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Board of Directors

Sify Limited

Raju Vegesna

Chairman, Managing Director & CEO

Ananda Raju Vegesna

Executive Director

T H Chowdary

C B Mouli

P S Raju

S K Rao

S R Sukumara

Audit Committee

C B Mouli

Chairman & Financial Expert

S K Rao

S R Sukumara

Compensation Committee

T H Chowdary

Chairman

P S Raju

S K Rao

S R Sukumara

Pijush Kanti Das

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.

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DIRECTORS' REPORT

Dear Members,

Your Directors take pleasure in presenting the Eleventh Annual Report together with the audited accounts of your company for the financial year ended March 31, 2007.

Financial highlights

Details	Rs. in million	
	Year ended March 31, 2007	Year ended March 31, 2006
Sales and other Income	5,297.84	4,772.31
Operating Profit before interest and depreciation	590.75	341.40
Interest (Net)	138.34	56.94
Depreciation	453.27	437.52
Profit / (Loss) from continued operations	64.65	(98.02)
Profit from discontinued operations	211.18	58.80
Profit / (Loss) before tax	275.83	(39.22)
Provision for taxation (including deferred tax)	(17.50)	(20.89)
Profit / (Loss) after tax	258.33	(60.11)

The Company registered a sales revenue of Rs.5,009 million during the period under review, an 8% growth over the previous year. However, this figure is not comparable since the revenue from VPN business was considered only upto November 21, 2006, when the business was transferred to Sify Communications Limited.

Your Directors are pleased to inform that the company achieved a maiden net profit of Rs.258 million during the year under review, as against a net loss of Rs.60 million during the previous year.

IP-VPN business

Consequent to the change in the Government regulations for Telecom sector, the company transferred the IP-VPN business to Sify Communications Limited (Sify Comm), a subsidiary company, effective November 22, 2006. Hence, the revenue from VPN business reported in this report reflects only for the period from April 1 to November 21, 2006.

Sify Comm obtained the licences both for National Long Distance and International Long Distance operations from the Department of Telecommunications and started providing VPN services to all Sify's customers effective November 22, 2006.

Change of name of the company

Your Directors have proposed that the name of the company be changed to "Sify Technologies Limited" in order to truly reflect the expertise and technological capabilities with which the company delivers its services. However, this proposal is subject to the approval of the shareholders at the ensuing Eleventh Annual General Meeting of the Company as well as the approval of the Central Government.

Your Directors believe that the proposed name would be more representative of the company's core competence viz. technology with which it delivers its services.

Adjustment against Securities Premium Account

Your Directors have approved the proposal to adjust the accumulated losses to the tune of Rs.11626.41 million against the Company's Securities Premium Account as on March 31, 2007 for better presentation of financial

statement of the company. This proposal is subject to the approval of the shareholders at the ensuing Eleventh Annual General Meeting of the Company, confirmation of the Hon'ble High Court of Judicature at Madras and other statutory authorities.

Associates Stock Option Plan

The shareholders have earlier authorised the Board to issue and allot upto 3,733,000 Equity Shares of Rs.10/- each to the Associates of the company, including employees and Directors of the company and its subsidiaries under the Associate Stock Option Plans 1999, 2000, 2002 and 2005.

For the long term success of the company and its subsidiaries, retaining key employees of the company is critical and additional incentive needs to be given to the Directors and key employees. Hence, it is proposed to enhance the participation under the stock option plan by the eligible associates of the company and its subsidiaries. For this purpose, it is planned to allocate 1,400,000 Equity Shares of Rs.10/- each, as the total quantum now allocated for Associate Stock Option Plan 2007 (ASOP 2007). Any balance available for issue under previous plan will stand cancelled after the approval of ASOP 2007.

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. When it comes to IT services, the world is coming to India. With a CAGR of 28 per cent during the last 5 years, the IT-ITeS industry's contribution to India's GDP is expected to rise to 7 per cent by 2007-08 against 4.8 per cent in 2005-06 (Indian Brand Equity Foundation report 2007).

India is regarded as the preferred destination for offshore outsourcing today. According to a NASSCOM report, India's software and services exports will top US\$ 31 billion in the current fiscal year to March and are on track to double that figure by 2010.

Corporate Network Services accounted for 54% of total revenue, with 8% growth over the previous year. Sify Communications received the National Long Distance (NLD) and International Long Distance (ILD) licences from the Department of Telecommunications. With these licences, Sify Comm can now offer Domestic Leased Circuits (DLCs) and International Private Leased Circuits (IPLCs) in addition to Long Distance Subscriber Telephony services. Many VPN customers, especially multi-nationals and the Information Technology and Information Technology Enabled Services (IT / ITES) companies, subscribe to DLCs and IPLCs. The ability to offer these services together will give Sify an advantage, particularly with the company's technical expertise in data services over the IP (Internet Protocol) networks.

Key business wins during the year along with additional engagements from some large customers for VPN services included Apeejay Park Hotels, Atos, CMC Limited, Genpact, Hutch, R Systems and SAME Deutz Fahr. There were also key wins in Internet services and International MPLS services to enterprises.

During the year, we had major gains in the Banking, Financial Services and Insurance (BFSI) segment, in addition to the rapidly growing IT Enabled services, manufacturing and retail sectors, for corporate services. The company also received the Frost & Sullivan Market leadership award for IP VPN services for the third consecutive year.

Sify's Hosting and network services have started integrating their service offerings to provide end-to-end offerings to customers including disaster recovery solutions. Key wins during the year for hosting services included Macquarie Bank, Star TV and United Bank of India. Sify developed a First level 4 internet 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. Sify has also become the first company in India to have all its data centers ISO 27001 certified.

Enterprise One - Smart Expansion

During 2006 - 07, major focus has been given to integrate various Enterprise Product / Service lines towards client businesses to become End to end IT Infrastructure solution provider covering Connectivity, Security, Storage, Hosting, Application Services and Managed Services.

The initiative helps our clients to get all IT infrastructure related solutions and services as a single business package from Sify. This also enables Sify to become a strategic partner to all its clients in IT strategy and deepened the level of current engagements with our key customers and also broaden our key customer segments. To effectively implement this strategy, Sales Organisation, Product Organisation and Delivery Organisation have been strengthened with integrated approach and client centric processes.

Access Media

Sify's Access Media revenue has grown over last year and the division has contributed 37% of the company's revenue.

Broadband:

With an array of services introduced over the past year to significantly influence hi-speed internet to home segment experience, the Sify broadband subscriber base doubled over last year at 215,506 subscribers. The service is available in more than 109 cities through a network of more than 2,150 Cable Television Operators.

Sify iWays:

Enabling e-commerce services at iWays like Railway ticket booking, utility bills payment and cinema ticket booking in select cities has strengthened Sify's leadership position in the Public Internet Access Business. The network has grown stronger from 3,307 cafes last year to 3,638 this year across 158 towns and cities.

VOIP Retail / SifyTalk:

In addition to providing VOIP services from iWays, Sify has strong distribution channels named Telecentres that caters to public access. Currently, Telecentres are available in more than 20 cities operating with a network of 900 installations.

Sify has also launched Sify Talk PC to phone VOIP cards for the home segment.

Games:

Over one-third of Sify's cafes are enabled for playing games. The number of PCs enabled for online games is over 6,000 during this period.

Portals

Portals revenues grew by approximately 57% driven by strong growth in ecommerce revenues and stable advertising revenues. The Portals constituted 5% of Sify's revenues.

Sify Max continued to be a pioneer in Broadband entertainment, with tie ups for key reality shows like Bigg Boss. Sify Max is a pioneer in live video streaming, having webcast the Indian budget 2007, Mumbai Marathon, Lakme Fashion Week, the India Today Conclave and cricket matches.

Sify also continued the pioneering trend for Audio visual local city portals. After Bangalore Live, Sify launched Mumbai Live. Sify continued to focus on rich video content of interest to the residents of that particular city including shopping, best buys, cinema and entertainment, and popular restaurants in the city.

As part of our expanding initiatives on local content, Hyderabad live was launched during April 2007.

The site aims to be the top infotainment portal for Hyderabad and is the only city centric site to provide content in the rich media format. The categories of focus are movies, food, shopping, local news and events.

Hyderabad live offers real time live traffic feeds from five important locations in Hyderabad. This enables the public to check the traffic situation and plan their route.

The popular NRI portal, Samachar was relaunched with audio visual content for the vast NRI diaspora. Community features like discussions were also added to Samachar.

The popular games website Khel.com, continued to cover the entire gamut of Indian and international sport. There was special thrust on the Cricket world cup, that was held in March 2007.

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 five Indian languages and a convenient mail login on the home page.

E-commerce

Overall e-Commerce grew by close to 90% during the year as compared to last year. The last year saw innovations both on the product side and strong orientation on service delivery. During Valentine's day, a never-before 'serenading service' was created - wherein a flower bouquet would be accompanied by a guitarist singing for the gift recipient. On key events, the service delivery team ensured that customer complaints were as low as 1%.

Sify acquired Globe Travels, a US-Domestic and US-India Online Travel Agency, in April 2006. This acquisition helped Sify to enter the fast growing online travel business, particularly e-ticketing, the category with highest revenues and fastest growth in online ecommerce today.

Consumer One

Sify has embarked upon a 'Consumer-One' Strategy to be able to respond quickly to the rapidly evolving consumer needs with contemporary and relevant services. This strategy seeks to bring together Sify's various Consumer Teams (I-way, Broadband to Home & Portals) and draw upon their strengths and synergies and shape the Consumer landscape. This Integrated Team shall drive Consumer Understanding and translate that into Content Development, Alliances and Superior Consumer Propositions.

International Business

Sify significantly expanded its international outsourcing services to global customers through offerings in two niche areas viz. Infrastructure Management Services and eLearning Services. The division has achieved a revenue growth of 43% over the previous year.

Sify's marketing team has been strengthened in the year 2006 - 07 with the opening of additional sales offices, which now include USA (2 locations), London and Dubai.

Infrastructure Management Services:

Based on Sify's core expertise and vast experience in operating infrastructure based managed services (networks, datacenters), this line of business has been targeted at large global corporations having distributed infrastructure. Sify is positioned as a specialist in remote infrastructure services and has been mentioned in reports of leading analyst groups such as Forrester Research (Dec 2005) and Gartner (Oct 2006). Sify has continued to grow its client base in USA across verticals such as telecommunication, entertainment, manufacturing and services. Sify's services are delivered purely as offshore remote services from its management centers in Chennai and Hyderabad.

eLearning Services:

Sify offers custom learning content development services and learning technology services to large global corporations. The year 2006-07 saw the addition of two multi-million dollar customers, and a number of smaller ones. These services are currently focused on global corporations in industry verticals such as hi-tech engineering and pharmaceuticals. Sify's delivery centers are located in Chennai, Mumbai and New Delhi. In October 2006, Sify was awarded two golds at the prestigious Brandon Hall Excellence Awards for 2006 for courses created for Cisco Systems and GE.

Technology Initiatives

Continuing the Sify's tradition of technology innovation, we rolled out WiMax technology in limited areas to provide wireless last mile solutions. We also expanded the network reach by setting up an international Point of

Presence in Singapore. During the year, we have successfully launched our first Level 4 Internet Data Center in Bangalore. We enhanced consumer services software platform to enable "Value Added Services". We have made significant investments to portal delivery, network management and service management software platforms. We have successfully rolled out VOIP solutions to the enterprise market.

Subsidiary Companies

Sify Communications Limited

Sify Communications Limited (Sify Comm) successfully increased the channel partner strength four fold thereby enabling greater market coverage across India. This enabled Sify Comm to attain leadership position in the MCA 21 market. Sify Comm continued to provide PKI and data security solutions to Enterprises across India and acquired new clients like Financial Technologies, ICICI Bank, Indian Bank, Reliance General Insurance, Hutch, Genpact, NTPC, IFFCO etc.

Key wins in application services include the African Development Bank, Escorts Construction Equipment, Kintetsu World Express, National Informatics Centre (NIC) and SAME Deutz Fahr for web applications and ICAI for online examinations.

Sify Comm participated in several e-governance projects of various State Governments across India and supplied hundreds of digital certificates in many states.

The SSL certificates market witnessed a surge in sales in every quarter with revenues growing multi fold over the year.

Sify Comm introduced a new 'Fraud Detection System' solution from Verisign that will help Banks to provide secure online transactions to their customers. Sify Comm is in the process of arranging demonstrations of this solution in several banks across India.

Consequent to the transfer of VPN business to Sify Comm by Sify due to change in Government regulations for Telecom sector, Sify Comm started providing VPN services to all the customers of Sify, effective November 22, 2006.

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.2.95 million.

Directors

Mr P S Raju and Mr C B Mouli, Directors, retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for reappointment. Your Directors recommend their re-appointment.

Mr S R Sukumara and Mr Ananda Raju Vegesna who were appointed as Additional Directors during the year 2006-07, hold office upto the ensuing Annual General Meeting. Notices have been received from a member proposing their appointment as Directors of the company.

Mr Ananda Raju Vegesna, Director, was appointed as an Executive Director of the company effective June 22, 2007. This appointment is subject to the approval of the shareholders at the ensuing Annual General Meeting of the company.

Mr Ananda Raju Vegesna, brother of Mr Raju Vegesna, Chairman & Managing Director of the company, is a Graduate in Science and brings with him rich experience in providing infrastructural facilities to the Information Technology, manufacturing and service industries, setting up units in Software Technology Parks for domestic as well as export markets.

On April 7, 2007, Mr R D Thulasiraj has resigned from the Directorship of the company, due to his other preoccupation. The Directors place on record their appreciation of the valuable services rendered by Mr Thulasiraj during his tenure as a Director of the company.

Audit Committee

The present Audit Committee consists Mr C B Mouli , Dr S K Rao and Mr S R Sukumara.

Compensation Committee

The present Compensation Committee consists Dr T H Chowdary, Dr S K Rao, Mr P S Raju and Mr S R Sukumara.

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 profit 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
July 23, 2007

Raju Vegesna
Chairman & Managing Director

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* : In million
- | | |
|---------------------------------|--------------|
| Total Foreign Exchange earnings | : Rs. 561.83 |
| Total Foreign Exchange outgo | : Rs. 620.25 |

Sify Limited

Annexure to Directors' Report for the year ended March 31, 2007

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 2007.

S.No.	Name	Designation	Qualification	Age in years	Date of Joining	Exp. in Years	Gross Remuneration Rs.	Previous Employment Designation
1	Narsh Ajwani	Executive - Vice President - Broadband	MA '85, Dip in Mktg '89	45	10-May-99	24	2,981,406	Versatile Group of Companies- Director
2	Rajagopalan S K	Senior Vice President - Project Management Group	B.Sc. '76, B.Tech '79	51	19-Aug-02	28	4,041,068	Citibank N.A- VP(CSR&PM)
3	David Appasamy	Executive - Vice President	Dip.in Hotel Mgt.'78, MEP'93	49	10-Jan-00	29	2,658,868	Mudra - General Manager
4	Sushil Luniya	Vice President - Operations - Corporate Communications	B.E '84, MBA '87	45	19-Mar-02	20	3,547,283	Apollo Tyres Ltd - Head Sales
5	Ashish Anra	Senior Vice President - Enterprise Solutions	BE '92, PGDPM '96	36	01-Jul-99	14	3,735,039	HCL Connet Systems&Services Ltd-Business Development Manager
6	Kumar V M	Senior Vice President - IMS	BTECH'85, PGDIN'89	44	14-Dec-00	22	2,532,849	System Logic&Solutions Ltd. - VP - Business Development
7	Harinder Singh Kohli	Vice President - Enterprise Solutions	B COM'87,	40	05-Jul-99	20	2,848,569	Birla AT&T Communications Ltd - Sr.Mgr Sales
8	Sivaramkrishnan V	President - Interactive Services	BE Electronic '88, MBA '92 Indian Institute of Foreign Trade	42	18-Apr-06	17	4,029,736	Ford India - VP Marketing, Sales & Services
Part of the year								
1	Venkata Rao Mallineni	Executive Vice President - Enterprise Solutions	BE Indus Prod '88, M Tech '92	40	05-Sep-06	15	1,416,071	Solpro Systems Ltd - President & CEO
2	Gopalakrishnan S	President - Government Initiatives	BE Mechanical '81	47	01-Nov-06	23	1,697,331	Valabhadas Kanji Ltd - Head - Operations
3	Pijush Kanti Das	President - Access Media	B.Sc Chem '74, Dip in Mgmt '87, PG in Eco '95	54	18-May-06	33	2,498,910	I & M Bank, Nairobi - General Manager
4	Bhaskar R Sanyaparaaju	Chief Technology Officer	BS Mech Engg '86, MS CS '91	41	01-Aug-06	17	3,011,798	Nvidia Corporation, Santa Clara - Director of IS
5	Sun CVS	Chief Operating Officer	BA (Hons) Eco '81, PGDRPM '83	47	01-Sep-06	24	3,108,509	East India Petroleum Ltd - Director CEO
6	Durgesh Mehta	Chief Financial Officer	B Com CA '76	55	05-Dec-05	29	4,915,644	Unilever Arabia- Director (Finance & IT)
7	Surya Martha	Senior Vice President - Interactive Services	Btech, MS, Ph D (CS) MBA	47	08-Aug-05	15	2,056,370	Real Networks Inc- General Manager (Industry & Solutions, Marketing)
8	Dipan Bhattacharya	Vice President - Enterprise Solutions	B.Tech '88, PGDM '91	41	14-Feb-06	19	2,474,937	ICICI Prudential Life Insurance Co Ltd, Chief- Information Technology
9	Avinash J	President - Hosting Services	B.E '83	46	11-Oct-99	23	508,884	Infosynth - Chief Consultant
10	Ramraj R	CEO & Managing Director	B.Tech '71, PGDM '73	57	01-Apr-98	34	3,020,837	Sterling Cellular Ltd - Director
11	Ajit G. Abraham	Chief Human Resources Officer	MA '81, Dip in Human Resources '88	48	03-May-99	25	4,949,996	Mobil India Ltd. - VP Human Resources
12	Rahul Swapn	President - Enterprise Solutions	B.Tech '83	47	17-Sep-99	18	6,684,472	Citi Bank - Vice President
13	Shrikant P Joshi	President - Access Media	B.Tech '81, PGDM '83	49	03-Dec-01	24	472,101	Heinz- VP Sales
14	Rustom Irani	Chief Technology Officer	B.Sc.'82, Dip in Comp. Programming '84	45	23-Dec-99	23	5,412,595	GE Capital - CIO & VP
15	Badr Narayanan P	Vice President - Network Engineering Group	BE'92	39	09-Aug-99	14	952,673	GE Capital - Assistant Manager
16	Daniel Alex	Vice President - Enterprise Solutions	BA Eng '89, PGDSM '90	39	06-Sep-99	16	1,296,115	ESCO Audio Visual (India) Pvt Ltd- Regional Manager
17	Smrvisan C R	Vice President - Technology	BE'91	37	01-Dec-99	15	852,380	Citi Bank N.A-Manager
18	Kumar A	General Manager - Technical	DEE'84, Cisco Certified Network (CCNA)	41	12-Jan-00	23	1,112,843	GEL Projects- General Manager(South)
19	Karthikeyan S	Vice President - Systems	BE'84, MS '88	44	18-Oct-00	23	1,450,640	Reliance Petroleum Ltd -Dy. Gen Manager
20	Manvendra Bhargui	Vice President - Systems & Software	BE Mech '88, MTech Material Sci '91	42	27-Dec-00	17	1,913,669	GE Capital - Assistant VP
21	Rajiv Subramani	Vice President - Security International Sales	B.A'89	39	18-Aug-00	11	2,250,523	E-Alcatraz Consulting P Ltd-COO

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

July 23, 2007

S K Rao
Director

Raju Vegesna
Chairman & Managing Director

AUDITORS' REPORT TO THE MEMBERS OF SIFY LIMITED

We have audited the attached Balance Sheet of Sify Limited ('the Company') as at March 31, 2007, the Profit and Loss Account and the Cash Flow Statement 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.

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.

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.

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

- (i) we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
- (ii) 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;

- (iii) the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;
- (iv) in our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
- (v) on the basis of written representations received from the directors, as on March 31, 2007 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2007 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956; and
- (vi) 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:
 - a. in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2007;
 - b. in the case of the Profit and Loss Account, of the profit of the Company for the year ended on that date; and
 - c. in the case of the Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

for BSR & Co.
Chartered Accountants

Chennai
April 23, 2007

S Sethuraman
Partner
Membership No. 203491

**Annexure to the Auditors' Report to the Members
of Sify Limited as of and for the year ended
March 31 2007 (Referred to in our report of even date)**

- (i) (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 in a phased manner over a period of three years. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.
 - (c) Fixed assets disposed off during the year were not substantial, and therefore, do not affect the going concern assumption.
 - (ii) (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.
 - (iii) 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.
 - (iv) 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.
 - (v) (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 lakhs 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.
 - (vi) The Company has not accepted any deposits from the public.
 - (vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
 - (viii) The Central Government has not prescribed the maintenance of cost records under section 209(1)(d) of the Companies Act, 1956 for any of the products /services of the Company.
 - (ix) (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, 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.
- There were no dues on account of cess under section 441A of the Companies Act, 1956 since the date from which the aforesaid section comes into force has not yet been notified by the Central Government.
- 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, and other material statutory dues were in arrears as at March 31, 2007 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 Statute	Nature of Dispute	Amount (in Rs.)	Period to which it relates	Forum where pending
Income Tax Act, 1961	Income Tax	64,770,584*	Assessment Year 2002-03 Assessment Year 2003-04	Commissioner of Income Tax

* Amount excludes Rs 12 million of payments made under protest.

- (x) The accumulated losses of the Company have 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.
- (xi) 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 institutions or debenture holders during the year.
- (xii) The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) 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.

- (xiv) According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.
- (xv) 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 or financial institutions are not prejudicial to the interest of the Company.
- (xvi) The Company did not have any term loans outstanding during the year.
- (xvii) 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.
- (xviii) 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.
- (xix) The Company did not have any outstanding debentures during the year.
- (xx) The Company has not raised any money by public issues.
- (xxi) 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

Chennai
April 23, 2007

S Sethuraman
Partner
Membership No. 203491

Balance Sheet

		Rs in Thousands	
	Schedule	As at 31 March 2007	As at 31 March 2006
SOURCES OF FUNDS			
Shareholder's Funds			
Share capital	1	428,003	423,895
Stock Options Outstanding Account	2	19,141	11,591
Reserves and surplus	3	16,068,531	15,997,648
		16,515,675	16,433,134
Loan Funds			
Secured loans	4	806,146	5,305
		17,321,821	16,438,439
APPLICATIONS OF FUNDS			
Fixed Assets	5		
Gross Block		5,133,548	4,394,743
Less: Depreciation / Amortisation		(3,369,825)	(2,940,280)
Net Block		1,763,723	1,454,463
Capital work-in-progress (including capital advances)		23,410	19,368
Investments	6	739,508	695,993
Current Assets, Loans and Advances			
Inventories	7	24,239	29,224
Sundry debtors	8	762,949	831,236
Cash and bank balances	9	2,884,705	2,691,281
Loans and advances	10	1,072,038	635,279
		4,743,931	4,187,020
Current Liabilities			
	11	1,538,155	2,184,219
Provisions	12	36,997	55,380
		1,575,152	2,239,599
Net Current Assets		3,168,779	1,947,421
Profit and Loss Account		11,626,401	12,321,194
		17,321,821	16,438,439
Significant accounting policies and notes to accounts	20		

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 Sethuraman
Partner
Membership No : 203491

Chennai
April 23, 2007

for and on behalf of the Board of Directors

S K Rao
Director

Pijush Kanti Das
Chief Financial Officer

Raju Vegesna
Chairman & Managing Director

V Ramasubramanian
Company Secretary

Profit and Loss Account

		Rs in Thousands	
	Schedule	For the year ended 31 March 2007	For the year ended 31 March 2006
INCOME			
Sales and services	13	5,009,614	4,638,695
Other income	14	432,629	201,646
		5,442,243	4,840,341
EXPENDITURE			
Cost of software and hardware sold	15	412,893	320,136
Operating and administrative expenses	16	3,194,947	3,000,687
Personnel expenses	17	935,438	942,962
Financial expenses	18	18,759	24,230
Selling and marketing expenses	19	126,902	194,224
Depreciation / Amortisation		453,275	437,563
Provision for diminution in value of investment		21,077	16,295
Provision for accumulated losses of subsidiaries		3,126	655
		5,166,417	4,936,752
Prior year income		—	57,191
Profit / (Loss) before taxation and exceptional items		275,826	(39,220)
Profit / (Loss) from continued operations before tax (Refer Schedule 20 (C) (2))		64,649	(98,016)
Income tax expense			
Current Tax		—	—
Deferred Tax		—	—
Fringe Benefit Tax		16,610	19,226
Profit / (Loss) from continued operations after tax		48,039	(117,242)
Profit / (Loss) from discontinued operations before tax (Refer Schedule 20 (C) (2))		211,177	58,796
Income tax expense			
Current Tax		—	—
Deferred Tax		—	—
Fringe Benefit Tax		893	1,669
Profit / (Loss) from discontinued operations after tax		210,284	57,127
Profit / (Loss) after taxation and before exceptional items		258,323	(60,115)
Exceptional Item			
Profit on sale of IP / VPN Business (Refer Schedule 20 (c) 2)		436,470	—
Profit / (Loss) carried forward from previous year		(12,321,194)	(12,261,079)
Profit / (Loss) carried to Balance Sheet		(11,626,401)	(12,321,194)
Earnings per share (Continued Operations): (Rs.)			
Basic		1.12	(3.18)
Diluted		1.12	(3.18)
Earnings per share (Discontinued Operations): (Rs.)			
Basic		4.92	1.55
Diluted		4.91	1.55
Earnings per share after exceptional items			
Basic		16.27	(1.63)
Diluted		16.23	(1.63)
No of shares used in computing earning per share			
Basic		42,704,619	36,811,476
Diluted		42,809,136	36,811,476
Nominal value of share (Rs.)		10.00	10.00
Significant accounting policies and notes to accounts	20		

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

S Sethuraman

Partner

Membership No : 203491

Chennai

April 23, 2007

for and on behalf of the Board of Directors

S K Rao

Director

Pijush Kanti Das

Chief Financial Officer

Raju Vegesna

Chairman & Managing

Director

V Ramasubramanian

Company Secretary

Schedules to the Balance Sheet

Rs in Thousands			Rs in Thousands		
	As at 31 March 2007	As at 31 March 2006		As at 31 March 2007	As at 31 March 2006
1. Share Capital			3. Reserves and Surplus		
Authorised			Securities premium		
50,000,000 equity shares			Balance at the beginning		
(As at 31 March 2006:			of the year	15,997,648	14,375,324
50,000,000) equity shares	500,000	500,000	Add: Premium received		
of Rs 10 each.			during the year	71,382	1,634,821
	<u>500,000</u>	<u>500,000</u>	Add: Transfer from stock		
			options outstanding account	1,906	—
Issued				<u>16,070,936</u>	<u>16,010,145</u>
42,806,467 (As at 31 March			Less: Share issue expenses	2,843	12,497
2006: 42,395,716) equity shares	428,065	423,957	Balance at the end of the year (A)	<u>16,068,093</u>	<u>15,997,648</u>
of Rs 10 each.			General Reserve		
Less : Shares forfeited 6,202			Balance at the beginning of the year	—	—
(As at 31 March 2006: 6,202)			Add: Transferred from stock		
equity shares of Rs 10 each.	(62)	(62)	options outstanding account	438	—
Subscribed and Paid-up			Balance at the end of the year (B)	<u>438</u>	<u>—</u>
42,800,265			Total (A+B)	<u>16,068,531</u>	<u>15,997,648</u>
(As at 31 March 2006:					
42,389,514) equity shares	428,003	423,895	4. Secured Loans		
of Rs 10 each.			Loans from banks (Refer note)	800,000	—
The Company has issued 952,551			Vehicles purchased under financial		
(As at 31 March 2006: 952,551)			lease (Secured against the		
equity shares of Rs 10 each for	428,003	423,895	relevant assets)	6,146	5,305
consideration other than cash.	<u>428,003</u>	<u>423,895</u>		<u>806,146</u>	<u>5,305</u>
2. Stock Options Outstanding Account			Demand loan from State Bank of India, Chennai carrying an interest		
Balance at the beginning of the year	11,591	—	rate of 9.5% p.a is fully secured by way of pledge of fixed deposits		
Add: Deferred compensation cost			(Refer Schedule 9)		
for the year (net of reversals for					
forfeited options)	9,894	11,591			
Less: Transfer to Securities Premium					
in respect of grants exercised during	(1,906)	—			
the year					
Less: Transfer to General Reserve					
in respect of grants lapsed during	(438)	—			
the year					
Balance at the end of the year	<u>19,141</u>	<u>11,591</u>			

Schedules to the Balance Sheet (Contd...)

5. Fixed Assets

Rs in Thousands

	Gross Block				Depreciation / Amortisation				Net Block	
	1 April 06	Additions	Deletions	31 March 07	1 April 06	For the year	Deletions	31 March 07	31 March 07	31 March 06
Tangible Assets										
Leasehold land	5,132	-	-	5,132	419	91	-	510	4,622	4,713
Building	485,156	149,074	-	634,230	98,080	21,755	-	119,835	514,395	387,076
Plant and machinery	3,151,075	431,701	14,036	3,568,740	2,230,406	333,026	13,681	2,549,751	1,018,989	920,669
Furniture and fittings	346,084	39,181	1,401	383,864	261,587	41,362	1,310	301,639	82,225	84,497
Office equipment	80,125	9,106	270	88,961	54,255	9,728	270	63,713	25,248	25,870
Motor vehicles	14,214	7,432	12,429	9,217	8,170	2,879	8,469	2,580	6,637	6,044
Intangible assets										
Systems software	187,730	17,727	-	205,457	164,765	21,175	-	185,940	19,517	22,965
Web publication rights	98,226	-	-	98,226	95,597	2,629	-	98,226	-	2,629
Customer and contract related intangibles	27,001	85,799	-	112,800	27,001	15,825	-	42,826	69,974	-
Goodwill	-	26,921	-	26,921	-	4,805	-	4,805	22,116	-
Total	4,394,743	766,941	28,136	5,133,548	2,940,280	453,275	23,730	3,369,825	1,763,723	1,454,463
As at 31 March 2006	3,897,501	635,372	138,130	4,394,743	2,539,218	437,563	36,501	2,940,280	1,454,463	-

1. Buildings include assets capitalized pending transfer of title in favor of the Company amounting to Rs 327,030 (As at 31 March 2006: Rs 327,030)

2. Motor vehicles include assets purchased on finance lease - Rs. 9,215 (As at 31 March 2006: Rs 14,212)

Rs in Thousands except share data

	As at 31 March 2007	As at 31 March 2006
--	------------------------	------------------------

6 Investments

(Long term, At cost, Trade, Unquoted)
in subsidiaries

IndiaWorld Communications Limited

((200,000 Equity shares of Rs 10 each fully paid up)

(As at 31st March 2006:200,000))

Less: Provision for decrease in value of Investment

5,014,849	5,014,849
(5,014,849)	(5,014,849)
-	-

Sify International Inc. (formerly India Plaza.com Inc.)

(100 Shares of common stock (As at 31 March 2006: 100) of USD 0.0001 fully paid up)

Less: Provision for diminution in value of Investment

357,603	357,603
(357,603)	(357,603)
-	-

Sify Communications Limited (formerly Safescrypt Limited)

(13,320,000 (As at 31 March 2006: 13,320,000) of Rs 10 each fully paid up) Equity shares

(Refer Schedule 20 C (8))

Less: Provision for diminution in value of Investment

584,600	584,600
-	(64,593)
584,600	520,007

Sify Net works Private Limited

(formerly E Alcatraz Consulting Private Limited)

(81,820 (As at 31 March 2006: 81,820) Equity shares of Rs. 10 each fully paid up)

Less: Provision for diminution in value of Investment

32,755	32,755
(32,755)	(11,678)
-	21,077

In Associates

Trade (Unquoted)

Cricinfo Limited

(43,605 (As at 31 March 2006: 43,605) Ordinary shares of GBP 0.01 each fully paid up)

Less: Provision for diminution in value of Investment

(A)	584,600	541,085
	1,682,525	1,682,525
	(1,682,525)	(1,682,525)
	-	-

Man Financial - Sify Securities India (P) Limited

(formerly Refco-Sify Securities India (P) Limited)

(15,490,800 Equity shares (As at 31 March 2006 : 15,490,800) of Rs 10 each fully paid up)

	154,908	154,908
(B)	154,908	154,908
(A) + (B)	739,508	695,993

Schedules to the Balance Sheet (Contd...)

[illegible]

Note :

Demand loan from State Bank of India, Chennai which is secured by way of pledge of fixed deposits (Refer Schedule 4)

	Rs in Thousands			Rs in Thousands	
	As at March 31 2007	As at March 31 2006		As at March 31 2007	As at March 31 2006
10. Loans and Advances					
Unsecured, considered good			Unsecured, considered doubtful		
Advances recoverable in cash or in kind or for value to be received			Advances recoverable in cash or in kind or for value to be received		
– To subsidiaries	271,564	2,846	– To subsidiaries	199,728	289,763
– Other advances	322,789	305,067	– Other advances	20,326	20,326
Prepaid expenses	94,435	82,382			
Deposits			Provision for doubtful advances	(199,728)	(289,763)
– Telephones	25,261	24,819			
– Rental	69,153	61,910	Provision for other advances	(20,326)	(20,326)
– Others	38,108	30,483			
Tax deducted at source	99,437	43,372			
Interest accrued	49,081	33,498			
Accrued Income	73,702	29,284			
Net investment in leases	28,508	21,618			
	<u>1,072,038</u>	<u>635,279</u>		<u>1,072,038</u>	<u>635,279</u>

Schedules to the Balance Sheet (Contd...)

	Rs in Thousands	
	As at March 31, 2007	As at March 31, 2006
11. Current Liabilities		
Sundry creditors		
– For supplies	76,376	206,992
– For expenses	889,976	780,220
Unearned income	293,755	421,633
Security deposits (Refer Schedule 20(C)11)	112,540	97,424
Other liabilities	77,341	563,523
Advances from customers	82,773	108,999
Provident fund	5,394	5,428
	1,538,155	2,184,219
12. Provisions		
Provision for Gratuity	12,362	27,292
Provision for Leave encashment	24,635	28,088
	36,997	55,380

Schedules to the Profit and Loss Account

	Rs in Thousands	
	For the Year ended March 31, 2007	For the Year ended March 31, 2006
13 Sales and Services		
Sales - Domestic	455,150	378,921
Services - Export	580,268	359,547
Services - Domestic	3,974,196	3,900,227
	5,009,614	4,638,695
14 Other Income		
Gain on foreign exchange fluctuation (Net)	14,081	23,990
Interest income on bank deposits (Tax deducted at source for the year ended 31 March 2007 - Rs 26,010) (year ended 31 March 2006: Rs 6,281).	144,399	68,027
Other income	115,908	44,814
Profit on sale of Fixed Assets (Net)	487	–
Provision no longer required written back towards:		
– advance to subsidiary	93,161	64,815
– diminution in value of investment	64,593	
	432,629	201,646
15 Cost of Software and Hardware Sold		
Opening inventory	29,224	28,080
Purchases (Net of capitalised for the year ended 31 March 2007: Rs.7,228) (year ended 31 March 2006: Rs.25,102)	407,908	321,280
Closing inventory	(24,239)	(29,224)
	412,893	320,136

	Rs in Thousands	
	For the Year ended March 31, 2007	For the Year ended March 31, 2006
16 Operating and Administrative Expenses		
Networking costs	961,611	1,059,339
Other Direct Cost	259,670	172,740
Commission	695,913	635,320
Communication expenses	43,482	54,373
Cost of software packages for own use	1,414	5,883
Rent	143,786	129,031
Rates and taxes	9,056	7,857
Travelling expenses	130,570	156,561
Power and fuel	112,843	96,614
Legal and professional charges	162,671	104,812
Web development charges	2,487	9,985
Recruitment expenses	16,760	24,344
Training and development	7,328	8,801
Repairs and maintenance:		
- Plant and machinery	12,539	16,440
- Buildings	29,839	29,233
- Others	76,428	73,351
Hire charges of vehicles and equipment	10,047	9,771
Insurance	23,086	29,469
Outsourced manpower	209,049	188,550
Loss on sale of fixed assets (Net)	–	1,572
Loss on sale of Investments (Net)	–	43,245
Bad debts written off (net of adjustments against the provision for doubtful debts amounting to Rs. 276,525 (Previous year Rs. Nil)	31,326	
Provision for doubtful debts for the year	194,750	90,362
Miscellaneous expenses	60,292	53,034
	3,194,947	3,000,687
17 Personnel Expenses		
Salaries and wages	862,555	864,645
Contribution to provident and other funds	37,379	39,929
Staff welfare expenses	25,610	26,797
Deferred Compensation Charge - Employee Stock Option	9,894	11,591
	935,438	942,962
18 Financial Expenses		
Interest on vehicles on leasing arrangement	389	440
Bank charges	12,704	13,144
Interest Others	5,666	10,646
	18,759	24,230
19 Selling and Marketing Expenses		
Advertisements	37,686	55,246
Market promotion expenses	76,135	127,441
Other selling expenses	13,081	11,537
	126,902	194,224

Schedules to the Balance Sheet and Profit and Loss Account for the year ended March 31, 2007

20. Significant Accounting Policies and Notes to Accounts

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. Contingencies are recorded when it is probable that a liability will be incurred, and the amount can be reasonably estimated. 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 basis:

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.

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

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 cyber cafes. 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. Revenues are recognised 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.

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 which are higher than the corresponding rates prescribed in Schedule XIV to the Companies Act, 1956. 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 lease period.

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	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.

Software is amortised over a period of one to three years. Other intangible assets are amortised over three to five 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. 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. Liabilities related to the gratuity plan are determined by actuarial valuation performed by an independent actuary as at the Balance Sheet date.

Leave encashment: Provision for leave encashment is made on the basis of actuarial valuation at the Balance Sheet date.

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), deferred

tax charge or credit (reflecting the tax effects of the timing differences between accounting income and taxable income for the period) and fringe benefit tax. The deferred tax charge or credit and the corresponding deferred tax liabilities and assets are recognised using the tax rates 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.

Consequent to introduction of Fringe Benefit Tax ("FBT") effective 01 April 2005, the Company provides for and discloses the FBT in accordance with the provisions of the Income Tax Act, 1961 and guidance note on FBT issued by the ICAI.

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 exports, 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) Acquisition of Globe Travel Business

During the current year, the Company acquired the business of Globe Travels, which operates an online travel agency. This acquisition marks Sify's entry into the fast growing online travel business, particularly e-ticketing, the category with highest revenues and fastest growth in online e-commerce today. The addition of a travel portal is in line with strategy of providing end-to-end services to Sify users. The results of Globe Travels operations have been consolidated in the financial statements effective 10 May 2006, the date of acquisition.

The purchase price paid/payable in respect of the business acquisition comprises the following:

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

Cash price	112,220 (USD 2,500)
Stock Options (No. of options)	140,000
Earnout payments	USD 500

The Cash price of USD 2,500 includes an amount of USD 500 as holdback amount payable upon the Airlines Reporting Corporation ("ARC") approval of the Company's application for change of ownership. The said holdback amounts has been included and

accounted as purchase consideration since the management, based on advice, believes that the resolution of the contingency (i.e. approval of ARC) is beyond reasonable doubt.

The Stock Options have been treated as compensation cost. Further, the earnout payment is contingent upon continuing employment and achievement of specified earning levels over a three year period. Accordingly, the cost of acquisition comprises of the cash price of Rs.112,220 and other incidental direct acquisition cost of Rs.3,999. The Cash Price has been allocated to the fair value of the assets acquired, as estimated by the management at the date of acquisition.

The following table summarizes the allocation of the purchase price.

	Rs.
Property and Equipment	1,246
Software	2,253
Customer and contract related intangibles	85,799
Goodwill	26,921
Aggregate purchase consideration	116,219

2) Discontinued Operations - Sale of IP - VPN business

Sify had commenced providing Internet Protocol Virtual Private Network ('IP VPN') services from December 2004 under the Internet Service Provider ('ISP') license based on the letter of intent received from the Government of India ('GOI') permitting the ISP license holders to provide such services. In this connection, the Company had paid a one time entry fee of Rs. 100,000 based on such letter of intent in respect of IP VPN business. Such license fee was capitalized and was being amortized over a period of 15 years effective from the quarter ended March 31, 2005. In addition, the Company was required to pay to the GOI, a prescribed annual recurring fees on the revenues arising from such business to GOI.

The GOI had released a press note on November 10, 2005 wherein National Long Distance (NLD) / International Long Distance (ILD) licenses were liberalized and existing IP VPN businesses were required to be covered under the NLD / ILD licenses. Further, the press release also provided an option to the existing ISP license holders engaged in IP VPN business to migrate to NLD / ILD licenses. As the NLD / ILD licenses were under the regime of Department of Telecom, the notification of the GOI dated 7 November 2005 was required to be complied with to receive NLD/ ILD licenses. The primary condition set out in the notification among other conditions was that, the total composite foreign holding by the applicant should not exceed 74 per cent.

Given that the foreign shareholding in Sify was higher than the aforesaid threshold limit, Sify Communications Limited (SCL), a wholly-owned subsidiary of the Company proposed to obtain the NLD/ ILD Licenses in its name and made necessary applications in this regard. To facilitate this, Sify divested its shareholding in SCL to the extent of 26% to Infinity Satcom Universal Private Limited (ISU), a company incorporated under the laws of India, for a consideration of Rs 139,810 during the quarter ended December 31, 2005. Further, it was proposed to transfer the IP VPN business of the Company to SCL, for a consideration of Rs 500,000, based on the valuation performed by a reputed accounting firm.

Pending the receipt of NLD/ ILD licenses, based on legal advice, it was decided that Sify Limited would continue to carry on the IP VPN business till such time SCL receives NLD / ILD Licenses. Correspondingly, pending transfer of the IP VPN business, Sify had not recognised the sale and accordingly, the amount of Rs 500,000 received towards such sale was treated as an advance receipt and classified under 'Other Liabilities'.

Pursuant to the arrangements with SCL and GOI notification dated 7 November 2005, allowing adjustment of the one time entry fee of Rs 100,000 paid by Sify towards the entry fee payable for receipt NLD / ILD Licences, during the quarter ended December 31, 2005 the Company reversed amortisation of license fees from December 2004 to September 30, 2005 and the entry fee of Rs 100,000 was classified under 'Loans and Advances'.

SCL was granted NLD and ILD licenses by the GOI on November 21, 2006. Pursuant to the arrangements with SCL, Sify transferred the following assets and liabilities of the IP VPN business as on November 21, 2006 and recorded the consequential gain from transfer of the business.

	Rs
Net assets transferred	63,530
Sale consideration	500,000
Gain arising from the transfer of business	436,470

Further, during the current year, the ILD/NLD license fees of Rs 100,000 has been adjusted towards the annual recurring fees of Rs 75,000 and the balance of Rs 25,000 is included under Dues from subsidiaries under 'Loans and Advances'.

SCL has entered into an agreement with the company pursuant to which SCL is required to pay right to use fees to the Company for the use of infrastructure facilities owned by the Company.

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

- 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.
- Segmental Disclosure: The IP VPN services were forming part of the Corporate network / data services under segmental reporting as per AS 17.
- The assets and the liabilities of the IP VPN business are as follows:

	21 November 06	31 March 07
Debtors	Rs 151,558	Nil
Deferred Revenue	Rs 88,028	Nil

- The following statement shows the revenue and expenses of continued and discontinued operations:

Particulars	For the year ended March 31, 2007		
	Continued Operations	Discontinued Operations	Total
	(For the period 01 April 06 to 21 November 06)		
INCOME			
Sales and Services	4,373,144	636,470	5,009,614
Other income	432,629	-	432,629
TOTAL	4,805,773	636,470	5,442,243
EXPENDITURE			
Cost of Software and hardware sold	412,893	-	412,893

Operating and Administrative

expenses	2,901,320	293,627	3,194,947
(In Rupees thousands, except share data and as otherwise stated)			
Personnel expenses	811,235	124,203	935,438
Financial expenses	18,759	-	18,759
Selling and Marketing expenses	119,439	7,463	126,902
Depreciation/Amortisation	453,275	-	453,275
Provision for diminution in value of investments	21,077	-	21,077
Provision for accumulated losses of subsidiaries	3,126	-	3,126
TOTAL	4,741,124	425,293	5,166,417
Profit/(loss) before taxation	64,649	211,177	275,826
Income Tax expense	16,610	893	17,503
Profit/(loss) after taxation	48,039	210,284	258,323
Profit on sale of IP/VPN Business	436,470	-	436,470

The comparative values for the year ended 31 March 2006 are:

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/Amortisation	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/(loss) before taxation	(98,016)	58,796	(39,220)
Income Tax expense	19,226	1,669	20,895
Profit/(loss) after taxation	(117,242)	57,127	(60,115)

Cash Flow From Discontinued Operations

For the period ended 21 November 2006

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

Cash Flow from Operations	41,500
Working Capital Changes	(165,504)
Net Cash Flow from operating activities	(124,004)
Net cash inflow/(outflow)	(124,004)

These amounts are based on the management estimate. Hence, it is not feasible to provide information for comparative purposes,

3) Associates stock option plan (ASOP)

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:

- Associate Stock Option Plan 2000
- Associate Stock Option Plan 2002
- Associate Stock Option Plan 2005

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 under ASOP 2000 and ASOP 2002:

No. of options granted, exercised and forfeited	Year ended March 31, 2007	Year ended March 31, 2006
Options outstanding at the beginning of the year	378,897	765,243
Granted during the year	-	-
Total	378,897	765,243
Exercised during the year	(338,763)	(288,976)
Lapsed during the year	(33,363)	(11,171)
Forfeited during the year	(521)	(86,199)
Outstanding at the end of the year	6,250	378,897
Vested and Exercisable at the end of the year	4,688	358,442

Associate Stock Option Plan 2005 (ASOP 2005)

The Company had formulated the Associate Stock Option Plan 2005, which was 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 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 Company has also cancelled any balance available for issue under previous plans. Accordingly, any unissued options available under previous plans or any option surrendered or lapsed stands cancelled.

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

No. of options granted, exercised and forfeited	Year ended March 31, 2007	Year ended March 31, 2006
Options outstanding at the beginning of the year	1,676,400	-
Granted during the year	547,600	1,735,400
Balance	2,224,000	1,735,400
Exercised during the year	(71,988)	-
Lapsed during the year	(15,523)	-
Forfeited during the year	(1,267,292)	(59,000)
Outstanding at the end of the year	868,197	1,676,400
Vested and Exercisable at the end of the year	54,914	-
Weighted Average Exercise Price in Rs	238.32	286.20
Remaining contractual period	1.57 to 2.81 years	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. 9,894 (Net) towards stock expense for the year ended March 31, 2007.

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 March 31, 2007	Year ended March 31, 2006
Net profit / (loss) - as reported	258,323	(60,115)
Add: Stock based compensation expense included in reported net profit / (loss)	9,894	11,591
Less: Stock based compensation expense determined under fair value method	(52,129)	(43,847)
Pro forma net profit / (loss)	216,088	(92,371)
Loss per share:		
Number of shares - Basic	42,704,619	36,811,476
Profit / (loss) per share - reported	6.04	(1.63)
Profit / (loss) per share - proforma	5.06	(2.51)
Number of shares - Diluted	42,809,136	36,811,476
Profit / (loss) per share - reported	6.03	(1.63)
Profit / (loss) per share - proforma	5.05	(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 March 31, 2007	Year ended March 31, 2006
(In Rupees thousands, except share data and as otherwise stated)		
Dividend Yield	-	-
Assumed Volatility	57.2% - 95.4%	58.13% - 95.45%
Risk-Free Interest Rate	4.75%	6.50% - 7.50%
Expected Term	18-40 months	18-40 months

4. Employee Benefits

Effective 1, April 2006, the Company adopted Accounting Standard ('AS') 15 (revised 2005) - "Employee Benefits" issued by the Institute of Chartered Accountants of India. As per the transitional provisions specified in the Standard, the difference in the liability as per the existing policy followed by the Company and that arising on adoption of this standard is required to be charged to opening reserves and surplus account. However, there is no significant impact on adoption of the Standard which is required to be adjusted to the opening balance of reserves and surplus.

Change in projected benefit obligation	Year ended 31 March 2007
Projected benefit obligation at the beginning of the year	22,959
Service cost	8,149
Interest cost	1,662
Actuarial (gain) / loss	604
Benefits paid	(12,589)
Projected benefit obligation at the end of the year	20,785
Change in plan assets	
Fair Value of plan assets at the beginning of the year	1,717
Actual return on plan assets	163
Actuarial (gain) / loss	631
Employer contributions	18,500
Benefits paid	(12,589)
Fair Value of plan assets at the end of the period	8,422
Reconciliation of present value of the obligation and the fair value of plan assets	
Present Value of Projected benefit obligation at the end of the period	20,785
Funded status of the plans	8,422
Funded Status amount of liability recognised in the balance sheet	12,363

The components of net gratuity costs are reflected below:

	Year ended 31 March 2007
Service cost	8,149
Interest cost	1,662
Expected returns on plan assets	(163)
Amortization	—
Recognized net actuarial (gain)/ loss	(27)
Net gratuity costs	9,621

Financial Assumptions at Balance Sheet date:

	Year ended 31 March 2007
Discount	8.15% p.a.
Long-term rate of compensation increase	6.00% p.a.
Rate of return on plan assets	7.50% p.a.

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

5. 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 the portals, "Sify.com", "Samachar.com", and "SifyMax.in" 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 and managed service solutions;

- 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.

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

The Company's operating segment information for the year ended 31 March 2007 is presented below:

Year ended March 31, 2007	Corporate network/ data services	Internet access services	Online portal Services and content offerings	Others	Total
Revenues	2,684,554	1,868,914	281,789	174,357	5,009,614
Allocable expenses	(1,605,718)	(1,767,861)	(285,030)	(154,920)	(3,813,529)
Segment operating income / (loss)	1,078,836	101,053	(3,241)	19,437	1,196,085
Unallocable expenses					(876,964)
Operating income / (loss)					319,121
Other income					288,230
Profit on sale of VPN Business					436,470
Income/(loss) before interest, tax, depreciation and provision for losses in subsidiaries/investments/others					1,043,821
Depreciation/ amortization and provision for losses in subsidiaries					(487,372)
Interest income (net)					138,344
Net profit after taxes					694,793

The comparative values for the year ended 31 March 2006 are:

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
Allocable 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					(886,848)
Operating income / (loss)					159,810
Other income / (expense), net					189,238
Income/(loss) before interest, tax, depreciation and provision for losses in subsidiaries/investments/others					349,048
Depreciation and provision for losses in subsidiaries/investments/others					(466,104)
Interest income (net)					56,941
Net income / (loss) after taxes					(60,115)

6. 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 2007 are as follows:

Minimum lease payments as at	March 31, 2007	March 31, 2006
Payable not later than one year	2,954	2,994
Payable Later than one year and not later than five years	3,982	2,678
Total	6,936	5,672
Less: Amounts representing interest	790	367
Present value of minimum lease payments	6,146	5,305
Payable not later than one year	2,474	2,759
Payable later than one year and not later than five years	3,672	2,546

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 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 incurred.

Gross Investment and minimum lease payments as at 31 March 2007 are as follows:

Gross Investment	31 March 2007	31 March 2006
Receivable not later than one year	17,796	11,805
Receivable later than one year but not later than 5 years	12,615	11,183
Total	30,411	22,988
Less: Amount representing interest (Unearned finance income)	1,903	1,370
Present Value of minimum lease payments	28,508	21,618
Receivable not later than one year	16,560	10,776
Receivable later than one year but not later than 5 years	11,948	10,842

7. Related party transactions

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

Subsidiaries	<p>Sify International Inc. (formerly known as India Plaza.com Inc.)</p> <p>India World Communications Limited</p> <p>Sify Communications Limited (formerly Safe Scrypt Limited)</p> <p>Sify e-learning Limited (formerly Satyam Education Services Limited) (Upto 22 September 2005)</p> <p>Satyam Webexchange Limited (Upto 22 September 2005)</p> <p>Sify Plastics Commerce Limited (Upto 22 September 2005)</p> <p>Sify Networks Private Limited (formerly E Alcatraz Consulting Private Limited)</p>
Associates	<p>Satyam Computer Services Limited (Upto 10 November, 2005)</p> <p>Cricinfo Limited</p> <p>Man Financial-Sify Securities India Private Limited (Formerly Refco-Sify Securities India Private Limited)</p>
Key Management Personnel	<p>Raju Vegesna, Chairman and Managing Director (from July 18, 2006)</p> <p>R.Ramraj , Managing Director (upto July 18,2006)</p>

The value for the year ended 31, March 2007 are:

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

Particulars	Subsidiaries	Associates	Total
Transactions with related parties			
Billings	-	2,494	2,494
Purchases	1,829	-	1,829
Other advances (net)	9,204	-	9,204
Expenses recovered	273,378	-	273,378
Corporate Guarantees given to bank for Bank guarantees	456,193	-	456,193
Write back of provisions made for diminution in value of investment and advance recoverable	157,754	-	157,754
Balances with related parties			
Advances recoverable from	297,875	1,123	298,998
Amounts provided	(199,728)	(1,123)	(200,851)

Details of managerial remuneration paid to Managing Director and payment to directors are provided in Note C (13) and C (14) .

The comparative values for the year ended 31 March 2006 are :

Particulars	Subsidiaries	Associates	Total
Transactions with related parties			
Billings	45	121,132	121,177
Purchases	2,342	-	2,342
Other advances (net)	(57,047)	-	(57,047)
Expenses recovered Purchases of fixed assets	-	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
Advances recoverable from	292,608	1,123	293,731
Amounts provided	(289,763)	(1,123)	(290,886)

* 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.

Rs in Thousands unless as stated

8. Investments**Sify Communications Limited (Formerly Safescrypt Limited)**

Pursuant to the transfer of IP-VPN business to Sify Communications Limited (a 74% subsidiary) (SCL) and the receipt of NLD/ILD licences from November 21, 2006, SCL has commenced making profits. Management believes that the business will continue to earn profits and that there is no longer a temporary diminution in the value of investment. Accordingly, provision made for diminution in the value of investment has been written back during the current year.

9. Legal proceedings

1. Sify and certain of its ex-officers and ex-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 2007, 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. 4,224 (As at 31 March 2006: Rs.3,872).

10. Unearned income

Unearned income includes the following amounts of deferred revenue, which are 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.

11. 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.

12. Commitment and contingencies

- (i) Unexpired bank guarantees as at 31 March 2007 amounted to Rs 140,965 (As at 31 March 2006: Rs 119,745).
- (ii) The Company has given corporate guarantees, as at 31 March 2007 amounting to Rs. 456,193 (As at 31 March 2006: Rs 10,000) to the bankers in respect of non-funded facility availed by a subsidiary of the Company.
- (iii) Unexpired letters of credit as at 31 March 2007 amounted to Rs. 43,958 (As at 31 March 2006: Rs 247,938).
- (iv) Contracts pending to be executed on capital account as at 31 March 2007 and not provided for (net of advances: Rs 24,043 amounted to Rs 75,207 [as at 31 March 2006: Rs 162,348 (net of advances: Rs 13,623)]).
- (v) The Company has discounted cheques, as on 31 March 2007 amounting to Rs 693 (as at 31 March 2006 Rs Nil)
- (vi) In respect of contingencies arising on legal proceedings, refer to note C (9) of Schedule 20.
- (vii) The Company had received a notice from the Income-Tax Department of India for the financial years 2002 and 2003 for a sum of Rs 77,724 stating that no withholding tax has been deducted in respect of international bandwidth and leased line payments made by the Company to international bandwidth / lease line service providers.

Based on the legal opinion, withholding taxes need not be deducted if the service provider did not have any permanent establishment in India and has not installed any equipment at the Company's premises. The Company is able to demonstrate that international service providers has neither had a permanent establishment in India nor has installed any equipment at the Company's premises. Accordingly, the likelihood of the loss contingency is remote and no provision for the loss contingency is considered necessary.

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

	Year ended March 31, 2007	Year ended March 31, 2006
13. Managerial remuneration		
Salary	1,231	3,750
Allowances	1,200	3,750
Total	2,431	7,500
Contribution to provident fund	148	450
Gratuity	38	150
14. Payment to other director		
Sitting Fees	980	360
Consultancy fees	240	240
15. Auditors' remuneration(included under Legal and Professional Charges)		
Statutory audit	1,650	1,850
Other Services	1,350	1,650
Out of pocket expenses	240	1,037
16. Expenditure in foreign currency on Cash Basis		
Networking costs/ Communication expenses	221,463	260,001
Travel	21,635	26,634
Legal and professional charges	22,339	17,331
Personnel expenses	42,756	49,919
Printing & Stationery	2,505	1,847
Direct costs	57,148	22,583
Content Development cost	12,400	7,948
Marketing promotion expenses	4,903	10,768
Others	42,984	47,950
17. Value of imports on CIF basis		
Software/Hardware imported	25,229	21,413
Capital assets	166,888	287,805
18. Earnings in foreign currency on Cash Basis		
Services income	510,755	374,361
Interest income	51,075	5,250
19. Other information		
a) The Company does not owe any amounts to small-scale industrial undertakings, which are due for more than 30 days.		
b) Based on the information available with the Company, there are no dues outstanding as at the balance sheet date to enterprises covered under Micro, small and Medium Enterprises Development Act, 2006.		
c) The Company has got a non-fund based facility with a bank to the extent of Rs. 500,000 (As at 31 March 2006 Rs. 500,000) for which a first charge is created on the Company's current assets.		

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

	Year ended March 31, 2007		Year ended March 31, 2006	
	Qty	Value	Qty	Value
Opening Stock				
Hardware	26,540	34,654	29,413	30,825
Software ²	132	4,248	154	2,359
Purchases				
Hardware	149,864	264,353	75,689	199,046
Software	1,790	124,882	2,198	127,126

	Year ended March 31, 2007		Year ended March 31, 2006	
	Qty	Value	Qty	Value
Sales				
Hardware ¹	172,943	283,475	77,633	195,998
Software ²	1,799	143,411	2,219	143,300
Captive Consumption				
Hardware	492	6,897	929	25,095
Software ²	1	331	1	7
Closing stock				
Hardware	2,969	36,721	26,540	34,654
Software ²	122	4,081	132	4,248

Note:

1. Includes sale of products through e-commerce.
 2. Software is measured by number of packages.
- (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.

21. 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.

22. 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.

23. Reconciliation of weighted average shares used for computing Earning Per Share

	Year ended March 31, 2007	Year ended March 31, 2006
Weighted average share - Basic	42,704,619	36,811,476
Employee Stock Option	104,517	-
Weighted average share - Diluted	42,809,136	36,811,476

24. Prior year comparatives

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

For and on behalf of Board of Directors

S.K. Rao
Director

Raju Vegesna
Chairman & Managing Director

Pijush Kanti Das
Chief Financial Officer

V. Ramasubramanian
Company Secretary

Chennai
April 23, 2007

	Rs in Thousands	
Cash Flow Statement	For the year ended March 31, 2007	For the year ended March 31, 2006
Cash Flows from Operating Activities		
Profit /(Loss) before taxation and exceptional items	275,826	(39,220)
Adjustments for :		
Depreciation / Amortisation	453,275	437,563
Financial expenses (considered separately)	18,759	24,230
Provision / for decrease in value of investments, net	21,077	16,295
Bad Debts written off	31,326	-
Provision for doubtful debts	194,750	90,362
Provision for accumulated losses of subsidiaries	3,126	655
Provision for slow moving inventory	7,099	4,009
Deferred compensation charge	9,894	11,591
Provisions no longer required written back	(157,754)	(64,815)
Unrealised foreign exchange fluctuation (Gain)/Loss, net	13,736	(21,267)
Fringe Benefit Tax	(17,503)	(20,895)
Duty Credit Entitlement	(66,094)	(94,627)
Interest income (considered separately)	(144,399)	(68,027)
Profit on sale of fixed assets, net	(487)	1,572
Profit on sale of investments	-	43,245
Operating Profit before working capital changes	642,631	320,671
Adjustments for :		
(Increase)/decrease in sundry debtor	(163,832)	(284,917)
(Increase)/decrease in inventories	(2,114)	(5,153)
(Increase)/decrease in loans and advances	(178,667)	(67,712)
Increase/(decrease) in current liabilities and provisions	(3,598)	215,074
Net cash flow from operating activities (A)	294,419	177,963
Cash flow from investing activities		
Purchase of fixed assets and changes in capital work-in-progress	(895,630)	(579,219)
Sale proceeds of fixed assets	4,893	4,872
Investment in Subsidiary	-	(700,000)
Sale of Investment	-	139,810
Advance towards sale consideration	-	500,000
Advance for investments / to subsidiaries	(178,683)	59,345
Interest income received	128,816	47,020
Net cash from / (used in) investing activities (B)	(940,605)	(528,172)
Cash flow from financing activities		
Proceeds from issuance of share capital	72,647	1,692,416
Loans availed against purchase of vehicle	6,695	3,763
Repayment of loans obtained against purchase of vehicles	(5,854)	(8,361)
Loans against Fixed Deposits	800,000	-
Investment in finance leases	(6,890)	7,547
Financial expenses	(18,759)	(24,230)
Net cash from / (used in) financing activities (C)	847,839	1,671,135
Effect of exchange differences on translation of cash and cash equivalents (D)	(8,229)	20,558
Net Increase / (Decrease) in cash and cash equivalents during the year (A+B+C+D)	193,424	1,341,484
Cash and cash equivalents at the beginning of the year	2,691,281	1,349,797
Cash and cash equivalents at the end of the year	2,884,705	2,691,281
Cash and cash equivalents which are restricted in nature		
- Margin money accounts	-	-
Supplementary information		
- Cash paid / (refunds received) towards Income taxes	73,568	(11,917)

for **BSR & Co.**
Chartered Accountants

S Sethuraman
Partner
Membership No: 53315

Chennai
April 23, 2007

for and on behalf of the Board of Directors

S.K. Rao
Director

Pijush Kanti Das
Chief Financial Officer

Raju Vegesna
Chairman & Managing Director

V Ramasubramanian
Company Secretary

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

Registration no.	50809
State code	18
Balance Sheet date	March 31, 2007

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

Public issue	—
Rights issue	—
Bonus issue	—
Private placement (including premium)	74,553

III. Position of mobilization and deployment of funds

Total Liabilities	17,321,821
Total Assets	17,321,821

Source of Funds

Paid-up capital	428,003
Reserves and surplus	16,087,672
Secured loans	806,146
Unsecured loans	—

Application of Funds

Net fixed assets	1,787,133
Investments	739,508
Net current assets	3,168,779
Miscellaneous expenditure	—
Accumulated loss	11,626,401

IV. Performance of the Company

Turnover	5,442,243
Total expenditure	5,166,417
Profit/(Loss) before tax	712,296
Profit/(Loss) after tax	694,793
Earnings per share in Rs.	16.27
Dividend %	—

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

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

for and on behalf of the Board of Directors

S K Rao
Director

Raju Vegesna
Chairman & Managing Director

 Chennai
April 23, 2007

Pijush Kanti Das
Chief Financial Officer

V Ramasubramanian
Company Secretary

Sify Limited

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, 2007	March 31, 2007	March 31, 2007	March 31, 2007
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		116,885	(2,416)	Nil	(2,951)
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		(259,201)	(71,256)	(10,325)	(207,152)
Chennai April 23, 2007		S K Rao Director	Raju Vegesna Chairman & Managing Director	Pijush Kanti Das Chief Financial Officer	V Ramasubramanian Company Secretary

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