financial liabilities

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the assets and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities to the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings and trade and other payables.

(ii) Derivative financial instruments

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

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

d. Share capital

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

e. Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and where applicable accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. To the extent the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowings costs eligible for capitalization by applying a capitalization rate to the expenditure incurred on such asset. The capitalization rate is determined based on the weighted average of borrowing costs applicable to the borrowings of the Group which are outstanding during the period, other than borrowings made specifically towards purchase of the qualifying asset. The amount of borrowing cots that the Group capitalizes during a period does not exceed the amount of borrowing incurred during that period. Purchased software that is integral to the functionality of the related equipment is capitalized 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 / other expenses” in statement of income.

(i) Subsequent costs

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

(ii) Depreciation

Depreciation is recognised in the consolidated statement of income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Management's estimated useful lives for the years ended March 31, 2010, 2009 and 2008 were 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 during the year ended March 31, 2008. Also refer note 5.
Depreciation methods, useful lives and residual values are reviewed at the reporting date.

f. Business combinations and intangible assets

(i) Business combinations

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

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

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

(ii) Goodwill

Goodwill represents the cost of a business acquisition in excess of the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities of the acquiree.

Acquisitions prior to April 1, 2006

In respect of acquisitions prior to April 1, 2006, goodwill, if any, represents the amount recognised under the Group's previous accounting framework, US GAAP.

Acquisitions on or after April 1, 2006

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

Acquisition of non-controlling interest

Acquisition of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity-holders and therefore no goodwill is recognised as a result of such transactions.

Subsequent measurement
Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investee.

(iii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the intangible asset. Borrowing costs that are directly attributable to the acquisition of qualifying intangible asset are capitalized as part of the cost of that asset. To the extent the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowings costs eligible for capitalization by applying a capitalization rate to the expenditure incurred on such asset. The capitalization rate is determined based on the weighted average of borrowing costs applicable to the borrowings of the Group which are outstanding during the period, other than borrowings made specifically towards purchase of the qualifying asset. The amount of borrowing cots that the Group capitalizes during a period does not exceed the amount of borrowing incurred during that period.

(iv) Subsequent expenditure

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

(v) Amortisation of intangible assets with finite useful lives

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

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

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.
g. Leases

At the inception of a lease, the lease arrangement is classified as either a finance lease or an operating lease, based on the substance of the lease arrangement.

Assets taken on finance lease:

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

Assets taken on operating lease:

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

Assets given on finance lease:

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

Deposits provided to lessors:

The Group is generally required to pay refundable security deposits in order to obtain property leases from various lessors. Such security deposits are financial assets and are recorded at fair value on initial recognition. The difference between the initial fair value and the refundable amount of the deposit is recognized as a lease prepayment. The initial fair value is estimated as the present value of the refundable amount of security deposit, discounted using the market interest rates for similar instruments.

Subsequent to initial recognition, the security deposit is measured at amortised cost using the effective interest method with the carrying amount increased over the lease period up to the refundable amount. The amount of increase in the carrying amount of deposit is recognised as interest income. The lease prepayment is amortised on a straight line basis over the lease term as a lease rental expense.

h. Inventories

Inventories comprising traded hardware and software are measured at the lower of cost (determined using first-in first-out principle) and net realizable value. Cost comprises cost of purchase and all directly attributable costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

i. Construction contracts in progress

Construction contracts in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billing and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contracts and activities based on normal operating capacity.

Construction contract in progress is presented as part of trade and other receivable in statement of financial position for all contracts in which costs incurred plus recognised profit exceed progress billings. If progress billings exceeds cost incurred plus recognised profits, then the difference is presented as deferred income / revenue in the statement of financial position.

j. Impairment

Financial assets

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

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

Available-for-sale financial assets
Significant or prolonged decline in the fair value of the security below its cost and the disappearance of an active trading market for the security are objective evidence that the security is impaired. An impairment loss in respect of an available-for-sale financial

asset is calculated by reference to its fair value. The cumulative loss that was recognized in the equity is transferred to the consolidated income statement upon impairment.

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

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

Non-financial assets

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

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

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination. Corporate assets for the purpose of impairment testing are allocated to the cash generating units on a reasonable and consistent basis.

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

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

k. Employee benefits

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

(a) Defined contribution plan (Provident fund)

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

(b) Defined benefit plans (Gratuity)

In accordance with applicable Indian laws, the Group provides for gratuity, a defined benefit retirement plan (the Gratuity Plan) covering all employees. The Gratuity Plan provides a lump sum payment to vested employees, at retirement or termination of employment, an amount based on the respective employee's last drawn salary and the years of employment with the Group. The Company's net obligation in respect of the gratuity plan is calculated by estimating the amount of future benefits that the employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service cost and the fair value of plan assets are deducted. The discount rate is the yield at the reporting date on risk free government bonds that have maturity dates approximating the terms of the Company's obligations. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

The Group recognizes all actuarial gains and losses arising from defined benefit plans directly in other comprehensive income and presented within equity. The Company has an employees' gratuity fund managed by the Life Insurance Corporation of India (LIC).

(c) Short term benefits

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

(d) Compensated leave of absence

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

l. Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The expense is recorded for each separately vesting portion of the award as if the award was, in substance, multiple awards. The increase in equity recognised in connection with a share based payment transaction is presented as a separate component in equity. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest. In respect of options whose terms and conditions are modified, the Group includes the incremental fair value of the options in the measurement of the amounts recognised for services received from the employees. The incremental fair value is the difference between the fair value of the modified option and that of the original option both estimated as at the date of the modification. If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period. If the modification occurs after vesting date, the incremental fair value granted is recognised immediately, or over the vesting period if the employee is required to complete an additional period of service before becoming unconditionally entitled to those modified equity instruments.

Indian tax regulations require the Group to pay Fringe Benefit Tax (FBT) upon the exercise of employee stock options. The amount of FBT arising on exercise of employee stock options is calculated by reference to the difference between the fair value of the underlying share at the date of vesting and the exercise price payable by the employee, i.e. the intrinsic value of the option at the vesting date. The Group recognizes the liability for the amount of FBT over the vesting period. The Group's obligation to pay FBT arises only upon the exercise of options by the employees. The amount of FBT payable by the Group is recovered from the employees upon the exercise of their stock options. The Group recognizes a FBT recoverable from its employees when it is virtually certain that the reimbursement will be received if the Group settles the obligation. The amounts of FBT payable and recoverable are disclosed separately in the balance sheet and are not offset with each other. With the abolition of FBT with effect from April 1, 2009, the FBT is not chargeable on the exercise of employee stock options.

m. Provisions

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

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

n. Revenue

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

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

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

(i) Corporate network/data services

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

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

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

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

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

During the year ended March 31, 2010, the Company started generating revenues from construction of data centers. Revenue from such contracts includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity. The stage of completion is assessed by reference to the cost incurred until date to the total estimated costs. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

(ii) Internet access services

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

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

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

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

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

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

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

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

(iii) Online portal services

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

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

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

(iv) Other services

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

(v) Deferred income

Deferred income represents billing in excess of revenue recognized.

o. Export entitlements

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

p. Finance income and expense

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, fair value gains on financial assets at fair value through profit or loss . Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expense comprises interest expense on loans and borrowings, bank charges, unwinding of the discount on provision, losses on disposal of available-for-sale financial assets, fair value losses on financial assets at fair value through profit or loss that are recognised in statement of income.

q. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs are recognized as expenses in the period in which they are incurred. To the extent the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowings costs eligible for capitalization by applying a capitalization rate to the expenditure incurred on such asset. The capitalization rate is determined based on the weighted average of borrowing costs applicable to the borrowings of the Group which are outstanding during the period, other than borrowings made specifically towards purchase of the qualifying asset. The amount of borrowing cots that the Group capitalizes during a period does not exceed the amount of borrowing incurred during that period.

r. Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date.

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

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

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

s. Earnings / (loss) per share

The Group presents basic and diluted earnings / (loss) per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Where ordinary shares are issued but not fully paid, they are treated in the calculation of basic earnings per share as a fraction of an ordinary share to the extent that they were entitled to participate in dividends during the period relative to a fully paid ordinary share. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which includes share options granted to employees. To the extent that partly paid shares are not entitled to participate in dividends during the period they are treated as the equivalent of warrants or options in the calculation of diluted earnings per share.

t. Recent accounting pronouncements

Standards early adopted by the Company

- *IFRS 3 (Revised), Business Combinations,* as amended, is applicable for annual periods beginning on or after July 1, 2009. This standard was early adopted by the Group as at April 1, 2009. Business Combinations consummated after April 1, 2009 will be recorded under this standard. IFRS 3 (Revised) primarily requires the acquisition-related costs to be recognized as period expenses in accordance with the relevant IFRS. Costs incurred to issue debt or equity securities are required to be recognized in accordance with IAS 39. Consideration, after this amendment, will include fair values of all interests previously held by the acquirer. Re-measurement of such interests to fair value would be carried out through net profit in the statement of comprehensive income. Contingent consideration is required to be recognized at fair value even if not deemed probable of payment at the date of acquisition.

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

- IAS 27, as amended, is applicable for annual periods beginning on or after July 1, 2009. Earlier adoption is permitted provided IFRS 3 (Revised) is also early adopted. This standard was early adopted by the Company as at April 1, 2009. It requires a mandatory adoption of economic entity model which treats all providers of equity capital as shareholders of the entity. Consequently, a partial disposal of interest in a subsidiary in which the parent company retains control does not result in a gain or loss but in an increase or decrease in equity. Additionally purchase of some or all of the non-controlling interests is treated as treasury transaction and accounted for in equity and a partial disposal of interest in a subsidiary in which the parent company loses control triggers recognition of gain or loss on the entire interest. A gain or loss is recognized on the portion that has been disposed off and a further holding gain is recognized on the interest retained, being the difference between the fair value and carrying value of the interest retained. This Standard requires an entity to attribute their share of net profit / loss and reserves to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Consistent with the provisions of IFRS 3 (Revised), the Group accounted for its acquisition of 26% non-controlling interest in Sify Communications Limited on June 26, 2009 as an equity transaction. Also refer to note 40.

Recently adopted accounting pronouncements

- The Company adopted *IAS 1 (revised), "Presentation of Financial Statements"*, effective April 1, 2009. The revision aims to improve users' ability to analyze and compare the information given in financial statements. IAS 1 sets overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The revisions include non-mandatory changes in the titles of some of the financial statements to reflect their function more clearly (for example, the balance sheet is renamed as statement of financial position). The revised IAS 1 resulted in consequential amendments to other standards and interpretations. The Group has applied revised *IAS 1 Presentation of Financial Statements (2007)*, which has became effective as of April 1, 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Furthermore, the Group has included two statements to display all items of income and expense recognized during the period i.e., a 'Statement of Income' and a 'Statement of Comprehensive Income'. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings/ loss per share.
- *IFRIC 18 – 'Transfer of assets from customers'* defines the treatment for property, plant and equipment transferred by customers to companies or for cash received to be invested in property, plant and equipment that must be used to either connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to both. The item of property, plant and equipment is to be initially recognized by the Company at fair value with a corresponding credit to revenue. If an ongoing service is identified as a part of the agreement, the period over which revenue will be recognized for that service would be determined by the terms of the agreement with the customer. If the period is not clearly defined, then revenue should be recognized over a period no longer than the useful life of the transferred asset used to provide the ongoing service. This interpretation is applicable prospectively to transfers of assets from customers received on or after July 1, 2009. The Company has adopted this interpretation prospectively for all assets transferred after July 1, 2009. There has been no impact on the Group's consolidated financial statements as a result of the adoption of this interpretation.

- In March 2009, the Amendments to *IFRS 7* "*Financial Instrument disclosure*", amended certain disclosure requirements in the standard. As a result, entities are required to classify fair value measurements for financial instruments measured at fair value in the statement of financial position, using a three level fair value hierarchy that reflects the significance of inputs used in the measurements. In addition, the amendments enhance disclosure requirements on the nature and extent of liquidity risks to which an entity is exposed. The Amendments to IFRS 7 apply for annual periods beginning on or after January 1, 2009 and provides an exception in the first year of application for providing comparative information.

Standards issued but not yet effective and not early adopted by the Group

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended March 31, 2010, and have not been applied in preparing these consolidated financial statements:

- Improvements to IFRS- In April 2009, the IASB issued "*Improvements to IFRSs*" — a collection of amendments to twelve International Financial Reporting Standards — as part of its program of annual improvements to its standards, which is intended to make necessary, but non-urgent, amendments to standards that will not be included as part of another major project. The latest amendments were included in exposure drafts of proposed amendments to IFRS published in October 2007, August 2008, and January 2009. The amendments resulting from this standard mainly have effective dates for annual periods beginning on or after January 1, 2010, although entities are permitted to adopt them earlier. In May 2010, the IASB issued *Improvements to IFRS 2010,* which comprises 11 amendments to 7 standards. Effective dates, early application and transitional requirements are addressed on a standard-by-standard basis. The majority of the amendments will be effective January 1, 2011. The Company is evaluating the impact, these amendments will have on the Group's consolidated financial statements.

- In November 2009, the IASB issued *IFRS 9*, "*Financial instruments*", to introduce certain new requirements for classifying and measuring financial assets. IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two classifications — those measured at amortized cost and those measured at fair value. The standard along with proposed expansion of IFRS 9 for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment, and hedge accounting will be applicable from the year 2013, although entities are permitted to adopt earlier. The Company is evaluating the impact which this new standard will have on the Group's financial statements.

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

- In October 2009, the IASB issued "*Classification of Rights Issue – Amendment to IAS 32 Financial Instruments: Presentation'* with an effective date of February 1,2010.

- In November 2009, the IASB revised *IAS 24 "Related Party Disclosures"* with an effective date of January 1,2011.

- In November 2009, the IASB issued "*Prepayments of a Minimum Funding Requirement – Amendments to IFRIC 14, IAS19 – the Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction",* with an effective date of January 1, 2011.

4. Determination of fair values

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

(i) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is an estimated amount for which a property could be exchanged on the date of acquisition between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably . The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approach using quoted market prices for similar items when available and replacements costs when appropriate.

(ii) Inventories

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(iii) Intangible assets

The fair value of intangible assets acquired in the business combinations is based on discounted cash flows expected to be derived from the use and eventual sale of assets (terminal value).

(iv) Investments in equity and debt securities

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

(v) Trade and other receivables

The fair value of trade and other receivables, excluding construction contracts in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. However in respect of such financial instruments, fair value generally approximates the carrying amount due to the short term nature of such assets. This fair value is determined for disclosure purposes or when acquired in a business combination.

(vi) Derivatives

The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, the fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest rate (based on government bonds). The fair value of foreign currency option contracts is determined based on the appropriate valuation techniques, considering the terms of the contract. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counter party when appropriate.

(vii) Non derivative financial liabilities

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

(viii) Share-based payment transactions

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

5. Property, plant and equipment

The following table presents the changes in property, plant and equipment during the year ended March 31, 2010

	Cost				Accumulated depreciation				Carrying amount as at March 31, 2010
Particulars	**As at April 01, 2009**	**Additions**	**Disposals**	**As at March 31, 2010**	**As at April 1, 2009**	**Depreciation for the year**	**Deletions**	**As at March 31, 2010**	
Building	769,663	7,756	-	777,419	148,401	28,671	-	177,072	600,347
Plant and machinery	4,733,122	827,043	257,469	5,302,696	2,765,920	420,314	256,546	2,929,688	2,373,008
Computer equipments	497,223	26,462	5,781	517,904	367,972	66,709	5,050	429,631	88,273
Office equipment	162,132	68,106	1,820	228,418	96,955	12,070	1,773	107,252	121,166
Furniture and fittings	628,279	101,188	23,319	706,148	389,771	77,608	21,942	445,437	260,711
Vehicles	8,269	-	2,078	6,191	6,420	1,360	1,589	6,191	-
Total	**6,798,688**	**1,030,555**	**290,467**	**7,538,776**	**3,775,439**	**606,732**	**286,900**	**4,095,271**	**3,443,505**
Add: Construction in progress									8,517
Total	**6,798,688**	**1,030,555**	**290,467**	**7,538,776**	**3,775,439**	**606,732**	**286,900**	**4,095,271**	**3,452,022**

The following table presents the changes in property, plant and equipment during the year ended March 31, 2009

	Cost				Accumulated depreciation				Carrying amount as at March 31, 2009
Particulars	**As at April 01, 2008**	**Additions**	**Disposals**	**As at March 31, 2009**	**As at April 1, 2008**	**Depreciation for the year**	**Deletions**	**As at March 31, 2009**	
Building	769,663	-	-	769,663	120,924	27,477	-	148,401	621,262
Plant and machinery	3,683,632	1,097,317	47,827	4,733,122	2,526,445	286,805	47,330	2,765,920	1,967,202
Computer equipments	438,597	58,824	198	497,223	297,049	71,001	78	367,972	129,251
Office equipment	116,691	47,090	1,649	162,132	83,928	14,673	1,646	96,955	65,177
Furniture and fittings	422,939	208,486	3,146	628,279	339,750	52,720	2,699	389,771	238,508
Vehicles	9,174	-	905	8,269	3,846	2,981	407	6,420	1,849
Total	**5,440,696**	**1,411,717**	**53,725**	**6,798,688**	**3,371,942**	**455,657**	**52,160**	**3,775,439**	**3,023,249**
Add: Construction in progress									237,665
Total	**5,440,696**	**1,411,717**	**53,725**	**6,798,688**	**3,371,942**	**455,657**	**52,160**	**3,775,439**	**3,260,914**

The following table presents the changes in property, plant and equipment during the year ended March 31, 2008

Particulars	Cost				Accumulated depreciation				Carrying amount as at March 31, 2008
	As at April 01, 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**

Change in estimated useful life

On the basis of a comprehensive evaluation during the year ended March 31, 2008, the Group had revised the estimated useful lives of its networking equipment (included under plant and machinery) and computers. As a result, the expected useful life of its networking equipment has been increased from 5 to 8 years and the expected useful life of computers has been decreased from 5 to 3 years. The effects of such changes on the depreciation expense for the years ended March 31, 2008, 2009, 2010 and 2011 are as follows:

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

Leased assets

The Group's leased assets include certain buildings, plant and machinery and motor vehicles acquired under finance leases. As at March 31, 2010 the net carrying amount of buildings, plant and machinery and vehicles acquired under finance leases is Rs.255,244 (March 31, 2009: Rs.260,968), Rs.215,669 (March 31, 2009: 135,595) and Rs. NIL (March 31, 2009: Rs.2,159) respectively. During the year, the Group acquired leased assets of Rs 99,950 (March 31, 2009 : Rs 158,962).

In case prepayments are made towards buildings accounted for as finance leases, such prepayments are capitalized as 'Leasehold Buildings' (included in buildings) on the commencement of the lease term under the head 'Property, plant and equipment' and depreciated in accordance with the depreciation policy for similar owned assets.

Capital Commitments

As of March 31, 2010 and March 31, 2009, the Company was committed to spend approximately Rs.30,552 (net of advances Rs.8,516) and Rs.322,607 (net of advances Rs.177,183) respectively, under agreements to purchase property, plant and equipment.

Construction in progress

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

Security

As at March 31,2010 properties with a carrying amount of Rs.2,981,212 (March 31, 2009: Rs.2,481,174) are subject to a registered charge to secure bank borrowings.

6. Intangible assets

Intangible assets comprise the following:

	March 31, 2010	March 31, 2009
Goodwill	14,595	40,461
Other intangible assets	114,929	137,411
	129,524	**177,872**

(i) Goodwill

The following table presents the changes in goodwill during the years ended March 31, 2010 and 2009

	March 31, 2010	March 31, 2009
Balance at the beginning of the year	40,461	50,796
Effect of movement in exchange rates	(2,482)	4,865
Impairment loss recognised during the year	(23,384)	(15,200)
Net carrying amount of goodwill	**14,595**	**40,461**

The amount of goodwill as at March 31, 2010 and March 31, 2009 has been allocated to the online portals segment.

Impairment testing for cash-generating units containing goodwill

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

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

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

- Cash flows were projected based on a 5 year business plan. Cash flows were arrived at as an excess of revenue over the related costs for the same period after giving due effect to non-cash charges and finance charges, if applicable, together with changes in working capital.
- Management believes that this forecast period is justified due to the long term nature of the travel business.
- The projected revenue growth included in the cash flow projections was 10% during the projected period. Management believes that this growth percentage was reasonable and is in line with the average trend of the industry.
- The projected increase in cost was 5% for call center cost and 10% for administrative costs.
- A pre-tax discount rate of 22.26% was applied in determining the recoverable amount of the cash generating unit. The discount rate was estimated based on an industry average weighted average cost of capital.
- In view of the expected long term market conditions, a terminal year end growth rate of 2% is estimated.

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

(ii) Other intangibles

The following table presents the changes in intangible assets during the years ended March 31, 2010, 2009 and 2008.

	Technical know-how	Portals and web content	Customer related intangibles	Software	License fees	Total
(A) Cost						
Balance as at April 1, 2007	**82,753**	**52,730**	**199,554**	**240,878**	**50,000**	**625,915**
Acquisitions during the year	-	-	-	30,238	-	30,238
Balance as at March 31, 2008	**82,753**	**52,730**	**199,554**	**271,116**	**50,000**	**656,153**
Acquisitions during the year	-	-	1,016	48,099	-	49,115
Balance as at March 31, 2009	**82,753**	**52,730**	**200,570**	**319,215**	**50,000**	**705,268**
Acquisitions during the year	-	-	-	51,468	-	51,468
Disposals during the year	-	52,730	-	-	-	52,730
Balance as at March 31, 2010	**82,753**	**-**	**200,570**	**370,683**	**50,000**	**704,006**
(B) Amortization						
Balance as at April 1, 2007	**82,753**	**52,710**	**136,269**	**216,324**	**906**	**488,962**
Amortization for the year	-	20	13,657	19,503	2,500	35,680
Balance as at March 31, 2008	**82,753**	**52,730**	**149,926**	**235,827**	**3,406**	**524,642**
Amortization for the year	-	-	19,921	20,794	2,500	43,215
Balance as at March 31, 2009	**82,753**	**52,730**	**169,847**	**256,621**	**5,906**	**567,857**
Amortization for the year	-	-	6,144	41,421	2,500	50,065
Impairment loss on intangibles	-	-	22,148	1,737	-	23,885
Disposals during the year	-	52,730	-	-	-	52,730
Balance as at March 31, 2010	**82,753**	**-**	**198,139**	**299,779**	**8,406**	**589,077**
(C) Carrying amounts						
As at March 31, 2008	**-**	**-**	**49,628**	**35,289**	**46,594**	**131,511**
As at March 31, 2009	**-**	**-**	**30,723**	**62,594**	**44,094**	**137,411**
As at March 31, 2010	**-**	**-**	**2,431**	**70,904**	**41,594**	**114,929**

Capital commitments

As of March 31, 2010, the Company was committed to spend approximately Rs.184,908 (net of advances Rs.274,441) (March 31, 2009: Rs. 390,208 (net of advances Rs.119,454)) respectively, under agreements to purchase intangible assets.

Capitalized borrowing costs

During the years ended March 31, 2010 and 2009, the Company capitalized interest cost of Rs.24,553 and Rs. 5,620 respectively. The rate of capitalization of interest cost for the year ended March 31, 2010 and 2009 was approximately 12.81% and 11.67% respectively.

7. Investment in equity accounted investees

In March 2006, MF Global Overseas Limited (MFG), a group incorporated in United Kingdom acquired 70.15% of equity share capital of MF Global Sify Securities Private Limited (MF Global), formerly Man Financial-Sify Securities India Private Limited ('MF Global) from Refco Group Inc., USA ('Refco'). As at March 31, 2010, 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, 2010	March 31, 2009
Total assets	3,974,094	3,435,921
Total liabilities	1,851,919	1,617,159
Shareholders' equity	2,122,175	1,818,762
Total Liabilities and shareholders' equity	3,974,094	3,435,921

Statement of operations	For the year ended		
	March 31, 2010	March 31, 2009	March 31, 2008
Revenues	1,612,545	1,413,643	2,503,520
Net profit	307,543	216,917	606,255

During October 2010, Sify Technologies Ltd, the minority shareholder of MF Global holding 29.85 percent of the outstanding shares of the MF Global, requested MF Global's Board of Directors to reconsider certain costs charged to the MF Global by MF Global Holdings Ltd and its affiliated and associated group companies, who hold 70.15 percent of the outstanding shares of the MF Global. These charges are currently recorded in the financial statements of the MF Global for year ended 31st Mar 2008 aggregating to INR 43,478,911 and 31st March 2009 aggregating to INR 15,374,528. The resolution of this matter between the shareholders of MF Global remains uncertain and any financial adjustment that may arise is not presently known and accordingly no adjustment related to this matter has been provided for in MF Global's consolidated financial statements. Any financial adjustment that may arise on resolution of the said matter would be expected to be handled prospectively and therefore would be reported in the period in which it is resolved. Consequently, no adjustment related to the said matter was considered by Sify for equity method of accounting for MF Global. The auditors of MF Global have included an emphasis of matter with an explanatory paragraph in their audit report issued on the consolidated financial statements of MF Global for the three years ended March 31, 2010 in connection with such recorded cross charges. The effect of such recorded cross charge is not material to the financial statements of Sify.

8. Cash and cash equivalents

Cash and cash equivalents as per consolidated statement of financial position, as at March 31, 2010 amounted to Rs.517,789 (Rs.380,042 as at March 31, 2009). This excludes cash-restricted of Rs.360,909 (Rs.1,330,756 as at March 31, 2009), representing deposits held under lien against working capital facilities availed and bank guarantees given by the Group towards future performance obligations.

(a) Restricted cash

Non current	March 31, 2010	March 31, 2009	March 31, 2008
Against future performance obligation	-	1,000	1,000
Current			
Bank deposits held under lien against borrowings / guarantees from banks	360,909	1,329,756	877,582
Total restricted cash	**360,909**	**1,329,756**	**877,582**
(b) Non restricted cash			
Current			
Cash and bank balances	**517,789**	**380,042**	**628,745**
Total cash (a+b)	**878,698**	**1,710,798**	**1,507,327**
Bank overdraft used for cash management purposes	(1,060,284)	(1,397,083)	(617,637)
Less: Non current restricted cash	-	(1,000)	(1,000)
Cash and cash equivalents for the statement of cash flows	**(181,586)**	**312,715**	**888,690**

9. Lease prepayments

	March 31, 2010	March 31, 2009
Towards buildings*	273,911	311,185
	273,911	**311,185**

* Includes Rs.189,903 (March 31, 2009 : Rs 256,050) paid to VALS Developers Private Limited. Also refer note 37.
In respect of buildings, prepayments made towards buildings accounted for as operating leases are amortised over the lease term on a straight line basis.

10. Other assets

Non current	March 31, 2010	March 31, 2009
Withholding taxes (see note (a) below)	-	174,234
Other deposits (see note (b) and (c) below)	554,358	322,091
	554,358	**496,325**
Current		
Net investment in leases	**-**	**-**
	-	**-**
Financial assets included in other assets	**249,744**	**227,468**

(a) Withholding taxes represent taxes deducted at source by the customers and paid to the Government, which is adjustable against tax liability of the Company. The company started receiving refunds of such taxes from the Government. Accordingly the withholding taxes is expected to be realized within next 12 months and hence the withholding taxes are classified as current and included as part of trade and other receivables. Refer note 13.

(b) Includes Rs. 32,098 (March 31 2009: Rs.26,775) paid to VALS Developers Private Limited. Also refer note 37.

(c) Includes Rs. 304,614 (March 31 2009: Rs. 111,333) paid to Emirates Integrated Telecommunications Company PJSC in relation to supply of capacity from the Europe India Gateway and borrowing cost capitalized thereon.

11. Deferred tax assets and liabilities

The tax effects of significant temporary differences that resulted in deferred tax assets and a description of the items that created these differences is given below

Recognised deferred tax assets / (liabilities)	**Assets / (liabilities)**	
	March 31, 2010	**March 31, 2009**
Deferred tax assets		
Property, plant and equipment	-	1,796
Intangible assets	-	2,212
Allowance for doubtful trade and other receivables	-	4,516
Carry forward capital losses	82,869	67,735
	82,869	**76,259**
Deferred tax liabilities		
Property, plant and equipment	(76)	-
Intangible assets	(189)	-
Investment in equity accounted investees	(82,604)	(67,735)
	(82,869)	**(67,735)**
Net deferred tax asset recognized in balance sheet	**-**	**8,524**

In assessing the realizability of the deferred income tax assets, management considers whether some portion or all of the deferred income tax assets will not be realized. The ultimate realization of the deferred income tax assets and tax loss carry forwards is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategy in making this assessment. Based on the level of historical taxable income and projections of future taxable income over the periods in which the deferred tax assets are deductible, management believes that the Company will realize the benefits of those recognized deductible differences. The amount of deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced. Also refer note 40 relating to subsequent events.

Movement in temporary differences during the year

	Balance as at April 1, 2008	Recognised in income statement	Recognised in Equity	Balance as at March 31, 2009	Recognised in income statement	Recognised in Equity	Balance as at March 31, 2010
Property, plant and equipment	1,733	63	-	1,796	(1,872)	-	(76)
Intangible assets	3,155	(943)	-	2,212	(2,401)	-	(189)
Allowance for doubtful trade and other receivables	10,644	(6,128)	-	4,516	(4,516)	-	-
Tax loss carry forwards	56,859	10,816	60	67,735	14,371	763	82,869
Investment in equity accounted investees	(56,821)	(10,854)	(60)	(67,735)	(14,106)	(763)	(82,604)
	15,570	**(7,046)**	**-**	**8,524**	**(8,524)**	**-**	**-**

Unrecognized deferred tax assets / (liabilities)

	As at March 31, 2010	As at March 31, 2009
Deductible temporary differences	172,136	82,062
Unrecognized tax losses	3,360,093	3,440,680
	3,532,229	**3,522,742**

Considering the probability of availability of future taxable profits in the period in which tax losses expire, deferred tax assets have not been recognised in respect of tax losses carried forward by the Group. The above tax losses expire at various dates ranging from 2015 to 2024.

Deferred tax liabilities of Rs. Nil and Rs.44,627 as at March 31, 2010 and March 31, 2009 have not been recognised on undistributed profits of its subsidiaries since the group expects to realize the same in a tax free manner.

Income tax expense recognized in profit or loss

	March 31, 2010	March 31, 2009	March 31, 2008
Current tax expense / (benefit)			
Current period	(90,003)	90,003	12,013
	(90,003)	**90,003**	**12,013**
Deferred tax expense			
Origination and reversal of temporary differences	22,895	17,862	31,469
Recognition of previously unrecognized tax losses	(14,371)	(10,854)	(34,887)
Reversal of previously recognized tax losses	-	38	55,380
	8,524	**38**	**51,962**
Total income tax expense / (benefit)	**(81,479)**	**97,049**	**63,975**

Income tax directly recognised in other comprehensive income

	March 31,2010	March 31,2009	March 31,2008

Actuarial (gains) or losses	-	-	957
Tax effect of changes in the fair value of other investments	-	-	556
Tax effect on share of profit of associate recognised in OCI	-	-	-
Tax effect on foreign currency translation differences	-	-	(85)
Income tax benefit / (expense) recognized directly in equity	**-**	**-**	**1,428**

Reconciliation of effective tax rate

A reconciliation of the income tax provision to the amount computed by applying the statutory income tax rate to the income before taxes is summarized below:

	Year ended March 31, 2010	Year ended March 31, 2009	Year ended March 31, 2008
Profit / (loss) before income taxes	(54,666)	(754,584)	89,421
Enacted tax rates in India	33.99%	33.99%	33.99%
Computed expected tax expense / (benefit)	(18,581)	(256,483)	30,394
Effect of:			
Share based payment expense not deductible for tax purposes	8,188	16,149	14,234
Unrecognized deferred tax assets on losses incurred during the year (net of temporary differences, if any)	41,370	359,669	65,714
Unrecognized deferred tax asset on temporary differences	-	-	12,634
Share of profit of equity accounted investee taxed at a lower rate	(12,203)	(8,582)	(24,253)
Recognition of previously unrecognized tax losses	(18,774)	(13,203)	(37,312)
Reversal of tax expense consequent to merger (Refer note 40)	(81,479)	-	-
Others	-	(501)	2,564
	(81,479)	**97,049**	**63,975**

12. Inventories

Inventories comprise:

	March 31, 2010	March 31, 2009
Communication hardware	19,826	30,832
Application software	1,662	4,264
Others	-	3,992
	21,488	**39,088**

The entire carrying amount of inventories as at March 31, 2010 and 2009 are secured in connection with bank borrowings.

13. Trade and other receivables

Trade and other receivables comprise:

	March 31, 2010	March 31, 2009
(i) Trade receivables, net	1,912,348	1,504,927
(ii) Other receivables including deposits	1,196,450	950,599
(iii) Construction contract in progress	86,214	-
	3,195,012	**2,455,526**

(i) Trade receivables as of March 31, 2010 and March 31, 2009 are stated net of allowance for doubtful receivables. The Group maintains an allowance for doubtful receivables based on its age and collectability. Trade receivables are not collateralized except to the extent of refundable deposits received from cybercafé franchisees and from cable television operators. The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables, excluding construction work in progress is disclosed in note 24. Trade receivables consist of:

	March 31, 2010	March 31, 2009
Trade receivables from related parties	-	698
Other trade receivables	2,083,054	1,620,524
	2,083,054	**1,621,222**
Less: Allowance for doubtful receivables	(170,706)	(116,295)
Balance at the end of the year	**1,912,348**	**1,504,927**

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

	For the year ended	
	March 31, 2010	**March 31, 2009**
Balance at the beginning of the year	116,295	83,316
Add : Additional provision, net	121,987	84,346
Less : Bad debts written off	(67,576)	(51,367)
Balance at the end of the year	**170,706**	**116,295**

(ii) Other receivables comprises of the following items:

	March 31, 2010	March 31, 2009
Advances and other deposits (Refer Note (a) and (c) below)	657,609	745,876
Deposits with Department of Income tax / Withholding taxes (Refer Note (b) below)	530,146	191,457
Employee advances	8,695	13,266
	1,196,450	**950,599**
Financial assets included in other receivables	**322,833**	**405,989**

Notes:

a) Advances and other deposits primarily comprises of receivables in the form of custom duty credit entitlement, service tax and other advances given in the ordinary course of business.

b) Includes withholding taxes recoverable from the Department of Income-tax for which the Company has filed tax returns for refund. The Company expects to realize such refund of withholding taxes within the next 12 months.

c) During the year ended March 31, 2010, the Group entered into a lease for 290,753 sq ft of building from Reliable Infomatics Park Private Ltd on a long term lease. The group has paid a sum of Rs 51,786 as a security deposit for the above lease. During the year, the Group has surrendered the above lease. The company expects to realize the above amount within the next 12 months.

14. Prepayments for current assets

Prepayments for current assets comprise of the following:

	March 31, 2010	March 31, 2009
Prepayments for purchase of bandwidth	79,402	63,961
Prepayments related to insurance	17,680	12,682
Prepayments-others	57,245	47,066
Lease prepayments	36,991	4,839
	191,318	**128,548**

15. 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, 2010			March 31, 2009		
	Gross amount	Gains/ (Loss) recognized in other comprehensive income	Fair value	Gross amount	Gains/ (Loss) recognized in other comprehensive income	Fair value
Investment in mutual funds	-	-	-	20,315	(6,441)	13,874

16. Share capital and share premium

No of shares

	Year ended March 31,		
	2010	**2009**	**2008**
Issued as at April 01	42,820,082	55,637,082	42,800,265
Issued for cash*	-	-	12,817,000*
Issued for consideration other than cash	10,530,000	-	-
Exercise of share options	1,416	-	19,817
Shares forfeited*	-	(12,817,000)	-
Issued as at March 31	**53,351,498**	**42,820,082**	**55,637,082**

* Paid up Rs.1/- per share

As at March 31, 2010 the authorized share capital comprises 61,000,000 ordinary shares (as of March 31, 2009, the number of authorized shares was 61,000,000) of Rs.10 each. The holders of ordinary shares are entitled to receive dividends from time to time and are entitled to vote at meetings of the Group. All shares rank equally with regard to Group’s residual assets.

The Company had entered into a Subscription Agreement with Infinity Satcom Universal Private Limited (Infinity Satcom Universal) during the year ended March 31, 2008 for issuance of 12,817,000 equity shares of the Company with face value of Rs.10/- per share at a premium of Rs.165/-. It was approved by the Company’s shareholders at the Extra ordinary General Meeting held on March 17, 2008. Infinity Satcom Universal is controlled by Ananda Raju Vegesna, Executive Director, and brother of Shri Raju Vegesna, Chairman and Managing Director of Sify Technologies Limited.

The Company had received a sum of Rs.112,149 (comprising of Rs.12,817 towards face value and Rs.99,332 towards securities premium / share premium). Subsequently on August 28, 2008, Infinity Satcom Universal communicated to the Company that they would focus their attention on the business of Sify Communications Limited (erstwhile subsidiary) and hence shall not contribute the balance money towards the subscription of 12,817,000 equity shares, as and when it is called. Accordingly, at the meeting of the board of directors, the shares allotted and monies already collected (Rs.112,149 including sums towards capital and premium) have been forfeited.

During the year ended March 31, 2010 the company has issued 10,530,000 ordinary shares of Rs 10 each to the erstwhile shareholders of Sify Communication Limited as per the scheme of amalgamation. Refer note 40.

Further during the year ended March 31, 2010, 1,416 ordinary shares (March 31, 2009: Nil) have been issued consequent to exercise of options under the Associate stock option plan.

Translation reserve

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

Share based payment reserve

Share based payment reserve represents the stock compensation expense recognised in the statement of changes in equity.

Fair value reserve

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

Recognised actuarial gain / loss

Recognised actuarial gain / loss represents the cumulative actuarial gain / loss recognised in other comprehensive income and presented within equity.

17. Finance lease obligations

The Group leases routers and other equipments under finance lease arrangements. The following is a schedule of future minimum finance lease commitments as at March 31, 2010:

	March 31, 2010			March 31, 2009		
	Future minimum lease payments	**Interest**	**Present value minimum lease payments**	**Future minimum lease payments**	**Interest**	**Present value minimum lease payments**
Less than one year	65,148	(19,178)	45,970	42,743	(9,800)	32,943
Between one and five years	182,206	(26,859)	155,347	138,246	(15,864)	122,382
Total	**247,354**	**(46,037)**	**201,317**	**180,989**	**(25,664)**	**155,325**

18. Employee benefits

	March 31, 2010	March 31, 2009
Gratuity payable	16,753	15,082
Compensated absences	38,054	49,218
	54,807	**64,300**

Gratuity cost

The components of gratuity costs recognised in the consolidated income statement for the years ending March 31, 2010, March 31, 2009 and March 31, 2008 consist of the following:

	March 31, 2010	March 31, 2009	March 31, 2008
Service cost	14,498	12,067	8,533
Interest cost	4,501	3,038	1,639
Expected return on plan asset	(2,963)	(1,672)	(957)
	16,036	**13,433**	**9,215**

Details of employee benefit obligation and plan asset are as follows:

	March 31, 2010	March 31, 2009
Present value of projected benefit obligation at the end of the year	51,046	43,389
Funded status of the plans	34,293	28,307
Recognised (asset) / liability	**16,753**	**15,082**

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

Change in defined benefit obligation	March 31, 2010	March 31, 2009	March 31, 2008
Projected benefit obligation at the beginning of the year	43,389	27,332	20,785
Service cost	14,498	12,067	8,533
Interest cost	4,501	3,038	1,639
Actuarial (gain) / loss	(5,957)	3,662	2,393
Benefits paid	(5,385)	(2,710)	(6,018)
Projected benefit obligation at the end of the year	**51,046**	**43,389**	**27,332**

Change in plan assets	March 31, 2010	March 31, 2009	March 31, 2008
Fair value of plan assets at the beginning of the year	28,307	18,740	8,422
Expected return on plan assets	2,965	1,672	957
Actuarial gain / (loss)	(449)	(684)	(423)
Employer contributions	8,855	11,290	15,801
Benefits paid	(5,385)	(2,711)	(6,017)
Fair value of plan assets at the end of the year	**34,293**	**28,307**	**18,740**
Actual return on plan assets	2,513	988	534

Actuarial assumptions at end of the year:

The principal actuarial assumptions as on March 31, 2010, 2009 and 2008 were as follows:

	March 31, 2010	March 31, 2009	March 31, 2008
Discount rate	8.15% P.a	7.95% P.a	7.85% P.a
Long-term rate of compensation increase	8.00% P.a	8.00% P.a	6.00% P.a
Expected long term rate of return on plan assets	8.00% P.a	8.00% P.a	7.50% P.a
Average future working life time	11.06 years	10.99 years	10.23 years

Discount rate: The discount rate is based on prevailing market yields of Indian Government securities as at the end of the year for the estimated term of the obligations.

Long term rate of compensation increase: The estimates of future salary increases considered take into account inflation, seniority, promotion and other factors.

Expected long term rate of return on plan assets: This is based on the average long term rate of return expected on investments of the fund during the estimated term of the obligations.

Assumptions regarding future mortality are based on published statistics and mortality tables.

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

Historical information

	March 31, 2010	March 31, 2009
Experience adjustment on plan liabilities	(4,818)	1,574
Experience adjustment on plan assets	(450)	(684)

Contributions: The Group expects to contribute Rs.12,000 (March 31 2009: Rs 20,000) to its gratuity fund during the year ending March 31, 2011.

Plan assets: The Gratuity plan's weighted-average asset allocation at March 31, 2010 and March 31, 2009, by asset category is as follows:

	March 31, 2010	March 31, 2009
Funds managed by insurers	100%	100%

Actuarial gains and losses recognised in other comprehensive income

The amount of actuarial gains and losses recognised in other comprehensive income for the years ending March 31, 2010, 2009 and 2008 are as follows:

	March 31, 2010	March 31, 2009	March 31, 2008
Actuarial gain / (loss)	5,508	(4,346)	(2,816)
	5,508	**(4,346)**	**(2,816)**

Contributions to defined contribution plans

In accordance with Indian law, all employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and employer make monthly contributions to the plan, each equal to a specified percentage of employee's basic salary. The Group has no further obligations under the plan beyond its monthly contributions. The Group contributed Rs.55,229, Rs.70,354 and Rs.52,244 for the years ended March 31, 2010, 2009 and 2008.

19. Other liabilities

	March 31, 2010	March 31, 2009
Franchisee deposits and other liabilities	165,800	134,116
	165,800	**134,116**

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

20. Borrowings

	March 31, 2010	March 31, 2009
Current		
Loan secured against fixed deposits (Refer note 1 below)	-	310,000
Term bank loans (Refer note 2 below)	216,000	331,944
Other working capital facilities (Refer note 3 below)	697,165	540,826
Borrowings from others (Refer note 4 below)	39,681	-
	952,846	**1,182,770**
Non current		
Term bank loans (Refer note 2 below)	325,940	201,389
Borrowings from others (Refer note 4 below)	123,484	-
	449,424	**201,389**

The Group has borrowings which include:

1. Loan secured against fixed deposits of Rs. Nil as at March 31, 2010 (Rs. 310,000 as at March 31, 2009) represent bank loans for working capital requirements. These borrowings bear interest ranging from 10%-11.90% p.a. and are repayable within one year from the balance sheet date.

2. Term bank loans bear interest ranging from 9.50% to 13.50% p.a. The term loans are secured by way of pari-passu first charge over the unencumbered movable fixed assets acquired out of such term loans availed by the Company. Further these loans are collaterally secured by way of equitable mortgage over the office premises and also by way of pari passu second charge on the entire current assets of the Company.

3. Letter of credit discounted (including buyer's credit) is secured by pari-passu charge on current assets of the Company and moveable assets of the company, both present and future. These borrowings bear interest ranging from 11% to 14% p.a. Such facilities are renewable every year.

4. Borrowings from others are secured against relevant assets and software. However, the Company is in the process of obtaining no objection certificate from the bank with whom such relevant assets and software are hypothecated.

21. Trade and other payables

	March 31, 2010	March 31, 2009
Trade payables	989,020	690,388
Advance from customers	37,047	52,224
Accrued expenses	686,452	668,769
Other payables	143,145	143,849
	1,855,664	**1,555,230**
Financial liabilities included in trade and other payables	**1,798,764**	**1,411,358**

22. Deferred income

Deferred income includes the following amounts of unearned income:

	March 31, 2010	March 31, 2009
Corporate network/data services	328,309	308,521
Internet access services	24,941	28,065

Other services	65,316	18,215
	418,566	**354,801**

23. Revenue

	Year ended		
	March 31, 2010	**March 31, 2009**	**March 31, 2008**
Rendering of services			
Service revenue*	5,356,852	5,253,535	4,868,673
Initial franchise fee	11,369	30,489	43,503
Installation service revenue	288,919	235,116	318,466
	5,657,140	**5,519,140**	**5,230,642**
Sale of products	1,053,048	643,021	775,573
	6,710,188	**6,162,161**	**6,006,215**

* Including revenue arising from construction contracts (refer note 24)

24. Construction contracts in progress

	Year ended		
	March 31, 2010	**March 31, 2009**	**March 31, 2008**
Contract revenue recognised for the year ended March 31, 2010	86,214	-	-
Aggregate amounts of costs incurred and recognized profits (less recognised losses) upto the reporting date	86,214	-	-
Advances received	16,441	-	-
Gross amount due from customers for contract work presented as an asset	86,214	-	-

25. Cost of goods sold and services rendered

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

26. Other income

	Year ended		
	March 31, 2010	**March 31, 2009**	**March 31, 2008**
Duty credit entitlement	82,486	79,278	46,152
Others	49,303	9,827	-
	131,789	**89,105**	**46,152**

27. Income from legal settlement

During the year, the Company received Rs 561,120 (US$ 12.43 million) in connection with settlement of legal matters. This is pursuant to a legal suit filed by the company in the prior years. The said receipt has been recorded as income form legal settlement in the consolidated statement of income during the year ended March 31, 2010.

28. Selling, general and administrative expenses

	Year ended		
	March 31, 2010	**March 31, 2009**	**March 31, 2008**
Personnel expenses	745,067	987,585	715,365
Marketing and promotion expenses	482,554	608,318	558,573
Administrative and other expenses*	1,238,770	1,217,522	1,160,777
	2,466,391	**2,813,425**	**2,434,715**

* Includes foreign exchange gain / (loss) of Rs.9,397, Rs.21,320 and Rs.(22,587) for the years ended March 31, 2010, 2009 and 2008 respectively.

Under the provisions of the Indian Income-tax Act, 1961, employers are required to pay fringe benefits tax (FBT) on the taxable value of the fringe benefits or privileges or that are provided or deemed to be provided to employees. FBT under the provisions of the Indian Income-tax Act, 1961 is Rs. Nil, Rs.19,880, Rs.16,910 for the years ended March 31, 2010, 2009 and 2008 respectively. FBT is withdrawn with effect from April 1, 2009.

29. Personnel expenses

	Year ended		
	March 31, 2010	**March 31, 2009**	**March 31, 2008**
Salaries and wages	1,269,638	1,532,378	940,942
Contribution to provident fund and other funds	77,197	70,354	40,838
Staff welfare expenses	27,499	38,225	26,168
Employee stock compensation expense	30,589	61,380	60,933
	1,404,923	**1,702,337**	**1,068,881**
Attributable to cost of goods sold and services rendered	659,856	714,752	431,588
Attributable to selling, general and administration expenses	745,067	987,585	637,293

30. Share-based payments

Share based payments are designed as equity-settled plans. Under the equity settled plans, the Group had issued stock options under Associate Stock Option Plan (ASOP) 1999, ASOP 2000, ASOP 2002, ASOP 2005 and ASOP 2007. Each option entitles the holder to purchase one American Depository Share (ADS) at an exercise price determined by the Compensation committee on the date of the grant. There are no options outstanding in respect of ASOP 1999 and ASOP 2000 plan as at April 1, 2009. Our stock option plans are detailed as under:

(i) 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 Rs. 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 sixth of the options:	At the end of each quarter during the second and third year from the date of the grant in eight equal installments.

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.**		
	2010	**2009**	**2008**	**2010**	**2009**	**2008**

Outstanding at beginning of the year	-	-	6,250	-	-	228.74
Granted during the year	-	-	-	-	-	-
Forfeited during the year	-	-	-	-	-	-
Expired during the year	-	-	6,250	-	-	228.74
Exercised during the year	-	-	-	-	-	-
Outstanding at the end of the year	-	-	-	-	-	-
Exercisable at the end of the year	-	-	-	-	-	-

(ii) Associate Stock Option Plan 2005

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

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

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

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

The stock options can be exercised only after they vest but before the expiry date of forty months from the date of the grant. As the number of stock options and the price of those options were made known to each allottee, the Plan has been considered as a fixed price grant. Stock option activity under the ASOP 2005 Plan is as follows:

No. of options granted, exercised and forfeited	**Number of options**			**Weighted average exercise price in Rs.**		
	2010	**2009**	**2008**	**2010**	**2009**	**2008**
Outstanding at the beginning of the year	-	326,093	868,195	-	328.84	238.32
Granted during the year	-	-	119,400	-	-	340.82
Forfeited during the year	-	(29,167)	(122,442)	-	449.16	376.64
Expired during the year	-	(296,926)	(28,293)	-	317.02	461.51
Exercised during the year	-	-	(13,567)	-	-	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
Vested and exercisable at the end of the year	-	-	235,010	-	-	328.84
Weighted average grant date fair value of grants during the year	-	-	-	-	-	120.00

(iii) Associate Stock Option Plan 2007

In September 2007, the Shareholders of the Group approved a new scheme for allotment of stock options to employees, the Associate Stock Option Plan 2007. Consequent upon the introduction of ASOP 2007 plan, 797,600 unissued stock options pertaining to Associate Stock Option Plan 2005 are no longer available for issuance.
The options vest over a period of 4 years as follows:

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

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

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

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

No. of options granted, exercised and forfeited	**Number of options**	**Weighted average exercise price in Rs.**	**Number of options**	**Weighted average exercise price in Rs.**	**Number of options**	**Weighted average exercise price in Rs.**
	2010	**2010**	**2009**	**2009**	**2008**	**2008**
Outstanding at the beginning of the year	1,211,900	152.51	1,200,400	157.35	-	-
Granted during the year	50,000	89.34	142,500	117.46	708,200	184.84
Replaced (Refer to notes below)	-	-	-	-	(123,900)	184.84
Replacement options granted (Refer to notes below)	-	-	-	-	621,100	
Forfeited during the year	(93,616)	153.58	(131,000)	158.77	(5,000)	157.35
Expired during the year	(88,068)	158.01	-	-	-	308.42
Exercised during the year	(1,416)	59.02	-	-	-	
Outstanding at the end of the year	1,078,800	149.21	1,211,900	152.51	1,200,400	157.35
Vested and Exercisable at the end of the year	437,210	155.55	185,167	157.35	-	-
Weighted average grant date fair value of grants during the year	-	-	-	71.82	-	80.78

The fair value of stock options granted has been measured using the Black Scholes model at the date of the grant. The Black Scholes model includes assumptions regarding dividend yields, expected volatility, expected term (or "option life") and risk free interest rates. In respect of the options granted, the expected term is estimated based on the vesting term, contractual term as well as expected exercise behavior of the employees receiving the option. Expected volatility of the option is based on historical volatility, during a period equivalent to the option life, of the observed market prices of the Company's publicly traded equity shares. Dividend yield of the options is based on the recent dividend activity. Risk-free interest rates are based on the government securities yield in effect at the time of the grant. These assumptions reflect management's best estimates, but these assumptions involve inherent market uncertainties based on market conditions generally outside the Company's control. As a result, if other assumptions had been used in the current period, stock-based compensation expense could have been materially impacted. Further, if management uses different assumptions in the future periods, stock compensation expense could be materially impacted in future years.

The estimated fair value of stock options is charged to income on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards.

The fair value of services received in return for share options granted under ASOP 2007 is based on the fair value of share options granted measured using Black Scholes model, with the following inputs:

No. of options granted, exercised and forfeited	Year ended March 31, 2010	Year ended March 31, 2009	Year ended March 31, 2008
Weighted average share price	99.26	130.41	174.83
Weighted average exercise price	89.34	117.46	157.35
Expected volatility	115.8% - 136.7%	53.5% - 120.0%	53.83% - 77.82%
Option life	3 – 4.5 years	3 – 4.5 years	3 – 4.5 years
Expected dividends	-	-	-
Risk-free interest rate	2.43% - 2.69%	1.64% - 3.45%	2.50%-7.50%

A summary of information about fixed price stock options outstanding as at March 31, 2010 is furnished below:

	Range of exercise price in Rs.	Number outstanding at March 31, 2010	Weighted average exercise price in Rs.	Weighted average remaining contractual life	Number exercisable at March 31, 2010	Weighted average exercise price in Rs.
ASOP 2007	51.51-188.32	1,078,800	149.21	2.97	437,210	155.55

Modification

During the year ended March 31, 2008, the stock options issued under ASOP 2005 and ASOP 2007 had been out of money for most time of the vesting period. As a result, the Group's compensation committee allowed certain employees in their approval dated January 22, 2008 to surrender their (a) unvested (b) vested and (c) unexercised stock options and obtain fresh options at a discount of 10% of the market price under ASOP 2007 prevalent at the date of modification in lieu of the surrendered stock options. This modification resulted in the revision in the exercise price as well as the service period over which the stock options vest. Consequent upon modification, 497,200 stock options of ASOP 2005 plan and 123,900 stock options of ASOP 2007 plan were replaced with an allotment of equal number of fresh options to those who surrendered.

The incremental fair value of the stock options replaced was determined by reference to the difference between the fair value of the replaced stock options and the fair value of the cancelled stock options at the date of grant of new stock options. The incremental fair value as a result of such modification in respect of modified options amounted to Rs.20,959 during the year ended March 31, 2008. In respect of modification that has occurred during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised, for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period. In respect of the modification that has occurred after vesting date, the incremental fair value granted is recognised immediately or over the vesting period if the employee is required to complete an additional period of service before becoming unconditionally entitled to those modified equity instruments. The incremental cost recognised in respect of such modified options amounted to Rs.5,039, Rs.8,838 and Rs 2,120 for the years ended March 31, 2010, 2009 and 2008 respectively.

The assumptions that were used in arriving at the incremental fair value are as summarized below:

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

31. Financial income and expense

	Year ended		
	March 31, 2010	**March 31, 2009**	**March 31, 2008**
Interest income on bank deposits	19,489	116,495	160,262
Interest income from leases	-	435	1,232
Others	8,505	5,635	289
Finance income	**27,994**	**122,565**	**161,783**
Interest expense on lease obligations	16,476	2,243	1,826
Bank charges (including letter of credit, bill discounting and buyer's credit charges)	100,241	86,216	46,484
Interest expense on borrowings	177,156	163,201	9,372
Finance expense	**(293,873)**	**(251,660)**	**(57,682)**
Net finance income / (expense) recognised in profit or loss	**(265,879)**	**(129,095)**	**104,101**

32. Earnings / (loss) per share

The calculation of basic earnings / (loss) per share for the years ended March 31, 2010, 2009 and 2008 is based on the earnings / (loss) attributable to ordinary shareholders of Rs. 33,051, Rs.(900,574) and Rs.(4,696) respectively and a weighted average number of shares outstanding of 50,840,358, 43,350,320, and 42,877,726 respectively, calculated as follows:

Year ended		
March 31, 2010	**March 31, 2009**	**March 31, 2008**

Net profit / (loss) – as reported	17,027	(900,574)	(4,696)
Weighted average number of shares – basic	50,840,358	43,350,320	42,877,726
Basic earnings / (loss) per share	0.33	(20.77)	(0.11)
Weighted average number of shares – diluted	50,853,293	43,350,320	42,877,726
Diluted earnings / (loss) per share	0.33	(20.77)	(0.11)

Weighted average number of ordinary shares basic

	Year ended March 31,		
	2010	2009	2008
Issued fully paid ordinary shares at April 01	42,820,082	42,820,082	42,800,265
Effect of shares issued on exercise of stock options	166	-	14,562
Effect of partly paid shares	-	530,238	62,899
Effect of shares issued consequent to amalgamation of Sify Communications Limited	8,020,110	-	-
Weighted average number of equity shares and equivalent shares outstanding	50,840,358	43,350,320	42,877,726

Weighted average number of ordinary shares diluted

	Year ended March 31,		
	2010	2009	2008
Weighted average number of ordinary shares (basic)	50,840,358	43,350,320	42,877,726
Effect of stock options	12,935	-	-
Weighted average number of equity shares outstanding (diluted)	50,853,293	43,350,320	42,877,726

As the Company incurred a net loss attributable to ordinary shareholders for the years ended March 31, 2009 and 2008, 11,535,300 partly paid shares as at March 31, 2008, 1,211,900 and 1,526,493 ordinary shares arising out of potential exercise of outstanding stock options as at March 31, 2009 and 2008 were not included in the computation of diluted earnings per share, as their effect was anti-dilutive.

33. Operating leases

The Group leases office buildings and other equipment under operating lease arrangements that are renewable on a periodic basis at the option of both the lessor and the lessee. Some of the leases include rent escalation clauses. Rental expenses under these leases were Rs.329,332, Rs.336,899 and Rs.173,951 for the years ended March 31, 2010, 2009 and 2008 respectively. The schedule of future minimum rental payments in respect of operating leases is set out below:

As at March 31, 2010

Lease obligations	**Total**	**Less than 1 year**	**1-5 years**	**More than 5 years**
Non-cancellable operating lease obligations	1,608,509	119,871	407,890	1,080,748
Non-cancellable obligations towards proposed lease *	2,423,554	22,850	520,808	1,879,896

As at March 31, 2009

Lease obligations	**Total**	**Less than 1 year**	**1-5 years**	**More than 5 years**
Non-cancellable operating lease obligations	1,801,477	135,165	585,564	1,080,748
Non-cancellable obligations towards proposed lease *	2,423,554	-	549,538	1,874,016

* For details on proposed lease, refer Note 37 on related parties.

34. Segment reporting

The primary operating segments of the Group are:

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

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

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

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

International and national bandwidth is allocated based on actual usage at an agreed methodology between corporate and retail businesses. The 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. As a result the measures of segment assets and liabilities are not regularly reviewed by the CODM and hence disclosures relating to segment assets and liabilities have not been provided.

The Group's operating segment information for the years ended March 31, 2010, 2009 and 2008, are presented below:

Year ended March 31, 2010

	Corporate network / data services	Internet access services	Online portal services	Consumer one (Sub-total)	Other services	Total
		A	**B**	**A+B**		
Segment revenue	5,335,268	713,929	130,842	844,771	530,149	6,710,188
Allocated segment expenses	(3,929,727)	(757,431)	(140,966)	(898,397)	(406,063)	(5,234,187)
Impairment loss on intangibles including goodwill	-	-	(47,269)	(47,269)	-	(47,269)
Segment operating income / (loss)	**1,405,541**	**(43,502)**	**(57,393)**	**(100,895)**	**124,086**	**1,428,732**
Unallocated expenses:						
Cost of goods sold						(477,807)
Selling, general and administrative expenses						(936,842)
Depreciation and amortization						(656,797)
Other income / (expense), net						131,789
Income from legal settlement						561,120
Finance income						27,994
Finance expenses						(223,990)
Share of profit of equity accounted investee						91,135
Profit / (loss) before tax						**(54,666)**
Income tax (expense) / benefit						81,479
Profit / (loss) for the year						**26,813**

Year ended March 31, 2009

	Corporate network / data services	Internet access services	Online portal services	Consumer one (Sub-total)	Other services	Total
		A	**B**	**A+B**		
Segment revenue	4,305,235	1,128,182	177,324	1,305,506	551,420	6,162,161
Allocated segment expenses	(2,842,889)	(1,295,332)	(220,967)	(1,516,299)	(473,008)	(4,832,196)
Impairment loss on goodwill	-	-	(15,200)	(15,200)	-	(15,200)
Segment operating income / (loss)	**1,462,346**	**(167,150)**	**(58,843)**	**(225,993)**	**78,412**	**1,314,765**
Unallocated expenses:						
Cost of goods sold						(484,478)
Selling, general and administrative expenses						(1,130,221)
Depreciation and amortization						(498,872)
Other income / (expense), net						89,105
Finance income						122,565
Finance expenses						(231,539)
Share of profit of equity accounted investee						64,091
Profit / (loss) before tax						**(754,584)**
Income tax (expense) / benefit						(97,049)
Profit / (loss) for the year						**(851,633)**

Year ended March 31, 2008

	Corporate network / data services	Internet access services	Online portal services	Consumer one (Sub-total)	Other services	Total
		A	**B**	**A+B**		
Segment revenue	3,822,108	1,545,226	210,766	1,755,992	428,115	**6,006,215**
Allocated segment expenses	(2,434,316)	(1,432,982)	(298,031)	(1,731,013)	(366,851)	(4,532,180)

Segment operating income / (loss)	**1,387,792**	**112,244**	**(87,265)**	**24,979**	**61,264**	**1,474,035**
Unallocated expenses:						
Cost of goods sold						(333,681)
Selling, general and administrative expenses						(1,014,382)
Depreciation and amortization						(394,337)
Other income / (expense), net						46,152
Finance income						161,783
Finance expenses						(31,276)
Share of profit of equity accounted investee						181,127
Profit / (loss) before tax						**89,421**
Income tax (expense) / benefit						(63,975)
Profit / (loss) for the year						**25,446**

Reconciliations

	Cost of goods sold	**Selling, general and administrative expenses**	**Finance expenses**	**Total**
Year ended March 31, 2010				
Allocated segment expenses	3,618,731	1,545,573	69,883	5,234,187
Unallocated segment expenses	477,807	936,842	223,990	
Total as per income statement	**4,096,538**	**2,482,415**	**293,873**	
Year ended March 31, 2009				
Allocated segment expenses	3,128,871	1,683,204	20,121	4,832,196
Unallocated segment expenses	484,478	1,130,221	231,539	
Total as per income statement	**3,613,349**	**2,813,425**	**251,660**	
Year ended March 31, 2008				
Allocated segment expenses	3,085,441	1,420,333	26,406	4,532,180
Unallocated segment expenses	333,681	1,014,382	31,276	
Total as per income statement	**3,419,122**	**2,434,715**	**57,682**	

Geographic segments

The Group has two geographic segments India and rest of the world. Revenues from the geographic segments based on domicile of the customer are as follows:

Description	**India**	**Rest of the world**	**Total**
Revenues			
Year ended March 31, 2010	4,950,352	1,759,836	6,710,188
Year ended March 31, 2009	5,071,137	1,091,024	6,162,161
Year ended March 31, 2008	5,342,248	663,967	6,006,215

The Group does not disclose information relating to non-current assets located in India and rest of the world as the necessary information is not available and the cost to develop it would be excessive.

35. Contingencies

a) During the previous years, the Group had received assessment orders from the Income-tax Department of India for various financial years disallowing certain expenditure like bandwidth charges and foreign currency payments for non-deduction of withholding taxes. The Company appealed against those order before Commissioner of Income Tax (Appeals) (CIT(A)) and received favourable orders. The department has filed appeals before Income Tax Appellate Tribunal (ITAT) disputing CIT(A) orders. The group believes that the appeal by the department is not sustainable and consequently no loss contingency is necessary as at March 31, 2010.

b) Contingencies due to certain service tax claims as at March 31, 2010 amounted to Rs 33,280 (March 31, 2009: Rs.19,637).

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

d) The Group during the year ended March 31, 2009 entered into a contract with Emirates Integrated Telecom for the construction and supply of capacity from the Europe India Gateway. As per the contract with Emirates, the Group is required to pay its share of decommissioning costs if any that may arise in the future. No provision has been made by the Group for such decommissioning costs as the amount of provision cannot be measured reliably as at March 31, 2010.

d) In respect of contingencies arising on legal proceedings, refer Note 36.

36. Legal proceedings

a) The Group and certain of its officers and directors are named as defendants in a securities class action lawsuit filed in the United States District Court for the Southern District of New York. This action, which is captioned In re Satyam Infoway Ltd. Initial Public Offering Securities Litigation, also names several of the underwriters involved in 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 Company'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 Company 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 Company. On June 26, 2003, the plaintiffs in the consolidated IPO class action lawsuits currently pending against Sify and over 300 other issuers who went public between 1998 and 2000, announced a proposed settlement with Sify and the other issuer defendants. The proposed settlement provided that the insurers of all settling issuers would guarantee that the plaintiffs recover $1 billion from non-settling defendants, including the investment banks who acted as underwriters in those offerings. In the event that the plaintiffs did not recover $1 billion, the insurers for the settling issuers would make up the difference. This proposed settlement was terminated on June 25, 2007, following the ruling by the United States Court of Appeals for the Second Circuit on December 5, 2006, reversing the District Court's granting of class certification.

On August 14, 2007, the plaintiffs filed Amended Master Allegations. On September 27, 2007, the Plaintiffs filed a Motion for Class Certification. Defendants filed a Motion to Dismiss the focus cases on November 9, 2007. On March 26, 2008, the Court ruled on the Motion to Dismiss, holding that the plaintiffs had adequately pleaded their Section 10(b) claims against the Issuer Defendants and the Underwriter Defendants in the focus cases. As to the Section 11 claim, the Court dismissed the claims brought by those plaintiffs who sold their securities for a price in excess of the initial offering price, on the grounds that they could not show cognizable damages, and by those who purchased outside the previously certified class period, on the grounds that those claims were time barred. This ruling, while not binding on the Company's case, provides guidance to all of the parties involved in this litigation. On October 2, 2008, plaintiffs requested that the class certification motion in the focus cases be withdrawn without prejudice. On October 10, 2008, the Court signed an order granting that request. On April 2, 2009, the parties lodged with the Court a motion for preliminary approval of a proposed settlement between all parties, including the Company and its former officers and directors. The proposed settlement provides the plaintiffs with $586 million in recoveries from all defendants. Under the proposed settlement, the Issuer Defendants collectively would be responsible for $100 million, which would be paid by the Issuers' insurers, on behalf of the Issuer Defendants and their officers and directors.

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

(b) During the year,

- On October 12, 2009, Department of Telecommunications ('DOT') raised a demand on Sify Technologies for INR 14 million after correcting the arithmetical error in the Assessment letter issued by the DoT.
- On February 26, 2010 DOT raised a demand on Sify Communications (erstwhile subsidiary merged with Sify Technologies Limited) for INR 26 million.

These demands were primarily alleged that Sify has not paid license fee on the following;

- Certain items of income have been considered by DOT as licensed activities for payment of licensee fee as the information was not available to DOT.
- Certain items like other income, interest on deposits, gain on foreign exchange fluctuation, profit on sale of assets, provision written back has been considered by DOT as income eligible for licensed activities as against the Company's claim that they are not liable for license fee.

  The Company has responded to the above said demand notices stating that the above demands are not tenable as the demands were not in accordance with the Telecom Disputes Settlement & Appellate Tribunal ('TDSAT') Order which has clarified in its Order that the items of income which are liable for license fee and items of income on which license fees are not liable to be paid. However the TDSAT Order has been challenged in Supreme Court by DoT and Associations of service providers and finality would be arrived only after the decision of the Court. The Company currently pays license fee in accordance with the TDSAT Order and Sify believes that it has adequate legal defenses for these demands and the ultimate outcome of these actions will not have a material adverse effect on Sify.

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

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

c) The Group is party to additional legal actions arising in the ordinary course of business. Based on the available information, as at March 31, 2010, Sify 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 Sify. However in the event of adverse judgement in all these cases, the maximum financial exposure would be Rs 9,051 (March 31, 2009: Rs 9,200)

37. Related parties

The related parties where control / significant influence exists are subsidiaries and associates. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director whether executive or otherwise. Key management personnel includes the board of directors and other senior management executives. The other related parties are those with whom the Group has had transaction during the years ended March 31, 2010, 2009 and 2008 are as follows:

Particulars	**Country of incorporation**	**% of Ownership interest**	
		March 31, 2010	**March 31, 2009**
Subsidiaries			
Sify Communications Limited (until March 31, 2008 also refer note 40)	India	-	74
Sify International Inc.	USA	100	100
Sify Software Limited (Formerly Sify Networks Private Limited)	India	100	100
Sify Technologies (Singapore) Pte. Limited (Incorporated on December 7, 2009)	Singapore	100	-
Associates			
MF Global-Sify Securities India Private Limited	India	29.85	29.85
Others (Entities in which the Key Management Personnel have controlling interest/significant influence)			
Server Engines LLC	USA	-	-
Server Engines India Private Limited	India	-	-
VALS Developers Private Limited	India	-	-
Infinity Satcom Universal Private Limited	India	-	-

The following is a summary of the related party transactions for the year ended March 31, 2010:

Transactions	**Associates**	**Others**	**Key Management Personnel***
Consultancy services received	-	-	240
Sitting fees paid	-	-	1,240
Salaries and other short term benefits	-	-	52,441
Contributions to defined contribution plans	-	-	2,427
Share based payment transactions	-	-	9,486
Issuance of shares on amalgamation of erstwhile Sify Communications limited with Sify Technologies limited	-	842,837	-
Amount of outstanding balances			
Debtors	-	-	-
Advance lease rentals and refundable deposits made*	-	282,825	-

The following is a summary of the related party transactions for the year ended March 31, 2009:

Transactions	**Associates**	**Others**	**Key management personnel***
Sale of goods / services	6,600	734	-
Advance lease rentals and refundable deposits made*	-	282,825	-
Consultancy services received	-	-	240
Sitting fees paid	-	-	1,220
Salaries and other short term benefits	-	-	50,672
Contributions to defined contribution plans	-	-	2,389
Share based payments	-	-	33,579
Amount of outstanding balances			
Debtors	524	174	-

Advance lease rentals and refundable deposits made	-	282,825	-

The following is a summary of the related party transactions for the year ended March 31, 2008:

Transactions	Associates	Others	Key management personnel***
Purchase of goods / services	-	3,796	-
Issue of shares for cash**	-	112,149	-
Consultancy services	-	-	240
Sitting fees paid	-	-	1,320
Salaries and other short term benefits	-	-	53,298
Contribution to defined contribution plans	-	-	2,516
Share based payments	-	-	40,169

*Represents deposits made to VALS Developers Private Limited ("VALS").VALS is owned and controlled by Raju Vegesna Infotech & Industries Private Limited, in which Mr. Raju Vegesna, our principal share holder and Chief Executive Officer, is holding 94.66% equity in his personal capacity. During the year ended March 31, 2009, Sify entered into a Memorandum of Understanding ('MoU)' for long term lease with VALS Developers Private Limited to obtain land and building which is in the process of being constructed.. The lease agreement, when final and executed, was expected to have an initial non-cancellable term of 5 years, with a further option for Sify to renew or cancel the lease for the incremental five year terms. In connection with this memorandum of understanding, Sify has paid a security deposit of Rs.125,700 and advance rental of Rs.157,125 to VALS. As per the terms of the MOU, the security deposit will be refunded at the end of lease term and the advance rental would be adjusted over a period of 15 months from the commencement of the lease. Subsequently on October 30,2010, the Board of Directors have proposed to cancel the MoU for lease arrangement and has decided to acquire the property which is under construction from the third party directly. The above deposits would be adjusted against the consideration payable for acquiring the property.

** Also refer note 16 in relation to transactions relating to issue of equity shares to Infinity Satcom Universal Private Limited.

*** Some of the key management personnel of the Group are also covered under the Group's gratuity plan along with other employees of the Group. Proportionate amounts of gratuity accrued under the gratuity plan have not been separately computed or included in the above disclosure.

38. Financial instruments

Financial instruments by category

The carrying value and fair value of financial instruments by each category as at March 31, 2010 were as follows:

Particulars	Note	Loans and receivables	Financial assets / liabilities at fair value through profit and loss	Available for sale	Other financial liabilities	Total carrying value	Total fair value
Assets							
Cash and cash equivalents	8	878,698	-	-	-	878,698	878,698
Other assets	10	249,744	-	-	-	249,744	249,744
Trade receivables	13	1,912,348	-	-	-	1,912,348	1,912,348
Other receivables	13	315,835	-	-	-	315,835	315,835
Derivative financial instruments	13	-	6,998	-	-	6,998	6,998
Liabilities							
Bank overdraft	8	-		-	1,060,284	1,060,284	1,060,284
Finance lease liabilities	17	-	-	-	201,317	201,317	201,317
Other liabilities	19	-		-	165,800	165,800	165,800
Borrowings from banks	20	-		-	1,239,105	1,239,105	1,239,105
Borrowings from others	20	-	-	-	163,165	163,165	163,165
Trade and other payables	21	-		-	1,798,764	1,798,764	1,798,764

The carrying value and fair value of financial instruments by each category as at March 31, 2009 were as follows:

Particulars	Note	Loans and receivables	Financial assets / liabilities at fair value through profit and loss	Available for sale	Other financial liabilities	Total carrying value	Total fair value
Assets							
Cash and cash equivalents	8	1,710,798	-	-	-	1,710,798	1,710,798
Other assets	10	227,468	-	-	-	227,468	227,468
Trade receivables	13	1,504,927	-	-	-	1,504,927	1,504,927
Other receivables	13	402,992	-	-	-	402,992	402,992
Derivative financial instruments	13	-	2,997	-	-	2,997	2,997
Other investments	15	-	-	13,874	-	13,874	13,874
Liabilities							
Bank overdraft	8	-		-	1,397,083	1,397,083	1,397,083
Finance lease liabilities	17	-	-	-	155,325	155,325	155,325
Other liabilities	19	-		-	134,116	134,116	134,116
Borrowings from banks	20	-		-	1,384,519	1,384,519	1,384,519
Trade and other payables	21	-		-	1,411,358	1,411,358	1,411,358

Details of financial assets pledged as collateral

The carrying amount of financial assets as March 31, 2010 and 2009 that the Group has provided as collateral for obtaining borrowings and other facilities from its bankers are as follows:

	March 31, 2010	March 31, 2009
Cash and cash equivalents	878,698	1,710,798
Other assets	249,744	227,468
Trade receivables	1,912,348	1,504,927
Other receivables	315,835	402,992
	3,356,625	**3,846,185**

Derivative financial instruments

Foreign exchange forward contracts and options are purchased to mitigate the risk of changes in foreign exchange rates associated with certain payables, receivables and forecasted transactions denominated in certain foreign currencies. These derivative contracts do not qualify for hedge accounting under IAS 39, and are initially recognised at fair value on the date the contract is entered into and subsequently re-measured at their fair value. Gains or losses arising from changes in the fair value of the derivative contracts are recognised immediately in profit or loss. The counterparties for these contracts are generally banks or financial institutions. The following table gives details in respect of the notional amount of outstanding foreign exchange and option contracts as on March 31, 2010 and 2009:

	As of	
	March 31, 2010	**March 31, 2009**
Forward contracts		
In U.S. Dollars (Sell)	-	-
In U.S Dollars (Buy)	-	-
Option contracts		
In U.S Dollars (Sell)	67,710	216,538
In U.S Dollars (Buy)	-	25,475

The Company recognized a net gain on derivative financial instruments of Rs.6,998 for the year ended March 31, 2010 and a net gain of Rs.2,997 during the year ended March 31, 2009 and a net loss of Rs.2,513 during the year ended March 31, 2008.

The forward exchange contracts and option contracts mature between one and twelve months. The table below summarizes the notional amounts of derivative financial instruments into relevant maturity groupings based on the remaining period as at the end of the year:

	As of	
	March 31, 2010	**March 31, 2009**
Sell:		

Not later than one month	33,855	25,525
Later than one month and not later than three months	33,855	50,950
Later than three months and not later than six months	-	76,425
Later than six months and not later than one year	-	63,638
	67,710	**216,538**

	As of	
	March 31, 2010	**March 31, 2009**
Buy:		
Not later than one month	-	25,475
Later than one month and not later than three months	-	-
Later than three months and not later than six months	-	-
Later than six months and not later than one year	-	-
	-	**25,475**

Interest, (expenses), gains and (losses) recognized on financial assets and liabilities

Recognised in profit or loss

	Year ended		
	March 31, 2010	**March 31, 2009**	**March 31, 2008**
Loans and receivables			
Interest income on bank deposits	19,489	116,495	160,262
Interest income from leases	-	435	1,232
Interest income from other loans and receivables	8,505	5,635	289
Impairment loss of trade receivables	(121,987)	(84,346)	(131,954)
Impairment loss on finance lease receivables	-	(6,929)	-
Financial assets at fair value through profit or loss			
Net change in fair value of derivative financial instruments	6,998	2,997	(3,312)
Other financial liabilities			
Interest expenses on lease obligations	(16,476)	(2,243)	(1,826)
Interest expenses on borrowings from banks, others and overdrafts	(177,156)	(163,201)	(9,372)

Recognised directly in other comprehensive income

	Year ended		
	March 31, 2010	**March 31, 2009**	**March 31, 2008**
Net change in fair value of available-for-sale financial assets	-	(5,361)	(1,080)

39. Financial Risk Management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors have established a risk management policy to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management systems are reviewed periodically to reflect changes in market conditions and the Group's activities. The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the risk management framework. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk: Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's trade receivables, treasury operations and other activities that are in the nature of leases.

Trade and other receivables
The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management considers that the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. The group is not exposed to concentration of credit risk to any one single customer since the services are provided to and products are sold to customers who are spread over a vast spectrum. Credit risk is managed through credit approvals, establishing credit limits and continuously monitoring the credit worthiness of the customers to which the Company grants credit terms in the normal course of the business.

Cash and cash equivalents and other investments
In the area of treasury operations, the Group is presently exposed to counter-party risks relating to short term and medium term deposits placed with public-sector banks, and also to investments made in mutual funds.

Guarantees
The Group's policy is to provide financial guarantees only to subsidiaries.

The Chief Financial Officer is responsible for monitoring the counterparty credit risk, and has been vested with the authority to seek Board's approval to hedge such risks in case of need.

Exposure to credit risk

The gross carrying amount of financial assets, net of any impairment losses recognized represents the maximum credit exposure. The maximum exposure to credit risk as at March 31, 2010 and 2009 was as follows:

	March 31, 2010	March 31, 2009
Cash and cash equivalents	878,698	1,710,798
Other assets	249,744	227,468
Trade receivables	1,912,348	1,504,927
Other receivables	315,835	402,992
Derivative financial instruments	6,998	2,997
Other investments	-	20,315
	3,363,623	**3,869,497**

Financial assets that are past due but not impaired

There is no other class of financial assets that is past due but not impaired other than trade receivables. The age analysis of trade receivables have been considered from the date of invoice. The ageing of trade receivables, net of allowances that are past due, is given below:

Period (in days)	March 31, 2010	March 31, 2009
Past due 181 - 270 days	160,979	120,662
Past due 271 - 365 days	29,346	59,534
More than 365 days	114,932	-
	305,257	**180,196**

See note 13 for the activity in the allowance for impairment of trade account receivables.

Financial assets that are not past due

Cash and cash equivalents, other assets, other receivables and finance lease receivables are neither past due nor impaired. Of the total trade receivables that are not past due as at March 31, 2010 amounting to Rs.1,627,059 (March 31, 2009: Rs.1,324,731) impairment to the extent of Rs 19,968 (March 31, 2009: Nil) has been recorded.

Details of collateral and other credit enhancements held

	March 31, 2010	March 31, 2009

Security deposits received for internet access services	16,236	32,918

Liquidity risks: Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses, servicing of financial obligations. In addition, the Group has concluded arrangements with well reputed Banks, and has unused lines of credit that could be drawn upon should there be a need. The Company is also in the process of negotiating additional facilities with Banks for funding its requirements.

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

As at March 31, 2010

	Carrying amount	Contractual cash flows	0-12 months	1-3 years	3-5 years
Non-derivative financial liabilities					
Bank overdrafts	1,060,284	1,060,284	1,060,284	-	-
Finance lease liabilities	201,317	247,354	65,148	123,922	58,284
Other liabilities	165,800	165,800	165,800	-	-
Borrowing from banks	1,239,105	1,333,922	972,962	360,960	-
Borrowings from others	163,165	207,828	57,041	91,247	59,540
Trade and other payables	1,798,764	1,798,764	1,798,764	-	-
	4,628,435	**4,813,9524,813,952**	**4,119,999**	**576,129**	**117,824**

As at March 31, 2009

	Carrying amount	Contractual cash flows	0-12 months	1-3 years	3-5 years
Non-derivative financial liabilities					
Bank overdrafts	1,397,083	1,397,083	1,397,083	-	-
Finance lease liabilities	155,325	180,989	42,743	84,746	53,500
Other liabilities	134,116	134,116	134,116	-	-
Borrowing from banks	1,384,159	1,498,236	1,261,604	200,694	35,938
Trade and other payables	1,411,358	1,411,358	1,411,358	-	-
	4,482,041	**4,621,7824,621,782**	**4,246,904**	**285,440**	**89,438**

Market risk: Market risk is the risk of loss of future earnings or fair values or future cash flows that may result from a change in the price of a financial instrument. The value of a financial instrument may change as a result of changes in the interest rates, foreign exchange rates and other market changes that affect market risk sensitive instruments. Market risk is attributable to all market risk sensitive financial instruments including foreign currency receivables and payables. The Group is exposed to market risk primarily related to foreign exchange rate risk (currency risk), interest rate risk and the market value of its investments. Thus the Group's exposure to market risk is a function of investing and borrowing activities and revenue generating and operating activities in foreign currencies.

Currency risk: The Group's exposure in USD, Euro and other foreign currency denominated transactions gives rise to Exchange Rate fluctuation risk. Group's policy in this regard incorporates:

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

The Group's exposure to foreign currency risk as at March 31, 2010 was as follows:

All amounts in respective currencies as mentioned (in thousands)

	USD	CAD	CHF	Euro	GBP	DHS	HKD
Cash and cash equivalents	1,198	-	-	-	-	-	-
Trade receivables	8,869	168	209	32	96	1	-
Trade payables	(4,764)	-	-	(31)	(12)	-	(11)
Gross balance sheet exposure	**5,303**	**168**	**209**	**1**	**84**	**1**	**(11)**
Forward exchange / option contracts	(1,500)	-	-	-	-	-	-
Net exposure	**3,803**	**168**	**209**	**1**	**84**	**1**	**(11)**

The Group's exposure to foreign currency risk as at March 31, 2009 was as follows:

All amounts in respective currencies as mentioned (in thousands)

	USD	CAD	CHF	Euro	GBP	SGD	DHS
Cash and cash equivalents	1,347	-	-	-	-	-	-
Trade receivables	5,770	301	161	2	91	16	-
Trade payables	(3,390)	-	-	(15)	(14)	(26)	(6)
Gross balance sheet exposure	**3,727**	**301**	**161**	**(13)**	**77**	**(10)**	**(6)**
Forward exchange / option contracts	(3,750)	-	-	-	-	-	-
Net exposure	**(23)**	**301**	**161**	**(14)**	**77**	**(10)**	**(6)**

Sensitivity analysis

A 10% strengthening of the rupee against the respective currencies as at 31 March 2010 and 2009 would have increased / (decreased) other comprehensive income and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009.

	Other comprehensive income	Profit or loss
March 31, 2010	-	(19,367)
March 31, 2009	-	(2,253)

A 10% weakening of the rupee against the above currencies as at March 31, 2010 and 2009 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest Rate Risk: Interest rate risk is the risk that an upward movement in interest rates would adversely affect the borrowing costs of the group.

Profile

At the reporting date the interest rate profile of the Group's interest –bearing financial instruments were as follows:

	Carrying amount	
	March 31, 2010	**March 31, 2009**
Fixed rate instruments		
Financial assets		
- Fixed deposits with banks	531,192	1,401,224
Financial liabilities		
- Borrowings from banks	697,165	850,826
- Borrowings from others	163,165	-
Variable rate instruments		
Financial liabilities		
- Borrowings from banks	541,940	533,333

- Bank overdrafts	1,060,284	1,397,083

Fair value sensitivity for fixed rate instruments

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

Cash flow sensitivity for variable rate instruments

An increase of 100 basis points in interest rates at the reporting date would have increased / (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis has been performed on the same basis as 2009.

	Equity	**Profit or loss**
March 31, 2010	-	(16,022)
March 31, 2009	-	(19,304)

A decrease of 100 basis points in the interest rates at the reporting date would have had equal but opposite effect on the amounts shown above, on the basis that all other variable remain constant.

40. Acquisition of non-controlling interest in subsidiary

The Board of Directors and shareholders of the Company at their meeting held on November 24, 2008 approved the merger of Sify's subsidiary Sify Communications Limited, subject to approval by the Honorable High Court of Madras and other statutory authorities. Subsequently, the Company obtained the approval of Honorable High Court on June 26, 2009 which is binding on the Company and its subsidiary Sify Communications Limited and as part of the merger, the Company issued 10,530,000 equity shares to Infinity Satcom Universal Pvt. Limited (a company promoted by the principal shareholders of Sify) and acquired the remaining 26% equity interest of Sify Communications Limited. Although the merger was approved by the High Court on June 26, 2009, which is considered as the acquisition date for accounting purposes, for Income-tax purpose the effect of merger is retrospectively applied from April 1, 2008. The acquisition of this non-controlling interest has been accounted as a transaction with equity holders in their capacity as equity holders and accordingly no goodwill has been recognized. As a result of the acquisition of non-controlling interest, the following adjustments were incorporated in the consolidated financial statements for the year ended March 31, 2010:

- As a consequence of the merger, the Company was eligible under the Indian Income-tax laws to consolidate the Income-tax returns of Sify and Sify Communications Limited retrospectively from April 1, 2008. Accordingly, the taxable income reported by Sify Communications Limited for the period subsequent to April 1, 2008 has been off-set against the previously fully reserved business losses of the Company. This resulted in the reversal of income tax liabilities aggregating to Rs.90,003 and a write off of deferred tax assets of Rs.8,524 during the year ended March 31, 2010.

- Consequent to the approval of the merger by the Honorable High Court on June 26, 2009, the Company was obliged to issue 10,530,000 shares which the Company has duly issued on July 16, 2009, and accordingly, the fair value of shares to be issued as at June 26, 2009 has been considered as the consideration for the acquisition of the non-controlling interest. The difference between the fair value of the consideration paid and the face value of equity shares issued is recorded as share premium and the difference between the fair value of the consideration paid and the carrying amount of non-controlling interests is recorded as an adjustment in equity and is included as part of share premium.

41. IPO listing

The Ministry of Finance of the Government of India ('MoF') issued a press release dated March 31, 2006, making amendments to the 'Issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depository Receipt Mechanism) Scheme 1993' ('the Scheme'). The amendments included a statement that unlisted Companies which had accessed FCCBs, ADR/GDRs in terms of guidelines of May 22, 1998 and are not making profit, be permitted to comply with listing condition on the domestic stock exchanges within three years of having started making profit. Further, the press release states that no fresh issues of FCCBs, ADR/GDRs by such companies will be permitted without listing first in the domestic exchanges. Since the Company has made one time book profits in the financial year 2006-07, the Company has applied to MoF through its letter dated September 10, 2009, requesting the MOF:

i. to provide extension of time for listing the shares in the Indian stock exchanges

ii. to grant a special permission to issue shares on rights basis to the existing shareholders

Subsequently on November 9, 2009, the MoF has informed that the Company's request was not in accordance with the existing policy. The Company again on March 4, 2010 has applied to MoF reiterating its previous request and the Ministry of

Finance has again informed the Company that such request is not in accordance with the existing policy. The Company, based on a legal opinion, believes that there are no financial implications that would arise in connection with said press release by MoF.

42. Subsequent events

Issuance of shares to existing promoter group

On August 4, 2010, the Board of Directors of the company approved the issuance, in a private placement, of upto an aggregate of 125,000,000 of the company's equity shares, par value Rs.10 per share ("Equity shares"), for an aggregate purchase price of approxiamately US$ 86 million, to a group of investors affiliated with the company's promoter group, including entities affiliated with Mr Raju Vegesna, the company's Chief Executive officer and Managing Director and Mr Ananda Raju Vegesna, Executive and brother of Mr Raju Vegesna (the "Offreing"). The company's shareholders approved the terms of the Offering at the Company's Annual General Meeting held on September 27, 2010.

On October 22 2010, the company entered into a Subscription Agreement with Mr AnandaRaju Vegesna, acting as representative (the "Representative") of the purchasers in connection with the offering. The company issued 125,000,000 equity shares to the Representative on October 30, 2010. In accordance with Indian law, a portion of the purchase price was paid on October 30,2010, with the remaining amount of the purchase price to be paid at such time as determined by the company. Until the full purchase price is paid by the purchasers, the company retains a lien on the equity shares purchased in connection with the Offering.

As a result of the consummation of the Offering, Mr Raju Vegesna beneficially holds approxiamately 86.4% of the outstanding equity shares of the company.