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

1. Reporting entity

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

2. Basis of preparation

a. Statement of compliance

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

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

b. Functional and presentation currency

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

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

Convenience translation: Solely for the convenience of the reader, the Unaudited Condensed Consolidated Interim Financial Statements as of and for the quarter ended June 30, 2008 have been translated into United States dollars (neither the presentation currency nor the functional currency) at the noon buying rate in the New York City on June 30, 2008, for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York of U.S. $ 1 = Rs.42.93. No representation is made that the Indian rupee amounts have been, could have been or could be converted into United States dollar at such a rate or at any other rate on June 30, 2008 or at any other date.

c. Use of estimates and judgements

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

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

3. Significant accounting policies

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

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

4. Property, plant and equipment

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

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

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

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

5. Intangible assets

Intangible assets comprise the following:

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

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

6. Investments in associates

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

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

Balance Sheet	**As at June 30, 2008**	**As at March 31, 2008**
Total Assets	5,138,724	7,893,663
Total Liabilities	3,496,864	6,290,602
Shareholders' equity	1,641,860	1,603,061
Total Liabilities and Shareholders' equity	5,138,724	7,893,663

Statement of Operations	**Quarter ended June 30, 2008**	**Quarter ended June 30, 2007**
Revenues	397,437	408,496
Net Profit	42,913	82,445

7. Cash and cash equivalents

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

Non current	**As at June 30, 2008**	**As at March 31, 2008**
Against future performance obligation	1,000	1,000
	1,000	1,000
Current		
Restricted deposits held under lien against overdraft facilities	955,000	877,582
Cash and bank balances	652,363	628,745
Cash and cash equivalents	**1,607,363**	**1,506,327**
Bank Overdrafts	(833,003)	(617,637)
Cash and cash equivalents in the statement of cash flows	774,360	888,690

8. Lease prepayments

	As at June 30,2008	As at March 31, 2008
Towards Land	552,190	553,051
Towards building	297,842	15,858
	850,032	**568,909**

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

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

9. Trade and other receivables

Trade and other receivables comprise:

Particulars	**As at June 30, 2008**	**As at March 31, 2008**
Trade receivables	2,006,723	1,694,542
Other receivables including deposits	554,217	526,184
	2,560,940	**2,220,726**

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

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

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

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

10. Capital and reserves

Reconciliation of movement in Capital and reserves

Attributable to equity holders of the company

Particulars	Share capital	Share premium	Share based payment reserve	Translation Reserve	Recognised actuarial gain / (loss)	Fair value reserve	Share of gains and losses from associates accounted using equity method	Accumulated deficit	Total	Minority interest	Total equity
Balance at April 1, 2008	**441,018**	**16,368,647**	**149,398**	**(153)**	**1,085**	**(1,080)**	**(9,669)**	**(12,254,262)**	**4,694,984**	**199,907**	**4,894,891**
Total recognized income and expense	-	-	-	(2,672)	(3,618)	(1,415)	(1,228)	(132,723)	(141,656)	8,238	(133,418)
Share-based payments	-	-	17,506	-	-	-		-	17,506	-	17,506
Others	-	6,570	-	-	-	-	-	-	6,570	-	6,570
Balance at June 30, 2008	**441,018**	**16,375,217**	**166,904**	**(2,825)**	**(2,533)**	**(2,495)**	**(10,897)**	**(12,386,985)**	**4,577,404**	**208,145**	**4,785,549**
Balance at April 1, 2007	**428,003**	**16,262,096**	**101,540**	**(316)**	**2,944**	**-**	**10,793**	**(12,266,154)**	**4,538,906**	**169,765**	**4,708,671**
Total recognized income and expense	-	-	-	26	(1,300)	-	(7,290)	(45,322)	(53,886)	5,678	(48,208)
Share-based payments	-	-	13,965	-	-	-	-	-	13,965	-	13,965
Stock options exercised	86	1,961	-	-	-	-	-	-	2,047	-	2,047
Balance at June 30, 2007	**428,089**	**16,264,057**	**115,505**	**(290)**	**1,644**	**-**	**3,503**	**(12,311,476)**	**4,501,032**	**175,443**	**4,676,475**

11. Employee benefits

	As at June 30,2008	As at March 31, 2008
Gratuity payable	17,430	8,592
Compensated Absences	44,003	33,658
	61,433	**42,250**

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

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

	Quarter ended June 30,2008	**Year ended March 31, 2008**
Present Value of Projected benefit obligation at the end of the period / year	35,678	27,332
Funded status of the plans	18,248	18,740
Funded status net of liability recognised in the balance sheet	**17,430**	**8,592**

The components of net gratuity costs are reflected below:

	Quarter ended June 30,2008	**Quarter ended June 30,2007**
Service cost	3,017	2,133
Interest cost	759	410
Expected returns on plan assets	(418)	(239)
Net gratuity costs	**3,358**	**2,304**

Financial Assumptions at Balance Sheet date:

	As at June 30,2008	As at March 31, 2008
Discount rate	8.60% p.a	7.85% p.a
Salary Escalation Rate	8.00% p.a	6.00% p.a
Rate of return on plan assets	8.00% p.a	7.50% p.a

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

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

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

Actuarial gains and losses recognised in equity

Particulars	**Quarter ended June 30,2008**	**Year ended March 31, 2008**
Actuarial gain/ (loss)	(5,481)	(2,816)

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

12. Borrowings from banks

	As at June 30, 2008	As at March 31, 2008
Loan against Fixed Deposits	649,850	85,000
Other working capital facilities	132,780	71,426
	782,630	**156,426**

1. The Group has short term borrowings of Rs. 649,850 as at June 30, 2008 (Rs.85,000 as at March 31, 2008), from its bankers for working capital requirements. The borrowings are secured by fixed deposits held by the Group. The borrowings bear interest ranging from 9%-11% p.a. and are repayable within one year from the balance sheet date.

2. Other working capital facilities are secured by a charge on the current assets and book debts of the Company. These are short term borrowings and bear interest ranging from 3.8%-4% p.a. Such facility generally is for a period that ranges from 90 to 120 days

13. Revenue

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

14. Cost of goods sold and services rendered

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

15. Personnel expenses

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

16. Share-based payments

Share based payments are designed as equity-settled plans. Under the equity settled plans, the Group had issued stock options under Associate Stock Option Plan (ASOP) 1999, ASOP 2000, ASOP 2002, ASOP 2005 and ASOP 2007.

The terms and conditions of ASOP are disclosed in the Consolidated Financial Statements as at and for the year ended March 31, 2008. During the quarter ended June 30, 2008, the Company has issued 61,500 options under ASOP 2007.

The fair value of share options granted during the quarter ended June 30,2008 was estimated using the following assumptions:

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

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

17. Net Finance income and expense

	Quarter ended June 30, 2008	Quarter ended June 30, 2007
Interest income on bank deposits	32,782	42,128
Interest income from leases	172	410
Others	351	-
Finance income	**33,305**	**42,538**
Interest expense on financial liabilities – leases	139	161
Bank Charges	10,267	4,686
Other interest	23,373	4,154
Finance expense	**33,779**	**9,001**
Net finance income / (expense) recognised in profit or loss	**(474)**	**33,537**

18. Earnings per share

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

19. Segment Reporting

The primary operating segments of the Group are:

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

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

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

Quarter ended June 30, 2008

	Corporate Network / Data Services	**Internet Access Services**	**Online Portal Services**	**Consumer One**	**Other Services**	**Total**
		A	**B**	**A+B**		
Total segment revenue	991,269	325,306	49,180	374,486	136,872	**1,502,627**
Segment expenses allocated	(636,652)	(357,645)	(57,416)	(415,061)	(107,354)	**(1,159,067)**
Segment operating income	**354,617**	**(32,339)**	**(8,236)**	**(40,575)**	**29,518**	**343,560**
Unallocated Corporate expenses						(387,934)
Depreciation and amortisation						(111,795)
Foreign exchange gain / (loss)						19,080
Other income / (expense), net						18,504
Net interest income						(474)
Equity in profit of associate						12,810
Minority interest						(8,238)
Income taxes						(18,236)
Net Profit/(loss)						**(132,723)**

Quarter ended June 30, 2007

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

20. Capital Commitments

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

21. Contingencies

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

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

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

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

22. Legal proceedings

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

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

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

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

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

23. Related parties

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

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

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

24. Financial risk management

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

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

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

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

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

Liquidity Risks: Liquidity risk is the risk that one or more of Group entities may fail to meet its financial obligations on time.The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities, without incurring unacceptable losses or risking damage to the Group's reputation. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses, servicing of financial obligations. In addition, the Group has concluded arrangements with well reputed Banks, and has unused lines of credit that could be drawn upon should there be a need. The Company is also in the process of negotiating additional facilities with Banks for funding its requirements. Subsequent to the balance sheet date, the Company has revised some of its long term commitments such as the ELCOT land arrangement etc and sought / obtained refund of deposits made.

Currency Risk: Group's exposure in USD denominated transactions gives rise to Exchange Rate fluctuation risk. Group's policy in this regard incorporates:

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

25. Subsequent Events

a. Acquisition of minority interest in subsidiary

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

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

b. Surrender of leasehold land

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

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

26. Company entities

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

* Wound up during the period.