Contents

(THIS PAGE INTENTIONALLY LEFT BLANK)

Board of Directors

Raju Vegesna
Chairman, Managing Director & CEO

T H Chowdary

C B Mouli

P S Raju

S K Rao

R D Thulasiraj

Audit Committee

S K Rao
Chairman

C B Mouli
Financial Expert

R D Thulasiraj

Durgesh Mehta
Chief Financial Officer

V Ramasubramanian
Company Secretary

Registered Office

2nd Floor, Tidel Park
4, Canal Bank Road
Taramani, Chennai - 600 113

Bankers

State Bank of India
UTI Bank Limited
Citibank N.A.
IDBI Bank Limited
ABN Amro Bank
ICICI Bank Limited
HDFC Bank Limited

Auditors

BSR & Co.
Chartered Accountants
Chennai, India.

(THIS PAGE INTENTIONALLY LEFT BLANK)

DIRECTORS' REPORT

Dear Members,

Your Directors take pleasure in presenting the Tenth Annual Report together with the audited accounts of your company for the financial year ended March 31, 2006.

Financial highlights

Rs. in million

Details	Year ended March 31, 2006	Year ended March 31, 2005
Sales and other Income	4704.28	3604.15
Operating Profit before interest and depreciation	330.75	214.25
Interest (Net)	67.59	51.83
Depreciation	437.56	526.75
Profit / (Loss) before tax	(39.22)	(260.67)
Provision for taxation (including deferred tax)	(20.89)	-
Profit / (Loss) after tax	(60.11)	(260.67)

The Company registered revenue of Rs. 4,639 million ($ 104.3 Million) during the period under review, a 30% growth over the previous year. The net loss for the financial year was Rs 60.1 million ($ 1.35 million), a reduction of 77% from the previous year. During the fourth quarter, the company reported a net profit of Rs.56.7 million ($ 1.27 million).

As the company has incurred losses during the year, your Directors do not recommend any dividend for the year under review.

Review of business:

Enterprise Solutions

The upswing that was witnessed in IT spends in the last year by companies in India increased during this year. The Indian domestic IT Industry is estimated to have recorded growth of over 25 percent during 2005-06, touching US$ 6.1 billion in revenues.

India is regarded as the preferred destination for offshore outsourcing today. The exports of IT and IT enabled services is estimated to have grown at a very impressive 32% in 2005-06, as per NASSCOM.

Corporate Network Services accounted for 54% of total revenue, with 25% growth over the previous year. During the course of the year, Sify won multiple clients for its MPLS VPN services and continues to enjoy a dominant position in this space.

During the year, we had major gains in the BFSI (Banking, Financial Services, Insurance) segment, in addition to the rapidly growing IT Enabled services, manufacturing and retail sectors, for corporate services. Sify's leadership was recognized by Gartner, which put Sify on top of the table in its report in February 2006 on "comparison of IP VPN Service Providers in India". Sify also received the Frost & Sullivan Market leadership award for IP VPN services for the second consecutive year.

The company further consolidated its position as a leading PKI & Digital certificate solutions provider in the country through the services offered under the Safescrypt brand. The Ministry of Company Affairs has mandated e-filing of all statutory returns and digital certification for all signatories. This promises a large growth opportunity for the sector.

We streamlined Application Services to include web applications, document management systems, messaging systems and online examinations. The group executed several key assignments, building applications such as sales force automation and extended supply chain solutions.

Sify's Hosting and network services have started integrating their service offerings to provide end-to-end offerings to customers including disaster recovery solutions. Sify developed a new Level IV data center in Bangalore to cater to the rising demand for hosting primary and disaster recovery data centers. This is the third data center in the country in addition to the existing ones in Mumbai and Chennai.

Forum, Sify's supply chain solution, had major wins including Exxon Mobil and Bunge India. There are now more than 3000 installations across the country. Forum finalized a powerful marketing alliance with Intel for bundling it with their PCs in a special marketing activity targeting India's retailing sector.

Access Media

Sify's Access Media revenues grew by 29% over last year. This division now contributes 39% of the company's revenue.

Cyber cafés: Adding additional services at Sify's iways has strengthened Sify's leadership position in the Public Internet Access business, as well as introducing new revenue streams, which contributed to our growth. In addition to browsing and Internet telephony, a large number of these cafes are enabled for gaming and e-commerce. The network has grown from 2,471 cafes last year to 3,307 this year, with more than 1.15 million unique users per quarter. The service was also expanded to over 150 cities and towns.

Broadband: Sify has now become the leader within the private sector in the provision of high speed Internet access to homes. The subscriber base doubled during the year with more than 183,000 subscribers. The service is available in more than 90 cities through a network of more than 1,600 Cable Television Operators.

VoIP for the IT / ITES segment: VOIP services were extended to the IT/ ITES segment to capitalize on the growing opportunity in this segment that has a significant spend on international calls. There are now more than 80 customers signed up with Sify and benefiting from the compelling cost advantages of Sify's service.

Games: Over one-third of Sify's cafes are enabled for playing games. The number of hours of games played online at iways grew by over 100% during the previous year. The number of PCs enabled for online games doubled to 6,000 during this period.

Portals

Portals revenues grew by approximately 74% driven by strong advertisement and sponsorship revenues as well as new initiatives in e-commerce.

To address the need for suitable interactive content for broadband users, we launched Sifymax.in, a complete broadband content site, last year. This portal has been enhanced with new content categories and is shaping the expectations of India's growing base of broadband users with compelling multi-media content.

Sify Max provides live streaming and on-demand video and audio content in multiple categories, including films and music, general entertainment, lifestyle, TV reality shows, pod casts, video blogs, business, sports and national news. Sify Max also streams video content live (24 X 7) from TV channels like CNN-IBN & CNBC and hosts 15 radio stations offering Bollywood hits, latest chart-busters, Indipop and international.

The all-new Sify.com features SifyMail Service with unlimited mailbox capacity. Users can also compose and read mails in 11 Indian languages - Assamese, Bengali, Gujarati, Hindi, Kannada, Malayalam, Oriya, Punjabi, Sanskrit, Tamil, and Telugu. Enhanced features on Sify.com include easier navigation, a contemporary layout, vantage positions for advertisers to ensure that their brands are noticed without being disruptive, headlines in 5 Indian languages and a convenient mail login on the home page.

Ecommerce

Online booking of railway tickets, one of the largest online transaction activities in India, was integrated at iways to users to book tickets while making cash payment. From its introduction, the numbers of railway tickets booked online per month through the iways have grown exponentially.

Remote Management Services for enterprises in India and abroad

The Remote Management Service (RMS) for remotely managing and supporting infrastructure was commenced last year. The service delivery process for this business was made ITIL compliant. A real time reporting portal

(Ionic-Information on Infrastructure) was developed to enable CIOs and operational managers of our customers to view the status of the infrastructure that we manage for them, with an ability to drill down to incident and performance details of every device under our management. IonI also enforces ITIL compliant incident and change management processes at customer end.

eLearning

Sify's eLearning division is an end-to-end eLearning solutions provider focused on Custom Content Development services for global clients. During the course of the year, the division added UNDP and CISCO as key clients. Innovations in this division include porting elearning content on Mobile Devices as well as creating Instructor Led Training Material creation. Sify's successful project for CISCO, which involved porting content in PDA (HP Ipaq), has provided Sify with good visibility in the sector, which we hope will lead to additional contracts. This division is already ISO 9000 certified and is working towards CMMI Level IV certification by end of 2006-07.

New shareholder and Infusion of funds

In November 2005, Satyam Computer Services, the company's largest shareholder divested their entire shareholding to Infinity Capital Ventures LP, USA, in which Mr Raju Vegesna, a Silicon Valley entrepreneur, holds a controlling interest. Simultaneously, Infinity also subscribed to an additional 6.7 million shares in Sify, which resulted in an additional inflow of USD 37 million. In connection with these transactions, Infinity has nominated Mr Raju Vegesna as the Chairman of the Board of Directors of the company.

Acquisition of new business

Sify acquired Globe Travels engaged in the business of online travel and travel related business, which is the highest revenue-generating category on the Internet. Besides the existing India inbound business of Globe Travels, the India domestic and outbound travel ticketing business will also be a key thrust for growth. Sify is upgrading the travel engine of Globe Travels to create a new travel page for its Sifymax.com and other portal properties.

Technology Initiatives

For the first time in India, a Carrier Supporting Carrier (CSC) mode MPLS VPN implementation was done by Sify for a customer linking seven cities across India. The customer sites were connected using Metro Ethernet access with a highly redundant network design.

In another first, Sify implemented Digital Certificate based authentication platform for a multi-location IPSEC based VPN.

Subsidiary Companies

Sify Communications Limited

Sify Communications Limited (Sify Comm) successfully broadened its solution offerings and migrated from being a Certifying Authority (CA) focused business to a Data Security solutions provider. The company also added new solution offerings in the areas of Data Protection and Privacy, Encryption Technologies, Strong Authentication and Digital Rights Management. The company forged alliances with leading players in these domains including SafeBoot, ELock, Swivel Secure, Seclore, etc.

The CA services business also witnessed the opening up of the market by virtue of the MCA21, E - Governance project, necessitating all companies registered in India to make their filings online.

IP-VPN business

Consequent to the change in the Government regulations on Telecom services, the company decided to transfer the IP-VPN Division to Sify Comm. Sify Comm applied for the licences for provision of telecom services under Internet telephony, Internet, National Long Distance and International Long Distance to the Department of Telecommunications (DOT) and already received the Letter of Intent (LOI) from them. This has to be converted into Licence on payment of the one time entry fee and the submission of no due certificate from the company as well as the subsidiary company. The company has been taking expeditious steps to convert the LOI and enter into the Licence Agreement with DOT.

IndiaWorld Communications Limited

The company did not have any business operations during the year.

Sify Networks Private Limited

The company did not have any business operations during the year.

Sify International Inc.

The company did not have any commercial operations during the year under review. The loss incurred by the company due to administration and personnel expenses amounts to Rs.8.67 million.

Directors

During the year, Satyam Computer Services Limited, consequent to their divestment of their entire holding in the share capital of the company, have terminated their rights and obligations conferred under the Investor Rights Agreement dated October 7, 2002 and as a result, Mr B Rama Raju and Mr V Srinivas, their nominees, resigned from the Board. The Directors place on record their appreciation of the services rendered by Mr Rama Raju and Mr Srinivas during their tenure as Directors of the company.

Dr T H Chowdary and Dr S K Rao, Directors, retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for reappointment. Your Directors recommend their re-appointment.

Mr Raju Vegesna and Mr P S Raju, who were appointed as Additional Directors on November 10, 2005 and February 28, 2006 respectively, hold office upto the ensuing Annual General Meeting. Notices have been received from members proposing their appointment as Directors of the company.

On July 18, 2006, Mr R Ramaraj has resigned from the office of CEO and Managing Director of the company, as well as his position as a member of Sify's Board of Directors, in order to pursue his other life long ambitions. The Directors place on record their appreciation of the valuable services rendered by Mr Ramaraj during his tenure as the CEO & Managing Director of the company.

Mr Raju Vegesna, Chairman, was appointed as the Managing Director and CEO of the company effective July 18, 2006.

Mr Raju Vegesna is a highly respected Silicon Valley entrepreneur who has founded several leading edge technology companies, including ServerWorks Corporation. Mr. Vegesna founded and currently serves as CEO and Chairman of ServerEngines, LLC, a rapidly growing Silicon Valley-based company engaged in the development of innovative enterprise computing products. Mr. Vegesna is widely acknowledged for his determination, management acumen, technical expertise and creativity.

Audit Committee

The Audit Committee was reconstituted on July 15, 2005 to comply with the independent audit committee requirements of SEC and NASDAQ regulations and the present committee consists of Dr S K Rao, Mr C B Mouli and Mr R D Thulasiraj.

Directors' responsibility statement

Your Directors state:

(i) that in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;

(ii) that they had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the loss of the company for that period;

(iii) that they had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;

(iv) that they had prepared the annual accounts on a going concern basis.

Auditors

Our Statutory Auditors, BSR & Co., retire at the ensuing Annual General Meeting and are eligible for reappointment.

Fixed Deposits

Your Company has not accepted any deposits and as such, no amount of principal or interest was outstanding on the date of the Balance Sheet.

Conservation of Energy, Technology Absorption and Foreign Exchange

The particulars prescribed under clause (e) of sub section (1) of Section 217 of the Indian Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules 1988, are given in Annexure ''A" of this report.

Employees' Particulars in terms of Section 217(2A) of the Indian Companies Act, 1956

The particulars of employees as required to be disclosed in accordance with the provisions of Section 217(2A) of the Indian Companies Act, 1956, and the Companies (Particulars of Employees) Rules, 1975, as amended, are annexed to the Directors' Report.

Acknowledgement

Your Directors take this opportunity to thank all investors, customers, vendors, banks, regulatory and government authorities for their continued support. Your Directors also wish to place on record their appreciation of the valuable contribution made by the Associates at all levels.

For and on behalf of the Board

Chennai
August 2, 2006

Raju Vegesna
Chairman

ANNEXURE A

Particulars furnished pursuant to Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

A *Conservation of energy:* The Company is not a manufacturing company and hence the details in respect of the above are not applicable.

B *Research and Development:* The Company has not undertaken any R&D activity in any specific area during the year under review, and hence no cost has been incurred towards the same.

C	*Technology Absorption*	:	Nil.
D	*Foreign Exchange Earnings and Outgo*	:	
	Total Foreign Exchange earnings	:	Rs. 347 million
	Total Foreign Exchange outgo	:	Rs. 754 million

Annexure to Directors' Report for the year ended March 31, 2006

Information as per Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, annexed to and forming part of the Directors' Report for the year ended 31st March 2006.

S.No.	Name	Designation	Qualification	Age in years	Date of Joining	Exp. in Years	Grosss Remuneration Rs.	Previous Employment Designation
1	Ramaraj R	CEO & Managing Director	B.Tech '71, PGDM '73	56	01-Apr-98	33	7,083,191	Sterling Cellular Ltd - Director
2	Ajit G. Abraham	Chief Human Resources Officer	MA' 81, Dip in Human Resources '88	47	03-May-99	24	13,721,915	Mobil India Ltd. - VP Human Resources
3	Rahul swarup	President - Enterprise Solutions	B.Tech '83	46	17-Sep-99	17	14,436,972	Citi Bank - Vice President
4	Shrikant P Joshi	President - Access Media	B.Tech '81,PGDM '83	48	03-Dec-01	23	13,995,387	Heinz- VP Sales
5	Rustom Irani	Chief Technology Officer	B.Sc.'82, Dip in Comp. Programming'84	44	23-Dec-99	22	14,020,370	GE Capital - CIO & VP
6	Naresh Ajwani	Vice President - Projects	MA '85, Dip in Mktg '99	44	10-May-99	23	2,537,664	Versatile Group of Companies- Director
7	Ashish Arora	Vice President - Enterprise Solutions	BE '92, PGDBM '96	36	01-Jul-99	13	2,782,403	HCL Comnet System&Services Ltd-Business Development Manager
8	Badri Narayanan P	Vice President - Network Engineering Group	BE'92	38	09-Aug-99	13	3,141,723	GE Capital - Assistant Manager
9	Daniel Alex	Vice President - Enterprise Solutions	BA Eng '89, PGDSM '90	38	06-Sep-99	15	2,544,043	ESCO Audio Visual (India) Pvt Ltd- Regional Manager
10	Srinivasan C R	Vice President - Technology	BE'91	36	01-Dec-99	14	4,469,408	Citi Bank N.A-Manager
11	Kumar A	General Manager - Technical	DEE'84, Cisco Certified Network (CCNA)	40	12-Jan-00	22	2,852,943	GEIL Projects- General Manager(South)
12	Karthikeyan S	Vice President - Systems	BE'84, MS'88	43	18-Oct-00	22	2,861,278	Reliance Petroleum Ltd -Dy. Gen .Manager
13	Manvendra Bhangui	Vice President - Systems & Software	BE Mech '88, MTech Material Sci '91	41	27-Dec-00	16	4,104,706	GE Capital - Assistant VP
14	Rajagopalan S K	Vice President - Project Management Group	B.Sc '76, B.Tech '79	50	19-Aug-02	27	3,173,606	Citibank N.A- VP(CS&PM)
15	Rajiv Subramani	Vice President - Security International Sales	B.A'89	38	18-Aug-00	10	3,506,390	E-Alcatraz Consulting P Ltd-COO
16	Sushil Luniya	Vice President - Operations	B.E '84, MBA '87	44	19-Mar-02	19	2,933,261	Apollo Tyres Ltd - Head Sales
Part of the year								
17	Durgesh Mehta	Chief Financial Officer	B.Com, CA '76	54	05-Dec-05	28	2,394,359	Unilever Arabia- Director (Finance & IT)
18	Surya Mantha	Senior Vice President - Interactive Services	B.Tech, MS, Ph' D (CS) MBA	46	08-Aug-05	14	3,025,560	Real Networks Inc- General Manager (Industry &Solutions, Marketing)
19	Dipan Bhattacharyya	Vice President - Enterprise Solutions	B.Tech '88, PGDM '91	40	14-Feb-06	18	564,675	ICICI Prudential Life Insurance Co Ltd, Chief- Information Technology
20	Anil Ahuja	Chief Financial Officer	B.Tech '72, PGDM '74	55	15-Jun-04	32	4,169,535	Bell Canada International - VP - Corp. Dev.
21	Ramabhadran AP	Vice President - Retail Broadband	B.Com '85, PGDM '90	42	21-Apr-03	19	1,358,791	Bharti Infotel Limited - VP (Marketing)
22	George Zacharias	Chief Operating Officer	B.Tech.'80, PGDBM '82	47	01-Mar-00	24	6,921,997	Madura Garments - President
23	John Devasahayam	Managing Director - Safescrypt	MA(Social Work) '80	48	04-Jul-03	19	2,532,298	Satyam Computers Limited - Sr. Vice President
24	Venkataramanan S	Vice President - Security Product & Delivery	BE	36	18-Aug-00	11	3,379,017	E-Alcatraz Consulting P Ltd-COO
25	Avinash J	President - Hosting Services	B.E.'83	45	11-Oct-99	22	2,239,123	Infosynth - Chief Consultant

Note :

1 The remuneration includes Basic Salary, House Rent Allowance, Special Allowance, Leave Travel Assistance and other taxable perquisites.
2. None of the above employees is related to any of the Directors of the company.
3. Terms of employment of all the employees mentioned above are contractual.
4. None of the above employees either individually or together with spouse or children held more than 2% of the equity shares of the company.

Chennai
April 20, 2006

S K Rao
Director

R Ramaraj
Managing Director

AUDITORS' REPORT TO THE MEMBERS OF SIFY LIMITED

1 We have audited the attached Balance Sheet of Sify Limited, ("the Company") as at 31 March 2006, the Profit and Loss Account and the Cash Flow Statement of the Company for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3 As required by the Companies (Auditor's Report) Order, 2003, issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4 Further to our comments in the Annexure referred to in paragraph 3 above, we report that:

(a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of the audit;

(b) in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of the books of account;

(c) the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;

(d) in our opinion, the Balance sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report have been prepared in compliance with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable;

(e) on the basis of written representations received from the Directors of the Company as at 31 March 2006 and taken on record by the Board of Directors, we report that no director is disqualified from being appointed as a Director of the Company under clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;

(f) in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2006;
- in the case of the Profit and Loss Account, of the loss for the year ended on that date; and
- in the case of the Cash Flow Statement, of the Cash flows for the year ended on that date.

for BSR & Co.
Chartered Accountants

S Balasubrahmanyam
Partner
Membership No. 53315

Chennai
April 20, 2006

Annexure to the Auditors' Report to the Members of Sify Limited as of and for the year ended 31 March 2006 (Referred to in our report of even date)

With reference to the annexure referred to in paragraph 3 of the Auditor's Report to the Members of Sify Limited on the Financial Statements for the year ended 31 March 2006, we report the following:

1. (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

   (b) The Company has a regular programme of physical verification of its fixed assets by which all fixed assets are verified once in three years. However, no physical verification of fixed assets has been carried out during the year. In our opinion, the frequency of such verification is reasonable having regard to the size of the Company and the nature of its assets.

   (c) Fixed assets disposed of during the year were not substantial, and therefore, do not affect the going concern assumption.

2. (a) The inventory has been physically verified by the management during the year. In our opinion, the frequency of such verification is reasonable.

   (b) The procedures for physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.

   (c) The Company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material.

3. The Company has neither granted nor taken any loans, secured or unsecured, to or from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.

4. In our opinion, and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of inventories and fixed assets and with regard to the sale of goods and services. We have not observed any major weakness in the internal control system during the course of the audit.

5. (a) In our opinion, and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in section 301 of the Companies Act, 1956 have been entered in the register required to be maintained under that section.

   (b) In our opinion, and according to the information and explanations given to us, the transactions made in pursuance of contracts and arrangements referred to in (a) above and exceeding the value of Rs 5 lakh with any party during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.

6. The Company has not accepted any deposits from the public.

7. In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.

8. According to the information and explanations given to us, the Central Government has not prescribed the maintenance of cost records under section 209(1) (d) of the Companies Act, 1956 in respect of any of the services rendered by the Company.

9. (a) According to the information and explanations given to us and on the basis of our examination of the records of the Company, amounts deducted/accrued in the books of account in respect of undisputed statutory dues including Provident Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth tax, Service tax, Customs duty, Cess and other material statutory dues have been regularly deposited during the year by the Company with the appropriate authorities. As explained to us, the Company did not have any dues on account of Investor Education and Protection Fund and Excise duty.

   According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Employees' State Insurance, Income tax, Sales tax, Wealth tax, Service tax, Customs duty, Cess and other material statutory dues were in arrears as at 31 March 2006 for a period of more than six months from the date they became payable.

(b) According to the information and explanations given to us, the following dues of Income-tax have not been deposited by the Company on account of disputes.

Name of the Statute	Nature of the Dues	Period to which the amount relates	Amount (Rs)	Forum where dispute is pending
Income Tax	Non deductions of witholding taxes.	AY 2002-2003 AY 2003-2004	103,010,883	Commissioner of Income Tax*
Total			**103,010,883**	

* The Company is in the Process of filing appeal with the Commissioner of Income Tax as on date.

10. The accumulated losses of the Company has exceeded fifty percent of its net worth at the end of the year. The Company has not incurred cash losses in the financial year and in the immediately preceding financial year.

11. In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to its bankers. The Company did not have any outstanding dues to any financial institution or debenture holders during the year.

12. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

13. In our opinion and according to the information and explanations given to us, the Company is not a chit fund or a nidhi/mutual benefit fund/ society.

14. According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.

15. In our opinion and according to the information and explanations given to us, the terms and conditions on which the company has given guarantees for loans taken by others from banks are not prejudicial to the interest of the company.

16. The Company did not have any term loans outstanding during the year.

17. According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we are of the opinion that the funds raised on short-term basis have not been used for long-term investment.

18. The Company has not made any preferential allotment of shares to companies/firms/parties covered in the register maintained under Section 301 of the Companies Act, 1956.

19. The Company did not have any outstanding debentures during the year.

20. The Company has not raised any money by public issues.

21. According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit

For BSR & Co.
Chartered Accountants

S Balasubrahmanyam
Partner
Membership No. 53315

Chennai
April 20, 2006

Balance Sheet

Rs in Thousands

	Schedule	As at 31 March 2006	As at 31 March 2005
SOURCES OF FUNDS			
Shareholder's Funds			
Share capital	1	423,895	353,803
Stock Options Outstanding Account		11,591	–
Reserves and surplus	2	15,997,648	14,375,324
		16,433,134	14,729,127
Loan Funds			
Secured loans	3	5,305	9,903
		16,438,439	14,739,030
APPLICATIONS OF FUNDS			
Fixed Assets	4		
Gross Block		4,394,743	3,897,501
Less: Depreciation		(2,940,280)	(2,539,218)
Net Block		1,454,463	1,358,283
Advances on capital account and capital work-in-progress		19,368	20,811
Investments	5	695,993	194,993
Current Assets, Loans and Advances			
Inventories	6	29,224	28,080
Sundry debtors	7	831,236	636,241
Cash and bank balances	8	2,691,281	1,349,797
Loans and advances	9	621,902	374,416
		4,173,643	2,388,534
Current Liabilities	10	2,170,842	1,444,530
Provisions	11	55,380	40,140
		2,226,222	1,484,670
Net Current Assets		1,947,421	903,864
Profit and Loss Account		12,321,194	12,261,079
		16,438,439	**14,739,030**
Significant accounting policies and notes to accounts	19		

The schedules referred to above and notes thereon form an integral part of these financial statements.
This is the Balance Sheet referred to in our report of even date.

for **BSR & Co.**
Chartered Accountants

S Balasubrahmanyam
Partner
Membership No : 53315

Chennai
April 20, 2006

for and on behalf of the Board of Directors

S K Rao
Director

R Ramaraj
Managing Director

Durgesh Mehta
Chief Financial Officer

V Ramasubramanian
Company Secretary

Profit and Loss Account

Rs in Thousands

	Schedule	For the year ended 31 March 2006	For the year ended 31 March 2005
INCOME			
Sales and services	12	4,638,695	3,569,200
Other income	13	201,646	140,356
		4,840,341	**3,709,556**
EXPENDITURE			
Cost of software and hardware sold	14	320,136	356,488
Operating and administrative expenses	15	2,275,005	1,680,866
Personnel expenses	16	942,962	699,218
Financial expenses	17	24,230	12,701
Selling and marketing expenses	18	829,544	638,540
Depreciation		437,563	526,750
Provision for doubtful debts / advances written off		90,362	57,073
Provision for (increase) / decrease in value of Investments, net		16,295	(26,891)
Provision for accumulated losses of subsidiaries		655	25,483
		4,936,752	**3,970,228**
Prior period income		57,191	–
Profit / (Loss) before taxation		(39,220)	(260,672)
Profit / (Loss) from continuing operations before tax (Refer Schedule 19 (C) (3) (f))		(98,016)	–
Income tax expense			
Current Tax		–	–
Deferred Tax		–	–
Fringe Benefit Tax		19,226	–
Profit / (Loss) from continuing operations after tax		(117,242)	–
Profit / (Loss) from discontinuing operations before tax (Refer Schedule 19 (C) (3) (f))		58,796	–
Income tax expense			
Current Tax		–	–
Deferred Tax		–	–
Fringe Benefit Tax		1,669	–
Profit / (Loss) from discontinuing operations after tax		57,127	–
Profit / (Loss) after taxation		(60,115)	(260,672)
Profit / (Loss) carried forward from previous year		(12,261,079)	(12,000,407)
Profit / (Loss) carried to Balance Sheet		**(12,321,194)**	**(12,261,079)**
Earnings per share (Continuing Operations): (Rs.)			
Basic and Diluted		(3.18)	(7.41)
Earnings per share (Discontinuing Operations): (Rs.)			
Basic and Diluted		1.55	–
No of shares used in computing earning per share			
Basic and Diluted		36,811,476	35,156,120
Nominal value of share (Rs.)		10.00	10.00
Significant accounting policies and notes to accounts	19		

The schedules referred to above and notes thereon form an integral part of these financial statements.
This is the Profit and Loss Account referred to in our report of even date.

for **BSR & Co.**
Chartered Accountants

for and on behalf of the Board of Directors

S Balasubrahmanyam
Partner
Membership No : 53315

S K Rao
Director

R Ramaraj
Managing Director

Chennai
April 20, 2006

Durgesh Mehta
Chief Financial Officer

V Ramasubramanian
Company Secretary

Schedules to the Balance Sheet

Rs in Thousands

	As at 31 March 2006	As at 31 March 2005
1. Share Capital		
Authorised		
50,000,000 equity shares (As at 31 March 2005: 37,500,000) of Rs 10 each.	500,000	375,000
	500,000	375,000
Issued		
42,395,716 equity shares (As at 31 March 2005: 35,386,480) of Rs 10 each.	423,957	353,865
Less : Shares forfeited 6,202 (As at 31 March 2005: 6,202) equity shares of Rs 10 each.	(62)	(62)
Subscribed and Paid-up		
42,389,514 equity shares (As at 31 March 2005: 35,380,278) of Rs 10 each.	423,895	353,803
The Company has issued 952,551 (As at 31 March 2005: 952,551) equity shares of Rs 10 each for consideration other than cash.		
	423,895	**353,803**

Rs in Thousands

	As at 31 March 2006	As at 31 March 2005
2 Reserves and Surplus		
Securities premium		
Balance at the beginning of the year	14,375,324	14,301,355
Add: Premium received during the year	1,634,821	73,969
	16,010,145	14,375,324
Less: Share issue expenses	12,497	–
Balance at the end of the year	**15,997,648**	**14,375,324**
3 Secured Loans		
Vehicles purchased under finance lease (Secured against the relevant assets)	5,305	9,903
	5,305	9,903

4. Fixed Assets

Rs in Thousands

	Gross Block					Depreciation				Net Block	
	1 April 05	Additions	Additions from Subsidiaries	Deletions	31 March 06	1 April 05	For the year	Deletions	31 March 06	31 March 06	31 March 05
Leasehold land	5,132	–	–	–	5,132	332	87	–	419	4,713	4,800
Building	485,156	–	–	–	485,156	80,760	17,320	–	98,080	387,076	404,396
Plant and machinery	2,634,032	540,637	–	23,594	3,151,075	1,947,478	305,836	22,908	2,230,406	920,669	686,554
Furniture and fittings	288,726	61,400	–	4,042	346,084	213,611	51,848	3,872	261,587	84,497	75,115
Office equipment	65,656	14,523	–	54	80,125	43,310	10,990	45	54,255	25,870	22,346
Motor vehicles	20,485	4,169	–	10,440	14,214	6,396	6,635	4,861	8,170	6,044	14,089
Intangible assets											
Systems software	173,087	14,643	–	–	187,730	136,621	28,144	–	164,765	22,965	36,466
Web publication rights	98,226	–	–	–	98,226	84,479	11,118	–	95,597	2,629	13,747
IP VPN Licence Fee (Refer Schedule 19 C (4))	100,000	–	–	100,000	–	1,481	3,334	4,815	–	–	98,519
Customer contracts	27,001	–	–	–	27,001	24,750	2,251	–	27,001	–	2,251
	3,897,501	635,372	–	138,130	4,394,743	2,539,218	437,563	36,501	2,940,280	1,454,463	1,358,283
As at 31 March 2005	3,309,118	622,356	579	34,552	3,897,501	2,029,063	526,750	16,595	2,539,218	1,358,283	–

1. Buildings include assets capitalized pending transfer of title in favor of the Company amounting to Rs 327,030 (As at 31 March 2005: Rs 327,030)
2. Motor vehicles include assets purchased on finance lease – Rs 14,212 (As at 31 March 2005: Rs 20,448)

Schedules to the Balance Sheet (Contd...)

Rs in Thousands

		As at 31 March 2006	As at 31 March 2005
5 Investments			
(Long term, At cost, Trade, Unquoted)			
in subsidiaries			
IndiaWorld Communications Limited			
((200,000 Equity shares shares of Rs 10 each fully paid up)			
(As at 31st March 2005:200,000))		5,014,849	5,014,849
Less: Provision for decrease in value of Investment		(5,014,849)	(5,014,849)
		–	–
Sify International Inc. (formerly India Plaza.com Inc.)		357,603	357,603
(100 Shares of common stock (As at 31 March 2005: 100) of USD 0.0001 fully paid up)			
Less: Provision for decrease in value of Investment		(357,603)	(357,603)
		–	–
Satyam Webexchange Limited		–	30,000
(NIL Equity shares (As at 31 March 2005: 3,000,000) of Rs 10 each fully paid up)			
Less: Provision for decrease in value of Investment		–	(30,000)
		–	–
Sify e-Learning Limited (formerly Satyam Education Services Limited)		–	49,000
(NIL Equity shares (As at 31 March 2005: 4,900,000) of Rs 10 each fully paid up)			
Less: Provision for decrease in value of Investment		–	(49,000)
		–	–
Sify Plastics Commerce Limited		–	4,120
(NIL Equity shares (As at 31 March 2005: 6,000,000) of Re 1 each fully paid up)			
Less: Provision for decrease in value of Investment		–	(4,120)
		–	–
Sify Communications Limited (formerly Safescrypt Limited)		584,600	90,000
(13,320,000 Equity shares (As at 31 March 2005: 9,000,000) of Rs 10 each fully paid up)			
(Refer Schedule 19 C (10))			
Less: Provision for decrease in value of Investment		(64,593)	(78,423)
		520,007	11,577
Sify Networks Private Limited		32,755	32,755
(formerly E Alcaytraz Consulting Private Limited)			
(81,820 Equity shares (As at 31 March 2005: 81,820) of Rs 10 each fully paid up)			
Less: Provision for decrease in value of Investment		(11,678)	(4,247)
		21,077	28,508
	(A)	541,085	40,085
In Associates			
Trade (Unquoted)			
Cricinfo Limited		1,682,525	1,682,525
(43,605 Ordinary shares (As at 31 March 2005: 43,605) of GBP 0.01 each fully paid up)			
Less: Provision for decrease in value of Investment		(1,682,525)	(1,682,525)
		–	–
Man Financial - Sify Securities India (P) Limited		154,908	154,908
(formerly Refco-Sify Securities India (P) Limited			
(15,490,800 Equity shares (As at 31 March 2005: 15,490,800) of Rs 10 each fully paid up)			
	(B)	154,908	154,908
	(A) + (B)	695,993	194,993

Schedules to the Balance Sheet (Contd...)

Rs in Thousands

	As at March 31, 2006	As at March 31, 2005
6. Inventories		
Traded software and hardware	39,236	34,083
Less: Provision for slow moving inventory	(10,012)	(6,003)
	29,224	**28,080**

Rs in Thousands

	As at March 31, 2006	As at March 31, 2005
7. Sundry Debtors		
Secured	28,640	21,355
(Unsecured)		
Outstanding for a period exceeding six months		
– considered good	173,407	49,016
– considered doubtful	198,973	108,611
Other debts		
– considered good	629,189	565,870
	1,030,209	744,852
Less: Provision for doubtful debts	(198,973)	(108,611)
	831,236	**636,241**

Rs in Thousands

	As at 31 March 2006	As at 31 March 2005
8. Cash and Bank Balances		
Cash on hand	410	593
Cheques on hand	168,724	91,085
Balance with scheduled banks		
– in current accounts	114,260	221,249
– in deposit accounts	2,402,496	981,552
– in margin money accounts	–	31,241
Balance with non-scheduled banks		
– in current accounts		
Citibank N.A New York (maximum amount outstanding during the year ended 31 March 2006: Rs 1,683,395) (year ended 31 March 2005 : Rs.25,242)	4,772	20,769
Citibank N.A California (maximum amount outstanding during the year ended 31 March 2006 -Rs 6,771) (year ended 31 March 2005 : Rs.4,948)	619	3,308
	2,691,281	1,349,797

Rs in Thousands

	As at March 31 2006	As at March 31 2005
9. Loans and Advances		
Unsecured, considered good		
Advances recoverable in cash or in kind or for value to be received		
– To subsidiaries	2,846	2,846
– Other advances	320,974	75,942
Prepaid expenses	82,382	86,116
Deposits		
– Telephones	24,819	37,885
– Rental	61,910	48,256
– Others	30,483	26,426
Tax deducted at source	43,372	55,289
Interest accrued	33,498	12,491
Net investment in leases	21,618	29,165
	621,902	374,416

Rs in Thousands

	As at March 31 2006	As at March 31 2005
Unsecured, considered doubtful		
Balance b/fd	621,902	374,416
Advances recoverable in cash or in kind or for value to be received		
– To subsidiaries	289,763	349,108
– Other advances	20,326	8,973
Provision for doubtful advances	(289,763)	(349,108)
Provision for other advances	(20,326)	(8,973)
	621,902	**374,416**

Schedules to the Balance Sheet (Contd...)

Rs in Thousands

	As at March 31, 2006	As at March 31, 2005
10. Current Liabilities		
Sundry creditors		
– For supplies	206,992	180,603
– For expenses	766,843	585,585
Unearned income	421,633	395,311
Security deposits (Refer Schedule 19(C)(13))	97,424	77,269
Other liabilities	563,523	136,829
Advances from customers	108,999	64,248
Provident fund	5,428	4,685
	2,170,842	**1,444,530**
11. Provisions		
Provision for staff benefits	55,380	38,699
Provision for taxation	–	1,365
Provision for wealth tax	–	76
	55,380	**40,140**

Schedules to the Profit and Loss Account

Rs in Thousands

	For the Year ended March 31, 2006	For the Year ended March 31, 2005
12 Sales and Services		
Sales - Domestic	378,921	410,923
Services - Export	359,547	264,174
Services - Domestic	3,900,227	2,894,103
	4,638,695	**3,569,200**
13 Other Income		
Gain on foreign exchange fluctuation (Net)	23,990	3,663
Interest income (Tax deducted at source for the year ended 31 March 2006 - Rs 6,281) (year ended 31 March 2005: Rs 14,101).	68,027	52,702
Profit on sale of investment	–	15,710
Other income	44,814	13,683
Liabilities no longer required written back	–	30,924
Provision no longer required written back	64,815	23,674
	201,646	**140,356**
14 Cost of Software and Hardware Sold		
Opening inventory	28,080	19,904
Purchases (Net of capitalised for the year ended 31 March 2006: Rs.25,102) (year ended 31 March 2005: Rs.11,564)	321,280	364,664
Closing inventory	(29,224)	(28,080)
	320,136	**356,488**

Rs in Thousands

	For the Year ended March 31, 2006	For the Year ended March 31, 2005
15 Operating and Administrative Expenses		
Networking costs	1,059,339	860,420
Other Direct Cost	172,740	81,374
Communication expenses	54,373	36,247
Cost of software packages for own use	5,883	2,455
Rent	129,031	82,945
Rates and taxes	7,857	16,186
Travelling expenses	156,561	107,591
Power and fuel	96,614	71,671
Legal and professional charges	104,812	99,052
Web development charges	9,985	11,076
Recruitment expenses	24,344	24,747
Training and development	8,801	6,079
Repairs and maintenance:		
- Plant and machinery	16,440	10,104
- Buildings	29,233	17,264
- Others	73,351	59,971
Hire charges of vehicles and equipment	9,771	6,700
Insurance	29,469	33,504
Outsourced manpower	188,550	108,564
Loss on sale of fixed assets (Net)	1,572	2,757
Loss on sale of Investments (Net)	43,245	-
Miscellaneous expenses	53,034	42,159
	2,275,005	**1,680,866**
16 Personnel Expenses		
Salaries and wages	864,645	646,253
Contribution to provident and other funds	39,929	29,408
Staff welfare expenses	26,797	23,557
Deferred Compensation Charge - Employee Stock Option	11,591	-
	942,962	**699,218**
17 Financial Expenses		
Interest on vehicles on leasing arrangement	440	870
Bank charges	23,790	11,831
	24,230	**12,701**
18 Selling and Marketing Expenses		
Advertisements	55,246	42,285
Market promotion expenses	127,441	87,752
Commission	635,320	500,037
Other selling expenses	11,537	8,466
	829,544	**638,540**

Schedules to the Balance Sheet and Profit and Loss Account for the year ended March 31, 2006

19. Significant Accounting Policies and Notes to Accounts

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

A. BACKGROUND

1. Description of business

Sify Limited ("Sify" / "the Company") is engaged in providing various services, such as corporate network and data services, internet access services, online portal and content offerings and development of e-learning software. Sify was incorporated on 12 December 1995 and is listed on the NASDAQ. The Company is headquartered in Chennai, India.

B SIGNIFICANT ACCOUNTING POLICIES

1. Basis for preparation

The financial statements are prepared in accordance with the Generally Accepted Accounting Principles ("GAAP") under the historical cost convention on the accrual basis. GAAP comprises mandatory accounting standards issued by the Institute of Chartered Accountants of India ("ICAI") and the provisions of the Companies Act, 1956. These accounting policies have been consistently applied.

2. Use of estimates

The preparation of financial statements in conformity with GAAP requires the Company's Management to make estimates and assumptions that affect the reported balances of assets and liabilities and disclosures relating to contingent liabilities as at the date of the financial statements and reported amounts of income and expenses during the year. Examples of such estimates include estimates of provision for diminution in the value of investments, provision for doubtful debts and useful life of fixed assets. Actual results could differ from those estimates.

3. Revenue recognition

The operating segments of the Company are:

- Corporate network/data services, which provides Internet, connectivity, security and consulting, hosting and managed service solutions;
- Internet access services to homes and through cyber cafés;
- Online portal services and content offerings; and
- Other services.

These segments recognise revenues on the following bases:

Corporate network/data services

Corporate network service revenues primarily include connectivity services and, to a lesser extent, the revenues from the sale of hardware and software purchased from third party vendors, installation of the link, and other ancillary services such as e-mail and domain registration. The Company provides connectivity for a fixed period of time at a fixed rate regardless of usage. The revenue attributable to connectivity services is recognised rateably over the period of the contract. The software sold by the Company is off-the-shelf software, such as anti virus utilities and firewalls. The revenue attributable to hardware/software is recognised on delivery. The revenue attributable to the installation of the link is recognised on completion of the installation work. All revenues are shown exclusive of sales tax and service tax and net of applicable discounts and allowances.

Web hosting service revenues primarily include co-location services and connectivity services. Revenue from hosting services is recognised over the period during which the service is provided.

The Company remotely manages the IT infrastructure of global enterprises from India. The contracts are on time and material basis and revenues are recognized accordingly.

Internet access services to homes and through cyber cafés

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 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 amounts received from customers on the sale of these user accounts or top-ups are not refundable. Revenue is recognized from sale of user accounts or top-ups based on usage (where access is for a specified quantum of usage) and based on time (where access is for a specified period of time) by the customer. Any unused hours at the end of the contracted period are recognized as revenue.

Public internet access is provided to customers through a chain of franchisee cyber café outlets, network of cable operators and to a lesser extent, Sify owned cyber cafés. Sify enters into an arrangement with franchisees that provides for the payment of an initial non-refundable franchisee fee in consideration for establishing the franchisee relationship and providing certain initial services. These initial services consist of a number of activities, including installing the broadband receiver equipment at the cyber café and connecting it to one of Sify's broadcasting towers, obtaining regulatory approvals for clearance of the site for wireless transmission at the allotted frequency range and other ancillary services. Initial franchisee fee is recognised as revenue at the time of commencement of operations by the franchisee. Internet access revenue is recognised based on usage by the customer.

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 is recognized 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 recognized as revenue.

VoIP services are mainly provided through Internet Telephony Booths at *iway* cybercafés and to a smaller extent through Cable TV operators, or CTOs, and through Multi-Dwelling Units (MDU). The user purchases the packs that enable them to use the Internet telephone facility through CTO and MDUs. We recognize revenue on the basis of usage by the customer. The customer uses Internet telephony facilities at the *iway* cybercafés and makes the payment to the extent of usage of the facility. Revenue is recognized on the basis of usage.

Online portal services and content offerings

The Company enters into contracts with customers to serve advertisements in the portal and the Company is paid on the basis of impressions, click-throughs or leads and in each case the revenue is recognised rateably over the period of the contract based on actual impressions/click throughs/ leads delivered. There are no performance obligations or minimum guarantees. Revenues from commissions earned on electronic commerce transactions are recognized when the transactions are completed. Revenues from value-added services that are rendered using Sify's mobile telephone short code, 4545 are recognized upon delivery of the content/ring tones to the end subscriber and confirmation by the mobile phone service provider.

Rs in Thousands unless as stated

Other services

The Company provides e-learning software development services to facilitate web-based learning in various organizations. Revenue from such projects is recognized on the fixed man-month rates or proportionate performance method, based on the terms of the contract.

4. Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. Direct costs are capitalised until fixed assets are ready for use. These costs include freight, installation costs, duties and taxes and other allocated expenses including finance cost relating to specific borrowing incurred during the construction period.

Assets acquired under a finance lease are capitalised and the corresponding lease liability is recorded at an amount equal to the fair value of the leased asset or the present value of the minimum lease payments, whichever is lower, at the inception of the lease. Initial costs incurred in connection with specific leasing activities directly attributable to activities performed by the Company for a finance lease are also capitalised.

Depreciation on fixed assets is provided using the straight-line method based on the useful lives of the assets as estimated by the Management. Depreciation is charged on a pro-rata basis for assets purchased / sold during the year. Individual assets costing less than Rs 5 are depreciated in full in the year of acquisition.

Leasehold land is amortised using straight-line method over the shorter of the primary lease period or estimated useful life of the asset.

Software for internal use is acquired primarily from third-party vendors in ready-to-use condition. Costs for acquiring such software are capitalised. Capitalised software costs are amortised on straight-line basis over the estimated useful life of the software.

Management's estimate of the useful lives for various categories of fixed assets is given below.

Asset description	Estimated useful life (in years)
Buildings	28
Plant and machinery	
Computers, servers etc.	5
Others	5
Furniture and fittings	5
Office equipment	5
Motor vehicles	5
Software	1 to 3

Depreciation on assets acquired under a finance lease is provided using the straight-line method over the useful life of the asset or the lease period whichever is lower.

Web publication rights are amortised over three to five years representing Management's estimate of the useful life of the asset.

Payments made to acquire customer contracts have been recorded as an intangible asset and are being amortised over three years representing Management's estimate of the useful life of the asset.

5. Investments

Long-term investments comprise investments in subsidiaries and associates and are carried at cost with provision being made for diminution if any, other than temporary, in their value. Such diminution is determined for each investment individually on the basis of the past performance of such subsidiaries / associates and the future expected benefits to the Company from such investments.

6. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories comprises cost of purchase and all incidental costs incurred in bringing the inventories to their present location and condition. Cost of hardware and software purchased for the purpose of resale is determined using the first-in-first-out method. Inventory of CDs used for Internet service activities are stated at the weighted average cost.

7. Foreign currency transactions

Foreign currency transactions are recorded at the exchange rates prevailing at the date of the transactions. Exchange differences arising on foreign exchange transactions settled during the year are recognized in the profit and loss account of the year.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated at the closing exchange rates on that date. The resultant exchange differences are recognized in the profit and loss account.

Profit and loss items at the foreign branch are translated at the respective monthly average rate. Monetary items at the branch office at the Balance Sheet date are translated using the exchange rate prevalent at the date of the Balance Sheet. Non-monetary assets are recorded at the rates prevailing on the date of the transaction.

8. Retirement benefits to employees

Provident fund: Eligible employees receive benefits from a provident fund, which is a defined contribution plan managed by the Regional Provident Fund Commissioner, Chennai. Both the employee and the Company make monthly contributions to the provident fund plan equal to 12% of the covered employee's basic salary. The Company has no further obligations under the plan beyond its monthly contributions.

Gratuity: The Company provides for gratuity, a defined benefit retirement Plan (the "Gratuity Plan") covering eligible employees. The Gratuity Plan commenced on 01 April 1997. The Plan provides a lump sum payment to vested employees at retirement, death or termination of employment, of an amount based on the respective employee's salary and the tenure of employment with the Company. The Company provides the gratuity benefit through annual contribution to a fund managed by the Life Insurance Corporation of India (LIC). Under this scheme the settlement obligation remains with the Company although the LIC administers the scheme and determines the contribution premium required to be paid by the Company.

Leave encashment: Provision for leave encashment determined through an actuarial valuation, is made by the Company based on the unavailed leave standing to the credit of employees in accordance with the service rules of the Company.

9. Earnings per share

Basic earnings per share is computed and disclosed using the weighted average number of equity shares outstanding during the year. Diluted earnings per share is computed and disclosed using the weighted average number of equity and dilutive equity equivalent shares outstanding during the year.

10. Income taxes

Income tax expense comprises current tax (i.e. amount of tax for the period determined in accordance with the income tax law) and deferred tax charge or credit (reflecting the tax effects of the timing differences between accounting income and taxable income for the period). The deferred tax charge or credit and the corresponding deferred tax liabilities and assets are recognised using the tax rates

Rs in Thousands unless as stated

that have been enacted or substantially enacted by the Balance Sheet date. Deferred tax assets are recognized only to the extent there is reasonable certainty that the assets can be realised in future. However, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisation of such assets. Deferred tax assets are reviewed at each Balance Sheet date and written down or written up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realised.

Current tax and deferred tax assets and liabilities are offset to the extent to which the Company has a legally enforceable right to set off and they relate to taxes on income levied by the same governing taxation laws.

11. Export Incentives

Income in respect of duty credit entitlement arising from export sales under the Serve From India Scheme of the Government of India is recognized in the year of realization of export proceeds, provided there is no significant uncertainty regarding the entitlement and availment of the credit and the amount thereof.

12. Impairment of Assets

Management periodically assesses using external and internal sources whether there is indication that an asset may be impaired. An impairment occurs where the carrying value of an asset exceeds the higher of present value of future cash flows expected to arise from the continuing use of the asset and its eventual disposal or the amount from the sale of the asset . The impairment loss to be expensed is determined as the excess of the carrying amount over the higher of the assets net sale price or present value as determined above. There has been no indication of impairment of assets.

C NOTES TO ACCOUNTS

1. Share Capital

The shareholders of the Company in the annual general meeting held on 25 October 2005, approved the increase in Authorised Share Capital of the Company from Rs.375,000 divided into 37,500,000 Equity Shares of Rs.10/- each to Rs.381,000 divided into 38,100,000 Equity Shares of Rs.10/- each.

Further, the share holders of the Company in their extraordinary general meeting held on 23 December 2005 approved the increase in Authorised Share Capital of the Company from Rs.381,000 divided into 38,100,000 Equity Shares of Rs.10/- each to Rs.500,000 divided into 50,000,000 Equity Shares of Rs.10/- .

2. Equity Structure

On 10 November 2005, Infinity Capital Ventures, LP ("Infinity Capital") acquired 11,182,600 Sify American Depositary Shares ("ADSs") from Satyam Computer Services Limited ("SCSL") for US $5.60 per share. The total purchase price for the SCSL shares is US $62,623. The sale of the SCSL shares has been completed.

In a separate transaction also on 10 November 2005, Sify and Infinity Capital Ventures, LP, entered into a Subscription Agreement pursuant to which, upon the terms and subject to the conditions set forth therein, Infinity Capital had agreed to purchase from Sify 6,720,260 newly-issued equity shares or ADSs at a purchase price of US $5.60 per share. The total purchase price for the newly issued shares is Rs. 1,691,624 (equivalent of US $37,633) and the amount has been received.

3. Discontinuing Operations - Sale of IP –VPN business

In December 2004, the Government of India ("GOI") had issued guidelines on offering of Virtual Private Network ("VPN") services by Internet Service Providers ("ISPs"). Consequently, the Company applied for the permission and the GOI issued a Letter of Intent ("LOI") to the Company on 30 December 2004 for amendment of the existing ISP license to include provision of VPN services.

On 10 November 2005, the Government of India had issued guidelines for obtaining National Long Distance (NLD) and International Long Distance (ILD) licence including the terms and conditions for the licences. These guidelines had done away with the IP-VPN licence and permitted existing IP-VPN provisional licence holders to migrate to NLD / ILD licence. The Company was required to apply for the NLD / ILD licence in order to continue to provide VPN services to corporates.

As per the present Government guidelines, there is a ceiling on Foreign Direct Investment (FDI) for the Telecom Sector, which is presently at 74%. As the foreign shareholding in the Company was more than the threshold limit, the Company was not eligible to apply for the NLD / ILD licence. It was therefore proposed to transfer the IP-VPN Division to Sify Communications Limited (formerly Safescrypt Limited), a subsidiary Company, in its entirety, for a consideration of Rs.500,000, based on the valuation by a reputed international accounting firm.

The Company had entered into a share holder agreement with Sify Communications Limited and with Infinity Satcom Universal (P) Limited on December 20, 2005 towards sale of 26% holding of Sify in Sify Communication and for transfer of VPN / MPLS business from Sify to Sify Communications Limited effective January 01, 2006. The shareholders of the Company in their extraordinary general meeting held on 23 December 2005 approved the sale of the IP-VPN business to "Sify Communications Limited".

Pursuant to an amendment in the share holder agreement dated 13 April 2006, the Company shall transfer its current VPN business to Sify Communication after the date Sify Communications Limited receives the NLD / ILD licenses.

The Company intends to charge a 'right to use' fees from Sify Communications Limited for the use of infrastructure owned by the Company, which will be used by Sify Communications Limited in IP-VPN business from the date of sale of the business.

The initial disclosure as per Para 20 of Accounting Standard No.24, issued by the Institute of Chartered Accountants of India is as given below:

a. Description: The Company was providing network connectivity to its corporate customers through Virtual Private Networks with the IP technology. The connectivity is provided for a fixed period and for a fixed bandwidth. The revenue is recognised over the period of service.

b. Segmental Disclosure: The IP-VPN services has been forming part of the Corporate network / data services under segmental reporting as per AS 17.

c. The initial disclosure on sale of IP-VPN business was made vide passing a resolution in extraordinary general meeting held on 23 December, 2005

d. This transfer of the IP-VPN business will happen upon Sify Communications Limited receiving the NLD / ILD license.

e. The assets and the liabilities of the IP-VPN business as on 31 March , 2006 were as follows:

- Debtors Rs.237,128
- Deferred Revenue Rs. 71,173

f. The following statement shows the revenue and expenses of continuing and discontinuing operations:

Particulars	For the year ended March 31, 2006		
	Continuing Operations	Disconti-nuing Operations	Total
INCOME			
Sales and Services	4,178,592	460,103	4,638,695
Other income	201,646	-	201,646
TOTAL	4,380,238	460,103	4,840,341
EXPENDITURE			
Cost of Software and hardware sold	320,136	-	320,136
Operating and administrative expenses	2,015,840	259,165	2,275,005
Personnel expenses	866,013	76,949	942,962
Financial expenses	21,996	2,234	24,230
Selling and Marketing expenses	770,869	58,675	829,544
Depreciation	437,563	-	437,563
Provision for doubtful debts/advances written off	86,078	4,284	90,362
Provision for (increase)/ decrease in value of investments, net	16,295	-	16,295
Provision for accumulated losses of subsidiaries	655	-	655
TOTAL	4,535,445	401,307	4,936,752
Prior Period Income	57,191	-	57,191
Profit before taxation	(98,016)	58,796	(39,220)
Income Tax expense	19,226	1,669	20,895
Profit after taxation	(117,242)	57,127	(60,115)

These amounts are based on the management's estimate. The Company has always monitored IP-VPN business along with the Corporate network and data services as one business upto 31 March 2005. Hence it is not feasible to provide information for comparative purposes.

4. IP-VPN License Fee

As per the guidelines issued by the GOI in December 2004, the Company had paid Rs.100,000 as a one-time entry fee. The Company had amortized the one-time entry fee upto 30 September, 2005 and upon the announcement of GOI guidelines for ILD/NLD license, reversed the amortisation The one-time entry fee of Rs.100,000 paid would be recoverable from Department of Telecommunications (DOT) and hence this amount has been reduced from License Fees and has been disclosed under "Loans and Advances".

The ISP licensees also had to pay an annual fee of 8% of the adjusted gross revenues generated under the ISP license.

The Company has provided for Rs 24,562 for the period from 1 April 05 to 31 December 2005 towards 8% annual fee on IP - VPN revenue and Rs. 12,722 towards 6% annual fee for the period 1 January 06 to 31 March 06. (Year ended 31 March 2005 Rs.5,611).

The GOI has issued revised guidelines in March 2006, defining AGR (Adjusted Gross Revenue) for the purpose of levying 6% annual license fee on internet telephony services. Based on the opinion obtained from the Company's legal counsel, the Company has paid Rs.5,280 for the period January 01, 2006 to March 31, 2006 towards the 6% annual fee.

5. Change in Accounting Estimate

During the year ended 31 March 2006, the Company has assessed the actual use of the expected benefits of certain computers, servers and vehicles as compared to previous estimations of the pattern of usage. Based on the assessment and observations the Company has revised the estimated life for the computers and servers from 2 to 5 years. Pursuant to the change in estimated life of Computer equipment, the depreciation charge to the Profit and Loss Account has been reduced by Rs. 32,715 for the year ended 31 March, 2006. Consequently, the loss after taxation and balance in Profit and Loss Account for the year ended 31 March 2006 are lower by Rs. 32,715 and the net fixed assets as of 31 March 2006 are higher by Rs. 32,715.

6. Associates stock option plan

The Company established a stock option plan in March 1999. The stock option plans are administered in accordance with the plans approved from time to time, which include:

a. Associate Stock Option Plan 1999

b. Associate Stock Option Plan 2000

c. Associate Stock Option Plan 2002

The Compensation Committee grants the options on the basis of performance, criticality and potential of the employees as identified by Management. The options are granted to identified employees at a price determined by the Compensation Committee either as equity share options or ADR linked options. The options are subject to progressive vesting over three-year period from the date of grant.

The following table summarizes the transactions of stock options:

No. of options granted, exercised and forfeited	Year ended 31 March 2006	Year ended 31 March 2005
Options outstanding at the beginning of the year	765,243	1,259,500
Granted during the year	-	90,000
Total	765,243	1,349,500
Exercised during the year	(288,976)	(479,285)
Lapsed during the year	(11,171)	(25,123)
Forfeited during the year	(86,199)	(79,849)
Outstanding at the end of the year	378,897	765,243
Vested and Exercisable at the end of the year	358,442	132,579

Associate Stock Option Plan 2005 (ASOP 2005)

During the year ended 31 March 2006, the Company had formulated the Associate Stock Option Plan 2005, which has been approved by the shareholders of the Company on 25 October 2005. Under the Plan, 1,900,000 ADR's /shares can be granted to eligible associates at an exercise price which is not less than 90% of the market price as on the date of the grant. The Company has also cancelled any balance available for issue under previous plans. Accordingly, any un issued options available under previous plans or any option surrendered or lapsed stands cancelled.

The exercise price is payable in Indian Rupees. The options vest over a period of 3 years from the date of the grant and are exercisable after the vesting date but before the expiry date which is at the end of the fortieth month from the date of the grant.

The following table summarizes the transactions of stock options under ASOP 2005

No. of options granted, exercised and forfeited	Year ended 31 March 2006
Options outstanding at the beginning of the year	-
Granted during the year	1,753,400
Balance	1,753,400
Exercised during the year	-
Lapsed during the year	-
Forfeited during the year	59,000
Outstanding at the end of the year	1,676,400
Vested and Exercisable at the end of the year	-
Weighted Average Exercise Price in Rs.	286.20
Remaining contractual period	2.94 years

The Company measures the compensation cost relating to the stock option using the intrinsic value method. The compensation cost is amortized over the vesting period of the stock option. The Company has accounted for the ESOP granted under ASOP 2005 as per the Guidance Note on Employee Share Based Payments, dated 4 February 2005 issued by the Institute of Chartered Accountants of India. Accordingly, the Company has amortised an amount of Rs. 11,591 towards amortization of stock expense.

Proforma Disclosure under ASOP 2005:

Had the compensation cost for the options been recognized based on the fair value at the date of grant in accordance with Black Scholes' model, the proforma amounts of the Company's net profit and earnings per share would have been as follows:

	Year ended 31 March 2006
Net profit / (loss) – as reported	(60,115)
Add: Stock based compensation expense included in reported net loss	11,591
Less: Stock based compensation expense determined under fair value method	(43,847)
Pro forma net profit / (loss)	(92,371)
Loss per share:	
Number of shares – Basic and Diluted	36,811,476
Profit / (loss) per share – reported	(1.63)
Profit / (loss) per share – proforma	(2.51)

The fair value of each option is estimated on the date of grant using the Black-Scholes model with the following assumptions:

	Year ended 31 March 2006
Dividend Yield	-
Assumed Volatility	58.13% -95.45%
Risk-Free Interest Rate	6.5% - 7.5%
Expected Term	12 – 40 months

7. Segment reporting

The Company's operations predominantly relate to connectivity to enterprises and providing Internet access to retail subscribers (both home access and public access). The Company also operates a portal, "Sify.com", that provides a variety of India-related content to audiences both in India and abroad, and which generates revenue from advertisements and other value added services.

The primary operating segments of the Company are:

- Corporate network/data services, which provides private network services, messaging services and web hosting to businesses;
- Internet access services;
- Online portals services and content offerings; and
- Other services.

Accordingly, revenues represented by nature of service rendered comprise the primary basis of segmental information. Management believes it is not feasible to provide secondary segmental disclosures, considering the diverse industrial classification of the Company's customers and their India centric focus.

Bandwidth costs, which form a significant part of the total expenses, are of three kinds – international, inter-city and last mile. These are allocated primarily between the corporate network/data services and internet access services businesses as described below:

The 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 Company has packet shapers in the main locations to monitor bandwidth use by each of the above categories of users. This information is used in determining norms like bandwidth per port and bandwidth per PC. The actual utilization are cross validated against assumptions / norms for each business.

The national bandwidth refers to the inter-city link bandwidth implemented within the country. Inter city bandwidth is allocated based on the number of subscribers or iway cafes at "non gateway" points and the bandwidth sold to and used by business enterprises (determined using packet shapers). However, due to strategic reasons aimed at furthering the corporate business, the national backbone was enhanced to carry traffic to the international fibre gateways moving away from its hybrid satellite and fibre gateways to only fibre gateways for international bandwidth. Local exit of international traffic through the satellite gateways has reduced and this traffic has been loaded onto the national backbone. National bandwidth costs are now allocated based on international bandwidth allocation ratios. Since most of the traffic carried on the national backbone is finally aimed towards the international gateways, the Company believes that the allocation on this basis is more appropriate.

Last mile costs in the dial up access (E1/R2 costs) and spectrum fees for wireless connectivity that can be directly identified to the businesses are allocated directly.

Certain expenses, like depreciation and overheads incurred by the support functions including finance, human resources, administration, technology and corporate, which form a significant component of total expenses, are not specifically allocable to specific segments as the underlying services are used interchangeably. Management believes that it is not feasible to provide segment disclosure of these expenses and, accordingly, they are separately disclosed as "unallocated expenses" and adjusted only against the total income of the Company.

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

Rs in Thousands unless as stated

The Company's operating segment information for the year ended 31 March 2006 is presented below:

Year ended March 31, 2006	Corporate network/ data services	Internet access services	Online portal Services and content offerings	Others	Total
Revenues	2,487,984	1,814,115	178,986	157,610	4,638,695
Operating expenses	(1,466,724)	(1,798,963)	(188,094)	(138,256)	(3,592,037)
Segment operating income / (loss)	1,021,260	15,152	(9,108)	19,354	1,046,658
Unallocable expenses					(851,286)
Operating income / (loss)					195,372
Other income					166,820
Income/(loss) before interest, tax, depreciation and provision for losses in subsidiaries/investments/others					362,192
Depreciation and provision for losses in subsidiaries/investments/others					(466,104)
Interest income (net)					43,797
Net income / (loss) before taxes					(60,115)

The comparative values for the year ended 31 March 2005 are:

Year ended March 31, 2005	Corporate network/ data services	Internet access services	Online portal Services and content offerings	Others	Total
Revenues	1,980,433	1,404,876	102,814	81,077	3,569,200
Operating expenses	(1,280,961)	(1,361,140)	(99,303)	(69,333)	(2,810,737)
Segment operating income / (loss)	699,472	43,736	3,511	11,744	758,463
Unallocable expenses					(621,448)
Operating income / (loss)					137,015
Other income / (expense), net					87,654
Income/(loss) before interest, tax, depreciation and provision for losses in subsidiaries/investments/others					224,669
Depreciation and provision for losses in subsidiaries/investments/others					(525,342)
Interest income (net)					40,001
Net income / (loss) before taxes					(260,672)

Rs in Thousands unless as stated

8. Leases

The Company has entered into a leasing arrangement with banks for the lease of motor vehicles ("the leased asset") for periods upto 36 months. During the lease period, the Company has agreed to hypothecate and create an exclusive charge on the leased assets in favour of the banks and repay the principal amount of the loan along with interest thereon by way of instalments as agreed upon. The charge/security created in favour of the banks shall remain in force until such time all the dues under the agreement are fully discharged.

Minimum lease payments as at 31 March 2006 are as follows:

Minimum lease payments as at	**March 31, 2006**	**March 31, 2005**
Payable Not later than one year	2,994	6,506
Payable Later than one year and not later than five years	2,678	3,938
Total	5,672	10,444
Less: Amounts representing interest	367	541
Present value of minimum lease payments	**5,305**	**9,903**
Payable not later than one year	2,759	6,089
Payable later than one year and not later than five years	2,546	3,814

The Company, which is a dealer lessor, has leasing arrangement for leasing various types of routers, modems and other equipment for setting up virtual private network and providing bandwidth to its customers in corporate connectivity business. The leases are classified as capital leases and expire after a period of three years.

The Company recognizes the sale transaction in the statement of profit and loss in accordance with the terms of the underlying agreements and the initial direct cost as expenses as incurred.

Gross Investment and minimum lease payments as at 31 March 2006 and 31 March 2005 are as follows:

Gross Investment	**31 March 2006**	**31 March 2005**
Receivable not later than one year	11,805	10,971
Receivable later than one year but not later than 5 years	11,183	20,959
Total	22,988	31,930
Less: Amount representing interest (Unearned finance income)	1,370	2,765
Present Value of minimum lease payments	**21,618**	**29,165**
Receivable not later than one year	10,776	9,430
Receivable later than one year but not later than 5 years	10,842	19,735

9. Related party transactions

Related Parties where control exists or with whom transactions have taken place during the year:

Subsidiaries	Sify International Inc. (formerly known as India Plaza.com Inc.)
	IndiaWorld Communications Limited
	Sify Communications Limited (formerly Safe Scrypt Limited)
	Sify e-learning Limited (formerly Satyam Education Services Limited) (Upto 22 September 2005)
	Satyam Webexchange Limited (Upto 22 September 2005)
	Sify Plastics Commerce Limited (Upto 22 September 2005)
	Sify Networks Private Limited (formerly E Alcatraz Consulting Private Limited)
Associates	Satyam Computer Services Limited (Upto November 10, 2005) Refer Note C (2)
	Cricinfo Limited
	Man Financial-Sify Securities India Private Limited (Formerly Refco-Sify Securities India Private Limited)
Key Management Personnel	R Ramaraj, Managing Director

The value for the year ended 31, March 2006 are: Rs in Thousand unless as stated

Particulars	Subsidiaries	Associates	Total
Transactions with related parties			
Billings	45	121,132	121,777
Purchases	2,342	-	2,342
Other advances (net)	(57,047)	-	(57,047)
Expenses recovered	-	72	72
Lease rentals for equipments given on lease	-	183	183
Investment*	560,190	-	560,190
Balances with related parties			
Debts due from SCSL as on 10 November, 2005	-	52,698	52.698
Debts due to	-	-	-
Advances recoverable from	292,608	1,123	293,731
Amounts provided	(289,763)	(1,123)	(290,886)

Details of managerial remuneration paid to Managing Director and payment to directors are provided in Note C (15) and C (16) .

* Investments represent net of subscription to fresh equity of 9,000,000 shares and sale of 26% equity to M/s.Infinity Satcom Universal (P) Ltd. (Refer Note C(10)).

The comparative values for the year ended 31 March 2005 are :

Particulars	Subsidiaries	Associates	Total
Transactions with related parties			
Billings	-	48,713	48,713
Lease rentals for equipments given on lease	-	175	175
Purchases	1,883	-	1,883
Purchases of fixed assets	580	-	580
Other advances (net)	30,776	-	30,776
Expenses recovered (net)	-	1,219	1,219
Balances with related parties			
Debts due from	-	33,524	33,524
Debts due to	-	-	-
Advances recoverable from	351,954	1,123	353,077
Amounts provided	(349,108)	(1,123)	(350,231)

Rs in Thousands unless as stated

10. Investments

Sify Communications Limited (Formerly Safescrypt Limited)

The Company had subscribed for 9,000,000 Equity shares of Sify Communications Limited aggregating to Rs 700,000 at a premium of Rs 67.78 per share. The Company had entered into a subscription agreement dated 20 December, 2005 with M/S.Infinity Satcom Universal (P) Ltd for sale of 26 % of its holding representing 4,680,000 Equity Shares in Sify Communications Limited for a value of Rs 139,810.

Man Financial-Sify Securities India Private Limited (Formerly Refco Sify Securities India Private Limited)

Sify was holding 40% of the outstanding equity share capital of Refco Sify Securities India Private Limited (Refco-Sify), an associate company. On 20 February 2005, Refco-Sify announced rights issue of 13,167,180 equity shares of Rs.10 each to the existing shareholders at the rate of 34 equity shares for every 100 shares held at the rate of Rs.12.20 per equity share. The offer closed on 28 February 2005. Sify did not subscribe to the rights issue and Refco Securities exercised the offer including that of the rights renounced by Sify. Consequent to the rights issue Sify's holding in Refco-Sify has been reduced to 29.85%.

In October 2005, Refco Group US ("Refco"), the 70.15% stockholder of Refco-Sify Securities India Private Limited ("Refco-Sify"), sought bankruptcy protection through a Chapter 11 filing at the New York Courts. Consequent to this, the businesses of Refco were under auction process and the auction bid has been won by M/s Man Financial Inc. ("Man Financial"). The bid includes the holding of shares of Refco-Sify by Refco. In connection with the purchase of Refco-Sify shares by Man Financial, Man Financial and the Company executed a Shareholders' Agreement on 25 November, 2005 (the "Shareholders' Agreement"), pursuant to which,, the name of Refco-Sify will change to Man-Sify Securities India Private Limited ("Man-Sify"). The Company does not have the valuation basis or the amount for which Man Financial has estimated in its bid. The Company, however, understands that the bid is higher than the book value of the shares. Further, Sify understands that Refco-Sify's business has not been significantly impacted due to these developments. In December 2005, the name of Refco-Sify was changed to Man Financial-Sify Securities India Private Limited.

11. Legal proceedings

1. Sify 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 ADS 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 ADS's 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 26 June 2003, the plaintiffs in the consolidated IPO class action lawsuits currently pending against Sify and over 300 other issuers who went public between 1998 and 2000, announced a proposed settlement with Sify and the other issuer defendants. The proposed settlement provides that the insurers of all settling issuers will guarantee that the plaintiffs recover $1 billion from non-settling defendants, including the investment banks who acted as underwriters in those offerings. In the event that the plaintiffs do not recover $1 billion, the insurers for the settling issuers will make up the difference. The Company believes that it has sufficient insurance coverage to cover the maximum amount that it may be responsible for under the proposed settlement. Although the Federal District Court has preliminarily approved the settlement, it is possible that the Federal District Court may not finally approve the settlement in whole or part. The maximum financial exposure under this, in the event that the plaintiffs recover nothing from the underwriter, is estimated to be USD 3.9 million, an amount the Company believes which is fully recoverable from Sify's insurer.
2. Sify is party to additional legal actions arising in the ordinary course of business. Based on the available information, as at 31 March 2006, Sify believes that it has adequate legal defences for these actions and that the ultimate outcome of these actions will not have a material adverse effect on Sify. However in the event of adverse judgment in all these cases, the maximum financial exposure would be Rs 3,872 (As at 31 March 2005: Rs.3,084).

12. Unearned income

Deferred revenue includes the following amounts of unearned income, which were invoiced as at the end of the year:

- for the Company's corporate network / data services division, revenue relating to the connectivity / hosting charges;
- for the Company's internet access services and online portal services divisions, revenue relating to the internet access charges and the advertisement charges respectively; and
- for the Company's other services division, revenue relating to development of e-learning software.

13. Prior Period Income

The cumulative duty credit entitlement for the year ended 31 March , 2004 and for the year ended 31 March, 2005 was Rs.57,191 and has been disclosed as prior period income.

14. Security deposits

The Company entered into sales and service agreements with certain parties (referred to as sales/service partners) as a part of its marketing initiative for providing Internet Access services. As per the terms of these agreements, the Company received interest free deposits from such partners. These deposits are repayable at the expiry/termination of the relevant agreements.

15. Commitment and contingencies

i) Unexpired bank guarantees as at 31 March 2006 amounted to Rs 119,745 (As at 31 March 2005: Rs 89,319). .

ii) The Company has given a corporate guarantee, as at 31 March 2006 amounting to Rs 10,000.(As at 31 March 2005: Rs 10,000) to the bankers in respect of a non-funded facility availed by a subsidiary of the Company.

iii) Unexpired letters of credit as at 31 March 2006 amounted to Rs 247,938 .(As at 31 March 2005: Rs 180,546).

iv) Contracts pending to be executed on capital account as at 31 March 2006 and not provided for (net of advances: Rs. 13,623) amounted to Rs.162,348. [as at 31 March 2005: Rs 76,924 (net of advances: Rs 12,167)].

v) The Company has discounted cheques, as at 31 March 2006 amounting to Rs. Nil.(As at 31 March 2005: Rs 308).

vi) The Company has discounted bills, as at 31 March 2006 amounting to Rs. Nil (As at 31 March 2005: Rs 50,000).

vii) In respect of contingencies arising on legal proceedings, refer to note C (11) of Schedule 19.

viii) The Company has received a notice from the Income-Tax Department of India for the financial years 2001-02 and 2002-03 for a sum of Rs.103,010 stating that no withholding tax has been deducted in respect of international bandwidth payments. The Company has sought legal opinion from experts, who confirm that the Company has adequate grounds for an appeal against this order and therefore in the opinion of the Company no provision is required in the financial statements.

ix) Provident Fund contribution on leave encashment in respect of periods prior to April 01, 2005 is estimated at Rs.4,326.

	Year ended March 31, 2006	Year ended March 31, 2005
16. Managerial remuneration		
Salary	3,750	2,400
Allowances	3,750	2,334
Total	7,500	4,734
Contribution to provident fund	450	288
Gratuity	150	96
17. Payment to other director		
Sitting Fees	360	-
Consultancy fees	-	240
18. Auditors' remuneration(included under Legal and Professional Charges)		
Statutory audit	3,500	3,500
Out of pocket expenses	1,037	611
19. Expenditure in foreign currency on Cash Basis		
Networking costs/ Communication expenses	260,001	90,231
Travel	26,634	19,921
Legal and professional charges	17,331	40,098
Personnel expenses	49,919	28,137
Insurance	-	20,336
Printing & Stationery	1,847	1,462
Direct costs	22,583	11,731
Content Development cost	7,948	14,427
Marketing promotion expenses	10,768	4,517
Others	47,950	42,327
20. Value of imports on CIF basis		
Software/Hardware imported	21,413	16,075
Capital assets	287,805	173,173
21. Earnings in foreign currency on Cash Basis		
Services income	374,361	259,908
Interest income	5,250	7,635

22. Other information

a) Debts due from private companies as at 31 March 2006 in which a director of the Company is a director amounted to Rs. Nil (As at 31 March 2005: Rs. 817).

b) The Company does not owe any amounts to small-scale industrial undertakings, which are due for more than 30 days.

c) The Company has got a non-fund-based facility with a bank to the extent of Rs. 500,000 (As at 31 March 2005 Rs. 100,000) for which a first charge is created on the Company's current assets.

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

23. Quantitative information

	Year ended March 31, 2006		Year ended March 31, 2005	
	Qty	Value	Qty	Value
Opening Stock				
– Hardware	29,413	30,825	65,336	24,167
– Software	154	2,359	107	4,737
Purchases				
– Hardware	75,689	199,046	222,757	290,305
– Software	2,198	127,126	1,115	79,180
Sales				
– Hardware	77,633	195,998	258,052	285,855
– Software	2,219	143,300	1,049	94,299
Captive consumption				
– Hardware	929	25,095	628	9,598
– Software	1	7	19	2,294
Closing stock				
– Hardware	26,540	34,654	29,413	30,825
– Software	132	4,248	154	2,359

i) The value of opening and closing stock stated above is exclusive of provision for slow moving inventory.

ii) The information stated above is exclusive of the quantities and values of gift vouchers.

24. Income tax

No provision for income tax has been made during the year, as the Company does not have any taxable income.

The Company has not recognised deferred tax asset in respect of losses carried forward as the Management feels it is prudent not to do so.

25. Cash flows

Cash flows are reported using the indirect method, whereby profit before tax is adjusted for the effects of transactions of a non–cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from regular revenue generating, financing and investing activities of the Company are segregated. Cash flows in foreign currencies are accounted at average monthly exchange rates that approximate the actual rates of exchange prevailing at the dates of the transactions.

26. Prior period comparatives

Prior period comparative figures have been regrouped and reclassified wherever necessary to conform to the current period's classification.

27. Subsequent Events

The Company has paid certain retention bonus during the quarter ended December 31, 2005 to its key employees. The amount is being amortized over the retention period and will be recovered from the employees in the event of termination of service before the end of the retention period. The Compensation Committee of the Company in its meeting dated April 20, 2006 approved an amendment to this retention bonus scheme wherein the retention period has been reduced.

Since this is an event subsequent to the balance sheet date, the charge on account of reduction in the retention period pertaining to the year ended March 31, 2006 amounting to Rs. 29,336 will be accounted in the next financial year as per AS 29 Provisions, Contingent Liabilities and Contingent Assets issued by the Institute of Chartered Accountants of India.

For and on behalf of Board of Directors

S.K. Rao	**R Ramaraj**	**Durgesh Mehta**	**V. Ramasubramanian**
Director	Managing Director	Chief Financial Officer	Company Secretary

Chennai
April 20, 2006

Rs in Thousands

Cash Flow Statement		For the year ended March 31, 2006	For the year ended March 31, 2005
Cash Flows from Operating Activities			
Profit/(Loss) before taxation		(39,220)	(260,672)
Adjustments for :			
Depreciation		437,563	526,750
Financial expenses (considered separately)		24,230	12,701
Provision / (reversal) for decrease in value of investments, net		16,295	(26,891)
Provision for doubtful debts/advances		90,362	57,073
Provision for accumulated losses of subsidiaries		655	25,483
Provision for slow moving inventory		4,009	(3,586)
Employee Stock Compensation Expenses		11,591	-
Liabilities no longer required written back		-	(30,924)
Provisions no longer required written back		(64,815)	(23,674)
Unrealised exchange difference		(21,267)	(1,479)
Fringe Benefit Tax Paid		(20,895)	-
Duty Credit Entitlement		(94,627)	-
Interest income (considered separately)		(68,027)	(52,702)
(Gain)/Loss on sale of fixed assets		1,572	2,757
(Gain)/Loss on sale of investments		43,245	(15,710)
Operating Profit before working capital changes		320,671	209,126
Adjustments for :			
(Increase)/decrease in sundry debtors		(284,917)	(198,894)
(Increase)/decrease in inventories		(5,153)	(4,590)
(Increase)/decrease in loans and advances		(67,712)	(22,878)
Increase/(decrease) in current liabilities and provisions		215,074	328,921
Net cash flow from operating activities	(A)	177,963	311,685
Cash flow from investing activities			
Purchase of fixed assets and changes in capital work-in-progress		(579,219)	(505,667)
Sale proceeds of fixed assets		4,872	15,200
Investment in Subsidiary		(700,000)	-
Sale of Investments		139,810	15,000
Advance towards sale consideration		500,000	-
Advance for investments / to subsidiaries		59,345	(28,329)
Interest income received		47,020	70,212
Net cash used in investing activities	(B)	(528,172)	(433,584)
Cash flow from financing activities			
Proceeds from issuance of share capital		1,692,416	78,762
Loans availed against purchase of vehicle		3,763	8,480
Repayment of loans obtained against purchase of vehicles		(8,361)	(9,579)
Investment in finance leases		7,547	(29,165)
Financial expenses		(24,230)	(12,701)
Net cash from financing activities	(C)	1,671,135	35,797
Effect of exchange differences on translation of cash and cash equivalents	(D)	20,558	1,479
Net Increase / (Decrease) in cash and cash equivalents during the year	(A+B+C+D)	1,341,484	(84,623)
Cash and cash equivalents at the beginning of the year		1,349,797	1,434,420
Cash and cash equivalents at the end of the year		2,691,281	1,349,797
Cash and cash equivalents which are restricted in nature		-	31,241
- Margin money accounts			
Supplementary information			
- Cash paid / (refunds received) towards Income taxes		(11,917)	9,696

for **BSR & Co.**
Chartered Accountants

S Balasubrahmanyam
Partner
Membership No: 53315

Chennai
April 20, 2006

for and on behalf of the Board of Directors

S.K. Rao
Director

R Ramaraj
Managing Director

Durgesh Mehta
Chief Financial Officer

V Ramasubramanian
Company Secretary

Balance Sheet Abstract and General Profile of the Company under Part IV to Schedule VI of the Companies Act, 1956

1. Registration details

Registration no.	50809
State code	18
Balance Sheet date	March 31, 2006

II. Capital raised during the period (including premium) (Amount in Rs. 000's)

Public issue	–
Rights issue	–
Bonus issue	–
Private placement (including premium)	1,692,416

III. Position of mobilization and deployment of funds

Total liabilities	16,438,439
Total assets	16,438,439

Source of Funds

Paid-up capital	423,895
Reserves and surplus	16,009,239
Secured loans	5,305
Unsecured loans	–

Application of Funds

Net fixed assets	1,473,831
Investments	695,993
Net current asssets	1,947,421
Miscellaneous expenditure	–
Accumulated loss	12,321,194

IV. Performance of Company

Turnover	4,897,532
Total expenditure	4,936,752
Profit/(Loss) before tax	(39,220)
Profit/(Loss) after tax	(60,115)
Earnings per share in Rs	(1.63)
Dividend %	–

V. Generic names of three principal products / services of the Company (as per monetary terms)

Item code no. (ITC Code)	
Product despcription	Internet Service Provider

for and on behalf of the Board of Directors

S K Rao
Director

R Ramaraj
Managing Director

Chennai
April 20, 2006

Durgesh Mehta
Chief Financial Officer

V Ramasubramanian
Company Secretary

Statement pursuant to Section 212(1)(e) of the Companies Act, 1956, relating to the Subsidiary Companies

Rs in Thousands

Name of the Subsidiary Company	Sify Communications Limited	Sify Networks Private Limited	IndiaWorld Communications Limited	Sify International Inc.
Financial year of the subsidiary ended on	March 31, 2006	March 31, 2006	March 31, 2006	March 31, 2006
Shares of subsidiary company held on the above date and extent of holding				
i) Equity Shares	1,80,00,000 of Rs. 10 each	81,820 of Rs.10 each	200,000 of Rs.10 each	100
ii) Extent of holding (%)	74%	100%	100%	100%
Net aggregate amount of profits / (losses) of the subsidiary for the above financial year so far as they concern members of Sify Limited				
i) Dealt with in the accounts of Sify Limited	Nil	Nil	Nil	Nil
ii) Not dealt with in the accounts of Sify Limited	(25,255)	(16)	Nil	(8,674)
Net aggregate amount of profits / (losses) for previous financial years of the subsidiary as far as it concerns members of Sify Limited				
i) Dealt with in the accounts of Sify Limited	Nil	Nil	Nil	Nil
ii) Not dealt with in the accounts of Sify Limited	(233,892)	(71,240)	(10,325)	(196,647)

Chennai
April 20, 2006

S K Rao
Director

R Ramaraj
Managing Director

Durgesh Mehta
Chief Financial Officer

V Ramasubramanian
Company Secretary

(THIS PAGE INTENTIONALLY LEFT BLANK)