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

1. Reporting entity

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

2. Basis of preparation

a. Statement of compliance

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

These Consolidated Financial Statements have been approved for issue by the Board of Directors on August 13, 2012.

b. Basis of measurement

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

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

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

c. Functional and presentation currency

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

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

Convenience translation (unaudited): Solely for the convenience of the reader, the financial statements as of and for the year ended March 31, 2012 have been translated into United States dollars (neither the presentation currency nor the functional currency of the

Group) based on the reference rate in the City of Mumbai on March 31, 2012, for cable transfers in Indian rupees as published by the Reserve Bank of India which was Rs.51.16 per $1.00. No representation is made that the Indian rupee amounts have been, could have been or could be converted into United States dollar at such a rate or at any other rate on March 31, 2012 or at any other date.

d. Use of estimates and judgements

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

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

- Measurement of the recoverable amounts of cash-generating units containing goodwill (Note 6)
- Useful lives of property, plant and equipment (Note 3 e and Note 5)
- Useful lives of intangible assets (Note 3 f and Note 6)
- Lease classification (Note 3 g, 9, 17 and 33)
- Utilization of tax losses (Note 11)
- Measurement of defined employee benefit obligations (Note 18)
- Measurement of share-based payments (Note 30 and Note 37)
- Valuation of financial instruments (Note 3 c, 4, 38 and 39)
- Provisions and contingencies (Note 3 m and 35)

3. Significant accounting policies

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

a. Basis of consolidation

(i) Subsidiaries

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

(ii) Associates (equity accounted investees)

Associates are those entities where the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method (equity accounted investees) and are initially recognized at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The Consolidated Financial Statements include the Group's share of the income and expenses and equity movements of equity accounted investees from the date that significant influence commences until the date that significant influence ceases. The investment would be classified as 'held for sale' when the carrying amount of the investment will be recovered through a sale transaction rather than through its continued use and such sale is highly probable. Such investments are measured at the lower of its carrying amount and fair value less cost to sell. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iii) Transactions eliminated on consolidation

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

b. Foreign currency

(i) Foreign currency transactions

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

(ii) Foreign operations

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

c. Financial instruments

(i) Non-derivative financial instruments

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

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

Non-derivative financial assets

a) Available-for-sale financial assets

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

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

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are presented as current assets, except for those maturing later than 12 months after the balance sheet date which are presented as non-current assets. Loans and receivables are initially measured at fair value plus transaction costs and subsequently

carried at amortized cost using the effective interest method, less any impairment loss. Loans and receivables are represented by trade receivables, unbilled revenue, cash and cash equivalents. Cash and cash equivalents comprise cash balances and demand deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

c) Others

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

Non-derivative financial liabilities

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

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

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

(ii) Derivative financial instruments

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

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

d. Share capital

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

e. Property, plant and equipment

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

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within “other income / other expenses” in statement of income.

(i) Subsequent costs

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

(ii) Depreciation

Depreciation is recognized in the consolidated statement of income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Management’s estimated useful lives for the years ended March 31, 2012, 2011 and 2010 were as follows:

	Estimate of useful life in years
Buildings	28
Plant and machinery comprising computers, servers etc.	3 – 5*
Plant and machinery comprising other items	8*
Furniture and fittings	5
Office equipment	5
Motor vehicles	3 – 5

*Revised during the year ended March 31, 2008. Also refer note 5.
Depreciation method, useful lives and residual values are reviewed at each of the reporting date.

f. Business combinations and intangible assets

(i) Business combinations

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

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

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

The acquisition of an asset or a group of assets that does not constitute a ‘business’ as per IFRS 3 is accounted for by identifying and recognizing the individual identifiable assets acquired and liabilities assumed. The cost of the group is allocated to such individual identifiable assets and liabilities on the basis of their relative fair values on the date of purchase.

(ii) Goodwill

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

Acquisitions prior to April 1, 2006

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

Acquisitions on or after April 1, 2006

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

Acquisition of non-controlling interest

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

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

(iii) Other intangible assets

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

(iv) Subsequent expenditure

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

(v) Amortization of intangible assets with finite useful lives

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

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

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

g. Leases

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

Assets taken on finance lease:

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

Assets taken on operating lease:

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

Assets given on finance lease:

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

Deposits provided to lessors:

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

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

h. Inventories

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

i. Construction contracts in progress

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

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

j. Impairment

Financial assets

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

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

Available-for-sale financial assets
Significant or prolonged decline in the fair value of the security below its cost and the disappearance of an active trading market for the security are objective evidence that the security is impaired. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value. The cumulative loss that was recognized in the equity is transferred to the consolidated income statement upon impairment. Such impairment loss is recognized in the consolidated income statement.

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

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

Non-financial assets

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

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

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

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

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

k. Employee benefits

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

(a) Defined contribution plan (Provident fund)

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

(b) Defined benefit plans (Gratuity)

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

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

(c) Short term benefits

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

(d) Compensated leave of absence

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

l. Share-based payment transactions

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

m. Provisions

Provisions are recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of

the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

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

n. Revenue

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

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

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

(i) Enterprise services

Enterprise services revenue broadly consist revenue from Network services and IT services.

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

The Group provides connectivity for a fixed period of time at a fixed rate regardless of usage. Connectivity is the last element that is provided in the case of a bundled contract. The connectivity charges are the same when sold alone or as part of a package. The revenue attributable to connectivity services is recognized ratably over the period of the contract.

In circumstances where there is multi element arrangement that includes hardware or software sales and last mile connectivity services, revenue from sale of hardware/software is recognized only upon completion of the services relating to last mile connectivity. Installation consists of commissioning of the last mile connectivity to the customer premises either through the Group's wireless mode of delivery or through the carrier exchange. When the customer has such last mile connectivity, the Group does not charge any installation fee. Due to the short duration, the revenue attributable to the installation of the link is recognized on completion of the installation work. All revenues are shown exclusive of sales tax and service tax.

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

(b) Revenue from IT services: Web hosting service revenues primarily include co-location services. In certain cases, the Group also sells related hardware/software to its web hosting customers. This hardware as well as software are purchased from outside vendors and are freely traded in the market. The Group treats each element as a separate component of the arrangement which have separate earnings process. The value of the hosting service is determined based on fair value from similar services provided separately by the Group. When hardware and/or software is also included with hosting services and sold as a package,

the revenue is allocated to the respective element based on their relative fair values. Revenue from hosting services is recognized over the period during which the service is provided.

The Company also deals in hardware and software. These are standard products that are freely traded in and purchased from the market, have standard specifications and are not otherwise customized for the specific needs of a customer. The software sold by the Group is off-the-shelf software, such as antivirus utilities and firewalls. The fair value for the hardware and software is available from the market. The revenue attributable to hardware/software is recognized on delivery. Trading transactions relating to standard hardware and software and involving arrangement of purchases from suppliers and sales to customers are reported on gross basis or on net basis, by carrying out a fact-specific evaluation of such transactions.

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

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

(ii) Commercial and consumer services

This stream of revenue includes revenues from internet access services and online portal services

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

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

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

Internet access at homes and businesses through cable networks, a franchised network of cable operators in India. Customers buy "user accounts" for a specified usage or volume of data transfer or for a specified period of time all within a contracted period. Revenues are 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.

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

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

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

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

After the commencement of the franchisee operations, the Company renders subsequent services to the franchised cybercafés in form of providing bandwidth for establishing connectivity through supply of Sify cybercafé cards (typically called as 'user accounts' or 'top ups'), providing backend support, the authentication/usage engine and the billing and collection system. The cybercafé cards enable the users to access the internet for a specified quantum of usage within a contracted period. As revenue from these subsequent services constitute continuing services, the revenue from such services are recognised based on the usage as the access is for a specified quantum of usage within a specified time. Any unused hours at the end of the contracted period are recognised as revenue.

The Company, along with provisioning of bandwidth on a recurring basis, renders other services on an integrated basis including backend support, authentication / usage engine and the billing and collection system to the franchisees. In such services, the Company, through application software, helps the franchisee to keep online track of the usage of Sify cybercafé cards by the customers and also helps in authenticating the customer log-ins at different Cyber cafes. Such services to the franchisees are billed and recorded as deferred revenue when the customer purchases the card and revenue is recognised over the period of provisioning of such services (i.e when the bandwidth is used by the customers).

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

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

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

(iii) Software services

The Group provides e-learning software development services to facilitate web-based learning in various organizations. The contracts executed by the Company are not similar i.e. the efforts required to execute these contracts at each stage of development process differ from customer to customer and the contract is executed based on specific requirements regarding content/information of the customer. Thus the e-learning packages are specifically designed for the customer and accordingly, are accounted for as customized programmes. These services include information presentation, structured content delivery, content digitization and simulation based training. These services are generally provided on a fixed price basis. Revenue under such contracts is recognized when the outcome of the transaction can be estimated reliably by reference to the stage of completion of transaction at the reporting date. The stage of completion being determined based on the actual time spent to the total estimated time. The revenue from Application Services such as online assessment, document management services, web development, mailing solutions and supply chain software are recognized over the period of the contract.

(iv) Deferred income

Deferred income represents billing in excess of revenue recognized.

o. Export entitlements

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

p. Finance income and expense

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

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

q. Borrowing costs

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

r. Income taxes

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

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

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

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

s. Earnings / (loss) per share

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

t. Recent accounting pronouncements

(i) In October 2010, the IASB issued an amendment to **IFRS 7 "Disclosures—Transfers of financial assets".** The purpose of the amendment is to enhance the existing disclosures in IFRS 7 when an asset is transferred but is not derecognized and introduce new disclosures for assets that are derecognized but the entity continues to have a continuing exposure to the asset after the sale. The amendment is effective for fiscal years beginning on or after July 1, 2011. Earlier application is permitted.

(ii) In December, 2011, the IASB issued an amendment to **IFRS 7 "Disclosures—offsetting financial assets and financial liabilities"**. The amended standard requires additional disclosures where financial assets and financial liabilities are offset in the balance sheet. These disclosures would provide users with information that is useful in (a) evaluating the effect or potential effect of netting arrangements on an entity's financial position and (b) analyzing and comparing financial statements prepared in accordance with IFRSs and U.S. GAAP. The amendment is effective retrospectively for fiscal years beginning on or after January 1, 2013. Earlier application is permitted.

(iii) **IFRS 9 Financial Instruments:** In November 2009, the International Accounting Standards Board issued IFRS 9, Financial Instruments: Recognition and Measurement, to reduce the complexity of the current rules on financial instruments as mandated in IAS 39. The effective date for IFRS 9 is annual periods beginning on or after January 1, 2015 with early adoption permitted. IFRS 9 has fewer classification and measurement categories as compared to IAS 39 and has eliminated the categories of held to maturity, available for sale and loans and receivables. Further it eliminates the rule-based requirement of segregating embedded derivatives and tainting rules pertaining to held to maturity investments. For an investment in an equity instrument which is not held for trading, IFRS 9 permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss. IFRS 9, was further amended in October 2010, and such amendment introduced requirements on accounting for financial liabilities. This amendment addresses the issue of volatility in the profit or loss due to changes in the fair value of an entity's own debt. It requires the entity, which chooses to measure a liability at fair value, to present the portion of the fair value change attributable to the entity's own credit risk in the other comprehensive income. The company is required to adopt IFRS 9 by accounting year commencing April 1, 2015.

(iv) **IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements and IFRS 12, Disclosure of Interests in Other Entities:** In May 2011, the International Accounting Standards Board issued IFRS 10, IFRS 11 and IFRS 12. The effective date for IFRS 10, IFRS 11 and IFRS 12 is annual periods beginning on or after January 1, 2013 with early adoption permitted.

IFRS 10 Consolidated Financial Statements builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. IFRS 10 replaces the consolidation requirements in SIC-12 Consolidation of Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements. The standard provides additional guidance for the determination of control in cases of ambiguity such as franchisor franchisee relationship, de facto agent, silos and potential voting rights.

IFRS 11 Joint Arrangements determines the nature of an arrangement by focusing on the rights and obligations of the arrangement, rather than its legal form. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities-Non-monetary Contributions by Venturers. IFRS 11 addresses only forms of joint arrangements (joint operations and joint ventures) where there is joint control whereas IAS 31 had identified three forms of joint ventures, namely jointly controlled operations, jointly controlled assets and jointly controlled entities. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities, which is the equity method.

IFRS 12 Disclosure of Interests in Other Entities is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. One major requirement of IFRS 12 is that an entity needs to disclose the significant judgments and assumptions it has made in determining:

(a) whether it has control, joint control or significant influence over another entity; and
(b) the type of joint control when the joint arrangement is structured through a separate vehicle.

IFRS 12 also expands the disclosure requirements for subsidiaries with non-controlling interest, joint arrangements and associates that are individually material. IFRS 12 introduces the term "structured entity" by replacing Special Purpose entities and requires enhanced disclosures by way of nature and extent of, and changes in, the risks associated with its interests in both its consolidated and unconsolidated structured entities.

(v) **IFRS 13 Fair Value Measurement:** In May 2011, the International Accounting Standards Board issued IFRS 13, Fair Value Measurement to provide specific guidance on fair value measurement and requires enhanced disclosures for all assets and liabilities measured at fair value, and not restricted to financial assets and liabilities. The standard introduces a precise definition of fair value and a consistent measure for fair valuation across assets and liabilities, with a few specified exceptions. The effective date for IFRS 13 is annual periods beginning on or after January 1, 2013 with early adoption permitted. The company is required to adopt IFRS 13 by accounting year commencing April 1, 2013.

(vi) **IAS 1 (Amended) Presentation of Financial Statements:** In June 2011, the International Accounting Standard Board published amendments to IAS 1 Presentation of Financial Statements. The amendments to IAS 1, Presentation of Financial Statements, require companies preparing financial statements in accordance with IFRS to group items within other comprehensive income that may be reclassified to the profit or loss separately from those items which would not be recyclable in the profit or loss section of the income statement. It also requires the tax associated with items presented before tax to be shown separately for each of the two groups of other comprehensive income items (without changing the option to present items of other comprehensive income either before tax or net of tax).

The amendments also reaffirm existing requirements that items in other comprehensive income and profit or loss should be presented as either a single statement or two consecutive statements. This amendment is applicable to annual periods beginning on or after July 1, 2012, with early adoption permitted. The company is required to adopt IAS 1 (Amended) by accounting year commencing April 1, 2013.

(vii) **IAS 19 (Amended) Employee Benefits:** In June 2011, International Accounting Standards Board issued IAS 19 (Amended), Employee Benefits. The effective date for adoption of IAS 19 (Amended) is annual periods beginning on or after January 1, 2013, though early adoption is permitted.

IAS 19 (Amended) has eliminated an option to defer the recognition of gains and losses through re-measurements and requires such gain or loss to be recognized through other comprehensive income in the year of occurrence to reduce volatility. The amended standard requires immediate recognition of effects of any plan amendments. Further it also requires assets in profit or loss to be restricted to government bond yields or corporate bond yields, considered for valuation of Projected Benefit Obligation, irrespective of actual portfolio allocations. The actual return from the portfolio in excess of or less than such yields is recognized through other comprehensive income.

These amendments enhance the disclosure requirements for defined benefit plans by requiring information about the characteristics of defined benefit plans and risks that entities are exposed to through participation in those plans. The amendments need to be adopted retrospectively. The company is required to adopt IAS 19 (Amended) by accounting year commencing April 1, 2013.

(viii) In December, 2011, the IASB issued an amendment to *IAS 32 "Offsetting financial assets and financial liabilities"*. The purpose of the amendment is to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. This includes clarifying the meaning of "currently has a legally enforceable right to set-off" and also the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendment is effective retrospectively for fiscal years beginning on or after January 1, 2014. Earlier application is permitted. We are currently evaluating the impact these amendments will have on our consolidated financial statements.

The company is currently evaluating the requirements of above pronouncements and has not yet determined the impact on the consolidated financial statements.

4. Determination of fair values

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

(i) Property, plant and equipment

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

(ii) Inventories

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

(iii) Intangible assets

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

(iv) Investments in equity and debt securities

The fair value of available-for-sale financial assets is determined by reference to their quoted price at the reporting date. When the fair value of the financial asset cannot be measured reliably, it is measured at cost.

(v) Trade and other receivables

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

(vi) Derivatives

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

(vii) Non derivative financial liabilities

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

(viii) Share-based payment transactions

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

5. Property, plant and equipment

The following table presents the changes in property, plant and equipment during the year ended March 31, 2012

	Cost				Accumulated depreciation				Carrying amount as at March 31, 2012
Particulars	**As at April 01, 2011**	**Additions**	**Disposals**	**As at March 31, 2012**	**As at April 1, 2011**	**Depreciation for the year**	**Deletions**	**As at March 31, 2012**	
Building	777,419	-	-	777,419	204,826	27,841	-	232,667	544,752
Plant and machinery	5,433,359	350,204	51,639	5,731,924	3,335,610	504,532	51,494	3,788,648	1,943,276
Computer equipments	563,776	66,303	474	629,605	478,705	31,711	415	510,001	119,604
Office equipment	234,125	3,304	82	237,347	129,932	21,133	82	150,983	86,364
Furniture and fittings	713,359	27,985	1,350	739,994	503,102	62,034	1,205	563,931	176,063
Vehicles	2,929	2,907	1,089	4,747	2,929	807	1,089	2,647	2,100
Total	**7,724,967**	**450,703**	**54,634**	**8,121,036**	**4,655,104**	**648,058**	**54,285**	**5,248,877**	**2,872,159**
Add: Construction in progress									988,128
Total	**7,724,967**	**450,703**	**54,634**	**8,121,036**	**4,655,104**	**648,058**	**54,285**	**5,248,877**	**3,860,287**

The following table presents the changes in property, plant and equipment during the year ended March 31, 2011

	Cost				Accumulated depreciation				Carrying amount as at March 31, 2011
Particulars	**As at April 01, 2010**	**Additions**	**Disposals**	**As at March 31, 2011**	**As at April 1, 2010**	**Depreciation for the year**	**Deletions**	**As at March 31, 2011**	
Building	777,419	-	-	777,419	177,072	27,754	-	204,826	572,593
Plant and machinery	5,302,696	199,591	68,928	5,433,359	2,929,688	474,168	68,246	3,335,610	2,097,749
Computer equipments	517,904	46,736	864	563,776	429,631	49,854	780	478,705	85,071
Office equipment	228,418	6,214	507	234,125	107,252	23,181	501	129,932	104,193
Furniture and fittings	706,148	15,731	8,520	713,359	445,437	64,442	6,777	503,102	210,257
Vehicles	6,191	-	3,262	2,929	6,191	-	3,262	2,929	-
Total	**7,538,776**	**268,272**	**82,081**	**7,724,967**	**4,095,271**	**639,399**	**79,566**	**4,655,104**	**3,069,863**
Add: Construction in progress									690,610
Total	**7,538,776**	**268,272**	**82,081**	**7,724,967**	**4,095,271**	**639,399**	**79,566**	**4,655,104**	**3,760,473**

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

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

Change in estimated useful life

On the basis of a comprehensive evaluation during the year ended March 31, 2008, the Group had revised the estimated useful lives of its networking equipment (included under plant and machinery) and computers. As a result, the expected useful life of its networking equipment has been increased from 5 to 8 years and the expected useful life of computers has been decreased from 5 to 3 years. The effects of such changes on the depreciation expense for the years ended March 31, 2010, 2011, 2012 and 2013 are as follows:

	2010	**2011**	**2012**	**2013**	**2014**
Decrease / (increase) in depreciation expense	61,498	(17,674)	12,108	91,511	134,919

Leased assets
The Group's leased assets include certain buildings, plant and machinery acquired under finance leases. As at March 31, 2012 the net carrying amount of buildings, plant and machinery and vehicles acquired under finance leases is Rs.234,608 (March 31, 2011: Rs.244,926), Rs.226,594 (March 31, 2011: Rs.217,625) and Rs.2,100 (March 31, 2011 : Nil) respectively. During the year, the Group acquired leased assets of Rs.60,149 (March 31, 2011 : Rs 38,111).

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

Capital Commitments
As of March 31, 2012 and March 31, 2011, the Company was committed to spend approximately Rs.717,266 (net of advances Rs.493,774) and Rs.521,562 (net of advances Rs.691,338) respectively, under agreements to purchase property, plant and equipment.

Construction in progress
Amounts paid towards acquisition of property, plant and equipment outstanding at each balance sheet date and the cost of property, plant and equipment that are not ready to be put into use are disclosed under construction-in-progress. As of March 31, 2012, Construction work in progress includes Rs.685,027 (March 31, 2011 : Rs.682,825) paid towards acquisition of building under construction on a leasehold land belonging to Pace Info Com Park Private Limited by way of acquisition of the entire shareholding of its holding company M/s Hermit Projects Private Limited. Also refer note 37.

Capitalisation of expenses
The Company has capitalized expenses amounting to Rs.18,540 (March 31, 2011: Nil) which are directly attributable to the construction of building.

Security

As at March 31,2012 property, plant and equipment with a carrying amount of Rs.2,408,857 (March 31, 2011: Rs.2,615,097) are subject to a registered charge to secure bank borrowings.

6. Intangible assets

Intangible assets comprise the following:

	March 31, 2012	March 31, 2011
Goodwill	14,595	14,595
Other intangible assets	91,132	90,031
	105,727	**104,626**

(i) Goodwill

The following table presents the changes in goodwill during the years ended March 31, 2012 and 2011

	March 31, 2012	March 31, 2011
Balance at the beginning of the year	14,595	14,595
Effect of movement in exchange rates	-	-
Impairment loss recognized during the year	-	-
Net carrying amount of goodwill	**14,595**	**14,595**

The amount of goodwill as at March 31, 2012 and March 31, 2011 has been allocated to the Commercial and Consumer segment.

Impairment testing for cash-generating units containing goodwill

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

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

During the year ended March 31, 2011, due to further decrease in revenue and continued losses in its travel business, the Group has tested the carrying value of the remaining intangibles and the recoverable amount of these intangibles were determined as Nil. Hence an impairment charge was recorded for Rs 1,857, equal to the carrying value of the remaining intangibles as on the date of impairment testing.

The above impairment charges relate to Commercial and Consumer segment.

(ii) Other intangibles

The following table presents the changes in intangible assets during the years ended March 31, 2012, 2011 and 2010.

	Technical know-how	Portals and web content	Customer related intangibles	Software	License fees	Total
(A) Cost						
Balance as at March 31, 2009	**82,753**	**52,730**	**200,570**	**319,215**	**50,000**	**705,268**
Acquisitions during the year	-	-	-	51,468	-	51,468
Disposals during the year	-	52,730	-	-	-	52,730
Balance as at March 31, 2010	**82,753**	**-**	**200,570**	**370,683**	**50,000**	**704,006**
Acquisitions during the year	-	-	-	23,397	-	23,397
Disposals during the year	-	-	-	-	-	-
Balance as at March 31, 2011	**82,753**	**-**	**200,570**	**394,080**	**50,000**	**727,403**
Acquisitions during the year	-	-	-	44,603	-	44,603
Disposals during the year	-	-	-	-	-	-
Balance as at March 31, 2012	**82,753**	**-**	**200,570**	**438,683**	**50,000**	**772,006**
(B) Amortization						
Balance as at March 31, 2009	**82,753**	**52,730**	**169,847**	**256,621**	**5,906**	**567,857**
Amortization for the year	-	-	6,144	41,421	2,500	50,065
Impairment loss on intangibles	-	-	22,148	1,737	-	23,885
Disposals during the year	-	52,730	-	-	-	52,730
Balance as at March 31, 2010	**82,753**	**-**	**198,139**	**299,779**	**8,406**	**589,077**
Amortization for the year	**-**	**-**	837	43,101	2,500	46,438
Impairment loss on intangibles	**-**	**-**	1,594	263	**-**	1,857
Balance as at March 31,2011	**82,573**	**-**	**200,570**	**343,143**	**10,906**	**637,372**
Amortization for the year	**-**	**-**	**-**	41,002	2,500	43,502
Impairment loss on intangibles	**-**	**-**	**-**	-	-	-
Balance as at March 31,2012	**82,573**	**-**	**200,570**	**384,145**	**13,406**	**680,874**
(C) Carrying amounts						
As at March 31, 2010	**-**	**-**	**2,431**	**70,904**	**41,594**	**114,929**
As at March 31, 2011	**-**	**-**	**-**	**50,937**	**39,094**	**90,031**
As at March 31, 2012	**-**	**-**	**-**	**54,538**	**36,594**	**91,132**

Capital commitments

As of March 31, 2012, the Company was committed to spend approximately Rs.4,243 (net of advances Rs.539,889) (March 31, 2011: Rs.65,813 (net of advances Rs.393,849) respectively, under agreements to purchase intangible assets.

Capitalized borrowing costs

During the years ended March 31, 2012, 2011 and 2010, the Company capitalized interest cost of Rs.13,541, Rs.35,852and Rs.24,553 respectively. The rate of capitalization of interest cost for the year ended March 31, 2012, 2011 and 2010 was approximately 13.79%, 10.44%and 12.81% respectively.

7. Investment in equity accounted investees

In March 2006, MF Global Overseas Limited (MFG), a group incorporated in United Kingdom acquired 70.15% of equity share capital of MF Global Sify Securities Private Limited (MF Global), formerly Man Financial-Sify Securities India Private Limited ('MF Global) from Refco Group Inc., USA ('Refco'). As at March 31, 2012, 29.85% of MF Global equity shares is held by the Company. The remaining 70.15% is owned by MFG, an unrelated third party. MFG is a subsidiary of MF Global Limited, Bermuda. A summary of key financial information of MF Global and its subsidiaries which is not adjusted for the percentage ownership held by the Group is presented below:

Balance sheet	**March 31, 2012**	**March 31, 2011**
Total assets	3,506,913	4,546,919
Total liabilities	1,052,325	2,193,943
Shareholders' equity	2,454,588	2,352,976
Total Liabilities and shareholders' equity	3,506,913	4,546,919

Statement of operations	**For the year ended**		
	March 31, 2012	**March 31, 2011**	**March 31, 2010**
Revenues	1,169,577	1,818,283	1,612,545
Net profit	92,622	241,840	307,543

During October 2010, Sify Technologies Ltd, the minority shareholder of MF Global holding 29.85 percent of the outstanding shares of the MF Global, requested MF Global's Board of Directors to reconsider certain costs charged to the MF Global by MF Global Holdings Ltd and its affiliated and associated group companies, who hold 70.15 percent of the outstanding shares of the MF Global. These charges are currently recorded in the financial statements of the MF Global for year ended March 31, 2008 aggregating to Rs.43,478,911 and March 31,2009 aggregating to Rs.15,374,528. The resolution of this matter between the shareholders of MF Global remains uncertain and any financial adjustment that may arise is not presently known and accordingly no adjustment related to this matter has been provided for in MF Global's consolidated financial statements. Any financial adjustment that may arise on resolution of the said matter would be expected to be handled prospectively and therefore would be reported in the period in which it is resolved. Consequently, no adjustment related to the said matter was considered by Sify for equity method of accounting for MF Global. The auditors of MF Global have included an emphasis of matter with an explanatory paragraph in their audit report issued on the consolidated financial statements of MF Global for the three years ended March 31, 2012 in connection with such recorded cross charges. The effect of such recorded cross charge is not material to the financial statements of Sify.

On October 31, 2011, MF Global Holding Limited, USA, sought bankruptcy protection through a chapter 11 filing in the U.S. Bankruptcy Court in New York. Consequent to this, MFG also filed for bankruptcy proceedings in the United Kingdom and 3 individual administrators were appointed as Joint administrators (the "Joint administrators") for MFG which holds the shares in the Joint Venture Company.

The Company was informed by the Joint Administrators that they were in the process of seeking bids for the stakes held by MFG in the Joint Venture Company. The Company believes that the auction process is in violation of the share holders' agreement entered between MFG and the Company.

Hence, the Company filed a petition under section 9 of the Arbitration and Conciliation Act 1996 in Bombay High Court, seeking interim relief by restraining the Joint Administrators and MFG from proceeding with the proposed auction in respect of the sale of shares held by MFG in the Joint Venture Company in violation of share holders agreement dated November 25, 2005. A hearing on the petition was held on December 16, 2011. The Hon'ble High Court granted an ad-interim injunction restraining MFG Overseas Limited through its Joint Administrators from disposing off its shares in MF Global in violation of the Shareholder Agreement. The petition was adjourned for further proceedings. In parallel, the Company without prejudice to its legal rights under the petition was in discussion with the Joint Administrators of MFG for an early amicable settlement in this regard.

On March 23, 2012, the Board of Directors of the Company, approved to realize the value of the investment by sale to prospective buyers.

On March 27, 2012, the Company entered into an agreement relating to sale and purchase of shares in MF Global Sify Securities India Private Limited by and among Sify, MF Global Sify Securities Pvt Ltd., MF Global Overseas Limited, the joint administrators of MF Global Overseas and entities affiliated with the Phillip Capital Group, whereby the Company agreed to sell its entire 29.85% interest in MF Global to Phillip Capital Group.

The consummation of the transaction was subject to certain closing conditions, including regulatory and statutory approvals from the Government of India and the stock exchanges in India.

Additionally, in connection with the execution of the Agreement, on March 27, 2012, the Company, MF Global Sify Securities Private Limited, MF Global Overseas Limited and the Joint Administrators entered into a settlement and release agreement pursuant to which the Company and MF Global Overseas Limited agreed to settle, effective upon the closing of the transactions contemplated by the Agreement, their pending dispute in the Bombay High Court, India regarding certain matters, including the termination of shareholders agreement governing their respective interests in MF Global.

Hence, effective March 23, 2012, the above investment was classified as held for sale and measured accordingly as per IFRS 5. The above investment does not form part of any of the operating segments of the Company.

Subsequently, on August 2, 2012, in pursuance of the Agreement dated March 27, 2012 and after obtaining all the statutory and regulatory approvals, the Company completed the sale of its entire stake and the rights therein in MF Global for a cash consideration of Rs.1,390,200 (USD 25 million) to Phillip Capital Group, Singapore and MF Global Management Employees Trust, India. Consequently, with effect from such date, MF Global ceased to be an associate of the Company. Further, as per the settlement and release agreement, the Company has initiated steps to withdraw the arbitration proceedings filed against MFG and others in the Bombay High court, India and any other existing disputes also stands resolved. Consequently, no financial adjustments would arise in future in the Consolidated financial statements of the Company on account of disputes relating to cross charges.

8. Cash and cash equivalents

Cash and cash equivalents as per consolidated statement of financial position, as at March 31, 2012 amounted to Rs.742,235 (March 31, 2011: Rs.458,559). This excludes cash-restricted of Rs.150,533 (March 31, 2011: Rs.84,538), representing deposits held under lien against working capital facilities availed and bank guarantees given by the Group towards future performance obligations.

(a) Restricted cash

Non current	**March 31, 2012**	**March 31, 2011**	**March 31, 2010**
Against future performance obligation	-	-	-
Current			
Bank deposits held under lien against borrowings / guarantees from banks / Government authorities	150,533	84,538	360,909
Total restricted cash	**150,533**	**84,538**	**360,909**
(b) Non restricted cash			
Current			
Cash and bank balances	**742,235**	**458,559**	**517,789**
Total cash (a+b)	**892,768**	**543,097**	**878,698**
Bank overdraft used for cash management purposes	(798,180)	(678,901)	(1,060,284)
Less: Non current restricted cash	-	-	-
Cash and cash equivalents for the statement of cash flows	**94,588**	**(135,804)**	**(181,586)**

9. Lease prepayments

	March 31, 2012	**March 31, 2011**
Towards land and buildings*	364,190	63,068
	364,190	**63,068**

* Includes Rs.306,199 (March 31, 2011: Nil) paid for acquiring leasehold rights of land for construction of Data center in Noida, India. Also refer note 37.

The prepayment towards land is amortized over the period of the lease on a straight line basis. In respect of buildings under operating lease, prepayments are amortized over the lease term on a straight line basis.

10. Other assets

Non current	March 31, 2012	March 31, 2011
Other deposits and receivables (see note below)	1,073,479	672,843
	1,073,479	**672,843**
Current		
Net investment in leases	-	-
	-	-
Financial assets included in other assets	**252,386**	**212,969**

(a) Includes Rs.539,888 (March 31 2011: Rs. 459,872) paid to Emirates Integrated Telecommunications Company PJSC in relation to supply of bandwidth capacity from the Europe India Gateway (undersea cable network) and borrowing cost capitalized thereon.

11. Deferred tax assets and liabilities

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

Recognized deferred tax assets / (liabilities)	**Assets / (liabilities)**	
	March 31, 2012	**March 31, 2011**
Deferred tax assets		
Carry forward capital losses	97,409	90,892
	97,409	**90,892**
Deferred tax liabilities		
Property, plant and equipment	-	-
Intangible assets	(1,386)	(83)
Investment in equity accounted investees	(96,023)	(90,809)
	(97,409)	**(90,892)**
Net deferred tax asset recognized in balance sheet	**-**	**-**

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

Movement in temporary differences during the year

	Balance as at April 1, 2010	Recognized in income statement	Recognized in Equity	Balance as at March 31, 2011	Recognized in income statement	Recognized in Equity	Balance as at March 31, 2012
Property, plant and equipment	(76)	76	-	-	(1,060)	-	(1,060)
Intangible assets	(189)	106	-	(83)	(244)	-	(327)
Tax loss carry forwards	82,869	8,875	(852)	90,892	7,174	(657)	97,409
Investment in equity accounted investees	(82,604)	(9,057)	852	(90,809)	(5,870)	657	(96,022)

-	-	-	-	-	-	-

Unrecognized deferred tax assets / (liabilities)

	As at March 31, 2012	As at March 31, 2011
Deductible temporary differences	178,091	157,928
Unrecognized tax losses	3,463,628	3,084,218
	3,641,719	**3,242,146**

Considering the probability of availability of future taxable profits in the period in which tax losses expire, deferred tax assets have not been recognized in respect of tax losses carried forward by the Group. The above tax losses expire at various dates until 2025.

Deferred tax liabilities as at March 31, 2012 and March 31, 2011 have not been recognized on undistributed profits of its subsidiaries since the group expects to realize the same in a tax free manner.

Sec.79 of the Indian Income Tax Act denies carry forward of losses incurred in earlier years in case of change in the beneficial interest in the shares outstanding by more than 51%. As a result of the private placement of shares during the year ended March 31, 2011, there was a change in the registered shareholders by more than 51%. The above provision is not applicable to companies in which public are substantially interested. Sec. 2(18) of the Indian Income Tax Act, among other things, defines a company listed in a recognized Stock Exchange in India as a Company in which public are substantially Interested. Based on the non-discrimination clause available in the India - United States of America tax treaty, when the capital of the company is wholly or partly owned or controlled, directly or indirectly, by one or more residents of the other Country, the company shall not be subjected to more burdensome position than the similar enterprises of the Contracting Country. Based on the above clause, the Company being listed in US Stock Exchange should not be discriminated for being not listed in India and be treated on par with a Company listed in India. Hence, the Company believes that it is out of the purview of Sec.79 of the Indian Income Tax Act. Further as disclosed in Item 7 of this Annual Report, there has been no change in the beneficial ownership of Shares by more than 51% compared to earlier years and the Board of Directors of the Company have continued to be the same. Hence based on the advice, the Company believes that it can carry forward and set-off the above losses incurred by it in earlier years.

Income tax expense recognized in profit or loss

	March 31, 2012	March 31, 2011	March 31, 2010
Current tax expense / (benefit)			
Current period	-	-	(90,003)
	-	**-**	**(90,003)**
Deferred tax expense			
Origination and reversal of temporary differences	7,174	8,875	22,895
Recognition of previously unrecognized tax losses	(7,174)	(8,875)	(14,371)
Reversal of previously recognized tax losses	-	-	-
	-	**-**	**8,524**
Total income tax expense / (benefit)	**-**	**-**	**(81,479)**

Income tax directly recognized in other comprehensive income

	March 31,2012	March 31,2011	March 31,2010
Actuarial (gains) or losses	-	-	-
Tax effect of changes in the fair value of other investments	-	-	-
Tax effect on share of profit of associate recognized in OCI	-	-	-
Tax effect on foreign currency translation differences	-	-	-
Income tax benefit / (expense) recognized directly in equity	**-**	**-**	**-**

Reconciliation of effective tax rate

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

	Year ended March 31, 2012	Year ended March 31, 2011	Year ended March 31, 2010
Profit / (loss) before income taxes	(383,337)	(519,492)	(54,666)
Enacted tax rates in India	32.45%	33.22%	33.99%
Computed expected tax expense / (benefit)	(124,373)	(172,575)	(18,581)
Effect of:			
Share based payment expense not deductible for tax purposes	10,082	2,697	8,188
Unrecognized deferred tax assets on losses incurred during the year (net of temporary differences, if any)	123,148	194,140	41,370
Unrecognized deferred tax asset on temporary differences	-	-	-
Share of profit of equity accounted investee taxed at a lower rate	(2,952)	(9,217)	(12,203)
Recognition of previously unrecognized tax losses	(5,905)	(15,045)	(18,774)
Reversal of tax expense consequent to merger (Refer note 40)	-	-	(81,479)
Others	-	-	-
	-	**-**	**(81,479)**

12. Inventories

Inventories comprise:

	March 31, 2012	March 31, 2011
Communication hardware	8,328	2,824
Application software	11,931	12,813
	20,259	**15,637**

The entire carrying amount of inventories as at March 31, 2012 and 2011 are secured in connection with bank borrowings.

13. Trade and other receivables

Trade and other receivables comprise:

	March 31, 2012	March 31, 2011
(i) Trade receivables, net	2,411,946	1,839,966
(ii) Other receivables including deposits	851,335	1,251,690
(iii) Construction contract in progress	71,942	94,257
	3,335,223	**3,185,913**

(i) Trade receivables as of March 31, 2012 and March 31, 2011 are stated net of allowance for doubtful receivables. The Group maintains an allowance for doubtful receivables based on its age and collectability. Trade receivables are not collateralized except to the extent of refundable deposits received from cybercafé franchisees and from cable television operators. The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables, excluding construction work in progress is disclosed in note 39. Trade receivables consist of:

	March 31, 2012	March 31, 2011
Trade receivables from related parties	-	-
Other trade receivables	2,605,188	2,055,974
	2,605,188	**2,055,974**
Less: Allowance for doubtful receivables	(193,242)	(216,008)
Balance at the end of the year	**2,411,946**	**1,839,966**

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

	For the year ended	
	March 31, 2012	**March 31, 2011**
Balance at the beginning of the year	216,008	170,706
Add : Additional provision, net	95,405	161,922
Less : Bad debts written off	(118,171)	(116,620)
Balance at the end of the year	**193,242**	**216,008**

(ii) Other receivables comprises of the following items:

	March 31, 2012	**March 31, 2011**
Advances and other deposits (Refer Note (a) and (c) below)	407,934	684,016
Withholding taxes (Refer Note (b) below)	439,502	560,456
Employee advances	3,899	7,218
	851,335	**1,251,690**
Financial assets included in other receivables	**122,214**	**354,115**

Notes:

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

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

14. Prepayments for current assets

Prepayments for current assets comprise of the following:

	March 31, 2012	**March 31, 2011**
Prepayments for purchase of bandwidth	90,399	71,256
Prepayments related to insurance	1,432	7,026
Prepayments-others	97,449	106,845
Lease prepayments	8,753	5,064
	198,033	**190,191**

15. Other investments

Other Investments comprise investment in unquoted equity instruments classified as available for sale financial assets which are carried at cost. The details of such investments are given below:

	March 31, 2012	**March 31, 2011**
Investment in equity shares of Vashi Railway Station Commercial Complex Limited	150	150
Investment in equity shares of Sify Empower India Foundation	10	10
	160	**160**

16. Share capital and share premium

No of shares

	Year ended March 31,		
	2012	**2011**	**2010**
Issued as at April 01	178,351,498	53,351,498	42,820,082
Issued for cash*	-	125,000,000	-
Issued for consideration other than cash	-	-	10,530,000
Exercise of share options	162,091	-	1,416
Issued as at March 31	**178,513,589**	**178,351,498**	**53,351,498**

*Paid up Rs.6.25 (March 31, 2011: Rs.2.50) per share

As at March 31, 2012 the authorized share capital comprises 180,000,000 ordinary shares (as of March 31, 2011, the number of authorized shares was 180,000,000) of Rs.10 each. The holders of ordinary shares are entitled to receive dividends from time to time and are entitled to vote at meetings of the Group. All shares rank equally with regard to Group's residual assets.

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

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

During the year ended March 31, 2011, on August 4, 2010, the Board of Directors of the company approved the issuance, in a private placement, of upto an aggregate of 125,000,000 of the company's equity shares, par value Rs.10 per share ("Equity shares"), for an aggregate purchase price of approxiamately US$ 86 million, to a group of investors affiliated with the company's promoter group, including entities affiliated with Mr Raju Vegesna, the company's Chief Executive officer and Managing Director and Mr Ananda Raju Vegesna, Executive and brother of Mr Raju Vegesna (the "Offering"). The company's shareholders approved the terms of the Offering at the Company's Annual General Meeting held on September 27, 2010. On October 22 2010, the company entered into a Subscription Agreement with Mr Ananda Raju Vegesna, acting as representative (the "Representative") of the purchasers in connection with the offering. The company issued 125,000,000 equity shares to the Representative on October 30, 2010. Also refer note 42.

Further during the year ended March 31, 2012, 162,091 ordinary shares have been issued consequent to exercise of options under the Associate stock option plan.

Translation reserve

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

Share based payment reserve

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

Fair value reserve

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

Recognized actuarial gain / loss

Recognized actuarial gain / loss represent the cumulative actuarial gain / loss recognized in other comprehensive income and presented within equity.

17. Finance lease obligations

The Group leases routers and other equipments under finance lease arrangements. The following is a schedule of future minimum finance lease commitments as at March 31, 2012:

	March 31, 2012			March 31, 2011		
	Future minimum lease payments	**Interest**	**Present value minimum lease payments**	**Future minimum lease payments**	**Interest**	**Present value minimum lease payments**
Less than one year	91,924	(16,139)	75,785	77,975	(17,468)	60,507
Between one and five years	113,752	(12,611)	101,141	144,357	(16,611)	127,746
Total	**205,676**	**(28,750)**	**176,926**	**222,332**	**(34,079)**	**188,253**

18. Employee benefits

	March 31, 2012	March 31, 2011
Gratuity payable	19,515	19,116
Compensated absences	30,551	28,672
	50,066	**47,788**

Gratuity cost

The components of gratuity costs recognized in the consolidated income statement for the years ending March 31, 2012, March 31, 2011 and March 31, 2010 consist of the following:

	March 31, 2012	March 31, 2011	March 31, 2010
Service cost	15,892	22,275	14,498
Interest cost	4,449	3,786	4,501
Expected return on plan asset	(3,214)	(2,875)	(2,963)
	17,127	**23,186**	**16,036**

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

	March 31, 2012	March 31, 2011
Present value of projected benefit obligation at the end of the year	62,610	59,571
Funded status of the plans	(43,095)	(40,455)
Recognized (asset) / liability	**19,515**	**19,116**

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

Change in defined benefit obligation	March 31, 2012	March 31, 2011	March 31, 2010
Projected benefit obligation at the beginning of the year	59,571	51,046	43,389
Service cost	15,892	22,275	14,498
Interest cost	4,449	3,786	4,501
Actuarial (gain) / loss	(9,372)	(8,358)	(5,957)
Benefits paid	(7,930)	(9,178)	(5,385)
Projected benefit obligation at the end of the year	**62,610**	**59,571**	**51,046**

Change in plan assets	March 31, 2012	March 31, 2011	March 31, 2010
Fair value of plan assets at the beginning of the year	40,455	34,293	28,307
Expected return on plan assets	3,214	2,875	2,965
Actuarial gain / (loss)	-	-	(449)
Employer contributions	7,356	12,465	8,855
Benefits paid	(7,930)	(9,178)	(5,385)
Fair value of plan assets at the end of the year	**43,095**	**40,455**	**34,293**
Actual return on plan assets	3,214	2,875	2,513

Actuarial assumptions at end of the year:

The principal actuarial assumptions as on March 31, 2012, 2011 and 2010 were as follows:

	March 31, 2012	March 31, 2011	March 31, 2010
Discount rate	8.60% P.a	8.00% P.a	8.15% P.a
Long-term rate of compensation increase	8.00% P.a	8.00% P.a	8.00% P.a
Expected long term rate of return on plan assets	8.00% P.a	8.00% P.a	8.00% P.a
Average future working life time	8.40 years	8.60 years	11.06 years

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

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

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

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

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

Historical information

	March 31, 2012	March 31, 2011
Experience adjustment on plan liabilities	5,044	8,064
Experience adjustment on plan assets	-	-

Contributions: The Group expects to contribute Rs.15,000 (March 31 2011: Rs.15,000) to its gratuity fund during the year ending March 31, 2012.

Plan assets: The Gratuity plan's weighted-average asset allocation at March 31, 2012 and March 31, 2011, by asset category is as follows:

	March 31, 2012	March 31, 2011
Funds managed by insurers	100%	100%

Actuarial gains and losses recognized in other comprehensive income

The amount of actuarial gains and losses recognized in other comprehensive income for the years ending March 31, 2012, 2011 and 2010 are as follows:

	March 31, 2012	March 31, 2011	March 31, 2010
Actuarial gain / (loss)	9,372	8,358	5,508
	9,372	**8,358**	**5,508**

Contributions to defined contribution plans

In accordance with Indian law, all employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and employer make monthly contributions to the plan, each equal to a specified percentage of employee's basic salary. The Group has no further obligations under the plan beyond its monthly contributions. The Group contributed Rs.57,144, Rs.53,923 and Rs. 55,229 for the years ended March 31, 2012, 2011 and 2010.

19. Other liabilities

	March 31, 2012	March 31, 2011
Franchisee deposits and other liabilities	211,504	163,245
	211,504	**163,245**
Financial liabilities included in other liabilities	187,236	163,245

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

20. Borrowings

	March 31, 2012	March 31, 2011
Current		
Term bank loans (Refer note 1 below)	110,000	216,000
Other working capital facilities (Refer note 2 below)	265,906	679,542
Borrowings from others (Refer note 3 below)	167,125	140,260
	543,031	**1,035,802**
Non current		
Term bank loans (Refer note 1 below)	-	113,880
Borrowings from others (Refer note 3 below)	186,312	148,728
	186,312	**262,608**

The Group has borrowings which include:

1. Term bank loans bear interest ranging from 15.50% to 16.50% p.a. The term loans are secured by way of pari-passu first charge over the unencumbered movable fixed assets acquired out of such term loans availed by the Company. Further these loans are collaterally secured by way of equitable mortgage over the office premises and also by way of pari passu second charge on the entire current assets of the Company.

2. Working capital facilities include Letter of credit discounted, buyer's credit and foreign currency demand loan. These are secured by pari-passu charge on current assets of the Company and moveable assets of the company, both present and future. Further, these facilities are additionally secured by equitable mortgage over the land and building of M/s Pace Info Com Park Private Limited, subsidiary company and also by guarantee issued by the said subsidiary. Foreign currency demand loan bear an interest of Libor +650 bps. Other working capital borrowings bear interest ranging from 13.50% to 16.50% p.a. Such facilities are renewable every year.

3. Borrowings from others are secured against relevant assets and software. These loans carry an interest rate ranging from 12% p.a to 15% p.a.

21. Trade and other payables

	March 31, 2012	March 31, 2011
Trade payables	1,219,368	814,777
Advance from customers	50,939	86,073
Accrued expenses	1,021,810	808,399
Other payables	90,235	74,139
	2,382,352	**1,783,388**
Financial liabilities included in trade and other payables	**2,325,447**	**1,725,907**

22. Deferred income

Deferred income includes the following amounts of unearned income:

	March 31, 2012	March 31, 2011
Enterprise services	296,509	339,549
Commercial and consumer segment	36,118	28,966
Software services	51,166	44,079
	383,793	**412,594**

23. Revenue

	Year ended		
	March 31, 2012	**March 31, 2011**	**March 31, 2010**
Rendering of services			
Service revenue*	5,920,142	5,460,236	5,356,852
Initial franchise fee	6,395	10,992	11,369
Installation service revenue	883,126	812,341	288,919
	6,809,663	**6,283,569**	**5,657,140**
Sale of products	889,286	603,060	1,053,048
	7,698,949	**6,886,629**	**6,710,188**

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

24. Construction contracts in progress

	Year ended		
	March 31, 2012	**March 31, 2011**	**March 31, 2010**
Contract revenue recognized for the year	207,942	268,064	86,214
Aggregate amounts of costs incurred and recognized profits (less recognized losses) upto the reporting date for contracts in progress	185,725	109,570	86,214
Advances received for contracts inprogress	-	27,860	16,441
Amount of retentions	12,602	-	-
Gross amount due from customers for contract work presented as an asset	99,998	231,090	86,214

25. Cost of goods sold and services rendered

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

26. Other income

	Year ended		
	March 31, 2012	**March 31, 2011**	**March 31, 2010**
Duty credit entitlement	-	38,006	82,486
Others	37,377	34,687	49,303
	37,377	**72,693**	**131,789**

27. Income from legal settlement

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

28. Selling, general and administrative expenses

	Year ended		
	March 31, 2012	**March 31, 2011**	**March 31, 2010**
Personnel expenses	550,299	561,385	745,067
Marketing and promotion expenses	312,530	394,057	482,554
Administrative and other expenses*	1,684,380	1,486,357	1,238,770
	2,547,209	**2,441,799**	**2,466,391**

* Includes foreign exchange gain / (loss) of Rs.37,650, Rs.12,941 and Rs.9,397for the years ended March 31, 2012, 2011 and 2010 respectively.

29. Personnel expenses

	Year ended		
	March 31, 2012	**March 31, 2011**	**March 31, 2010**
Salaries and wages	1,314,023	1,211,183	1,269,638
Contribution to provident fund and other funds	77,840	77,164	77,197
Staff welfare expenses	17,426	22,296	27,499
Employee stock compensation expense	31,385	10,201	30,589
	1,440,674	**1,320,844**	**1,404,923**
Attributable to cost of goods sold and services rendered	890,375	759,459	659,856
Attributable to selling, general and administration expenses	550,299	561,385	745,067

30. Share-based payments

Share based payments are designed as equity-settled plans. Under the equity settled plans, the Group had issued stock

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

(i) Associate Stock Option Plan 2007

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

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

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

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

No. of options granted, exercised and forfeited	**Number of options**	**Weighted average exercise price in Rs.**	**Number of options**	**Weighted average exercise price in Rs.**	**Number of options**	**Weighted average exercise price in Rs.**
	2012	**2012**	**2011**	**2011**	**2010**	**2010**
Outstanding at the beginning of the year	841,200	146.58	1,078,800	149.21	1,211,900	152.51
Granted during the year	-	-	6,000	74.41	50,000	89.34
Replaced (Refer to notes below)	-	-	-	-	-	-
Replacement options granted (Refer to notes below)	-	-	-	-	-	-
Forfeited during the year	(27,995)	109.33	(81,801)	152.37	(93,616)	153.58
Expired during the year	(49,946)	144.52	(161,799)	158.52	(88,068)	158.01
Exercised during the year	(162,061)	131.99	-	-	(1,416)	59.02
Outstanding at the end of the year	601,168	152.26	841,200	146.58	1,078,800	149.21
Vested and Exercisable at the end of the year	579,140	153.59	566,908	151.36	437,210	155.55
Weighted average grant date fair value of grants during the year	-	-	-	-	-	-

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

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

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

No. of options granted, exercised and forfeited	Year ended March 31, 2012	Year ended March 31, 2011	Year ended March 31, 2010
Weighted average share price	-	82.68	99.26
Weighted average exercise price	-	74.41	89.34
Expected volatility	-	110.5% - 124.7%	115.8% - 136.7%
Option life	-	3 – 4.5 years	3 – 4.5 years
Expected dividends	-	-	-
Risk-free interest rate	-	2.61%	2.43% - 2.69%

A summary of information about fixed price stock options outstanding as at March 31, 2012 is furnished below:

	Range of exercise price in Rs.	**Number outstanding at March 31, 2012**	**Weighted average exercise price in Rs.**	**Weighted average remaining contractual life**	**Number exercisable at March 31, 2012**	**Weighted average exercise price in Rs.**
ASOP 2007	51.51-188.32	601,168	152.26	1.00	579,140	153.39

Modification

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

The incremental fair value of the stock options replaced was determined by reference to the difference between the fair value of the replaced stock options and the fair value of the cancelled stock options at the date of grant of new stock options. The incremental fair value as a result of such modification in respect of modified options amounted to Rs.20,959 during the year ended March 31, 2008. In respect of modification that has occurred during the vesting period, the incremental fair value granted is included in the measurement of the amount recognized, for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognized over the remainder of the original vesting period. In respect of the modification that has occurred after vesting date, the incremental fair value granted is recognized immediately or over the vesting period if the employee is required to complete an additional period of service before becoming unconditionally entitled to those modified equity instruments. The incremental cost recognized in respect of such modified options amounted to Rs.17,967, Rs.2,954and Rs.5,039for the years ended March 31, 2012, 2011 and 2010 respectively.

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

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

Dividend yield	0%	0%
Discount rate	2.5%	2.5%

31. Financial income and expense

	Year ended		
	March 31, 2012	**March 31, 2011**	**March 31, 2010**
Interest income on bank deposits	16,468	21,360	19,489
Others	42,845	24,338	8,505
Finance income	**59,313**	**45,698**	**27,994**
Interest expense on lease obligations	20,089	20,117	16,476
Bank charges (including letter of credit, bill discounting and buyer's credit charges)	129,133	96,721	100,241
Interest expense on borrowings	157,510	141,784	177,156
Finance expense	**(306,732)**	**(258,622)**	**(293,873)**
Net finance income / (expense) recognized in profit or loss	**(247,419)**	**(212,924)**	**(265,879)**

32. Earnings / (loss) per share

The calculation of basic earnings / (loss) per share for the years ended March 31, 2012, 2011 and 2010 is based on the earnings / (loss) attributable to ordinary shareholders of Rs. (383,337), Rs. (519,492) and Rs.17,027 respectively and a weighted average number of shares outstanding of 103,313,278, 63,317,251, and 50,840,358 respectively, calculated as follows:

	Year ended		
	March 31, 2012	**March 31, 2011**	**March 31, 2010**
Net profit / (loss) – as reported	(383,337)	(519,492)	17,027
Weighted average number of shares – basic	103,313,278	63,317,251	50,840,358
Basic earnings / (loss) per share	(3.71)	(8.20)	0.33
Weighted average number of shares – diluted	103,313,278	63,317,251	50,853,293
Diluted earnings / (loss) per share	(3.71)	(8.20)	0.33

Weighted average number of ordinary shares basic

	Year ended March 31,		
	2012	**2011**	**2010**
Issued fully paid ordinary shares at April 01	53,351,498	53,351,498	42,820,082
Effect of shares issued on exercise of stock options	98,392	-	166
Effect of partly paid shares (Note 1)	49,863,388	9,965,753	-
Effect of shares issued consequent to amalgamation of Sify Communications Limited	-	-	8,020,110
Weighted average number of equity shares and equivalent shares outstanding	103,313,278	63,317,251	50,840,358

Weighted average number of ordinary shares diluted

	Year ended March 31,		
	2012	**2011**	**2010**
Weighted average number of ordinary shares (basic)	103,313,278	63,317,251	50,840,358
Effect of stock options	-	-	12,935
Weighted average number of equity shares outstanding (diluted)	103,313,278	63,317,251	50,853,293

As the Company incurred a net loss attributable to ordinary shareholders for the years ended March 31, 2012 and 2011, 601,168 and 841,200 ordinary shares arising out of potential exercise of outstanding stock options as at March 31, 2012 and 2011 respectively were not included in the computation of diluted earnings per share, as their effect was anti-dilutive.

Note 1: During the year ended March 31, 2011, 125,000,000 ordinary shares were issued to the existing promoter group on a private placement basis. As of March 31, 2012, these shares were partly paid up to the extent of Rs.6.25 (March 31, 2011 : Rs.2.50) per share. Refer note 16 to the consolidated financial statements.

33. Operating leases

The Group leases office buildings and other equipment under operating lease arrangements that are renewable on a periodic basis at the option of both the lessor and the lessee. Some of the leases include rent escalation clauses. Rental expenses under these leases were Rs.339,139, Rs.326,507and Rs.329,332 for the years ended March 31, 2012, 2011and 2010 respectively. The schedule of future minimum rental payments in respect of operating leases is set out below:

As at March 31, 2012

Lease obligations	Total	Less than 1 year	1-5 years	More than 5 years
Non-cancellable operating lease obligations	1,778,901	109,762	479,262	1,189,877

As at March 31, 2011

Lease obligations	Total	Less than 1 year	1-5 years	More than 5 years
Non-cancellable operating lease obligations	1,884,543	105,693	588,973	1,189,877

34. Segment reporting

The primary operating segments of the Group are:

- Enterprise Services; such as Network Services and IT Services, providing Internet, connectivity, Voice ILD/NLD, Hosting , security and consulting, managed service solutions;

- Commercial and Consumer services ; primarily comprising of Internet access services, from homes and through cybercafés, connectivity to SMBs , SOHOs and Online portal services and content offerings; and

- Software services, such as application services and development of e-learning software.

The Chief Operating Decision Maker ("CODM"), i.e, The Board of Directors and the senior management, evaluate the Group's performance and allocate resources to various strategic business units that are identified based on the products and services that they offer and on the basis of the market served. The measure of profit / loss reviewed by the CODM is "Earnings/loss before interest, taxes, depreciation and amortization" also referred to as "segment operating income / loss". Revenue in relation to segments is categorized based on items that are individually identifiable to that segment. Bandwidth costs, which form a significant part of the total expenses, is allocated primarily to Network Services and then routed through as part of a cost transfer mechanism to Commercial and Consumer segment. Manpower costs of Technology resources rendering services to support Infrastructure operations, Managed services and Application services, are identified to an operating segment specifically. The Group believes that the resulting allocations are reasonable.

Certain expenses, such as depreciation, technology infrastructure and administrative overheads, which form a significant component of total expenses, are not allocable to specific segments as the underlying services are used interchangeably. Management believes that it is not practical to provide segment disclosure of these expenses and, accordingly, they are separately disclosed as "unallocated" and adjusted only against the total income of the Group.

A significant part of the fixed assets used in the Group's business are not identifiable to any of the reportable segments and can be used interchangeably between segments. As a result the measures of segment assets and liabilities are not regularly reviewed by the CODM and hence disclosures relating to segment assets and liabilities have not been provided.

The Group’s operating segment information for the years ended March 31, 2012, 2011 and 2010, are presented below:

Year ended March 31, 2012

	Enterprise services	Commercial and Consumer Services	Software Services	Total
Segment revenue	6,675,853	390,045	633,051	7,698,949
Allocated segment expenses	(5,169,236)	(473,210)	(587,949)	(6,230,395)
Segment operating income / (loss)	**1,506,617**	**(83,165)**	**45,102**	**1,468,554**
Unallocated expenses:				
Selling, general and administrative expenses				(977,587)
Depreciation and amortization				(691,560)
Other income / (expense), net				37,377
Finance income				59,313
Finance expenses				(306,732)
Share of profit of equity accounted investee				27,298
Profit / (loss) before tax				**(383,337)**
Income tax (expense) / benefit				-
Profit / (loss) for the year				**(383,337)**

Year ended March 31, 2011 (As adjusted)

	Enterprise services	Commercial and Consumer Services	Software Services	Total
Segment revenue	5,752,879	526,366	607,384	6,886,629
Allocated segment expenses	(4,403,435)	(724,283)	(506,936)	(5,634,654)
Impairment loss onintangibles	-	(1,857)	-	(1,857)
Segment operating income / (loss)	**1,349,444**	**(199,774)**	**100,448**	**1,250,118**
Unallocated expenses:				
Cost of goods sold				(36,222)
Selling, general and administrative expenses				(980,353)
Depreciation and amortization				(685,836)
Other income / (expense), net				72,693
Finance income				45,698
Finance expenses				(258,622)
Share of profit of equity accounted investee				73,032
Profit / (loss) before tax				**(519,492)**
Income tax (expense) / benefit				-
Profit / (loss) for the year				**(519,492)**

Year ended March 31, 2010 (As adjusted)

	Enterprise services	Commercial and Consumer Services	Software Services	Total
Segment revenue	5,268,530	844,771	596,887	6,710,188
Allocated segment expenses	(3,996,925)	(1,080,236)	(519,069)	(5,596,230)
Impairment loss on intangibles including goodwill	-	(47,269)	-	(47,269)
Segment operating income / (loss)	**1,271,605**	**(282,734)**	**77,818**	**1,066,689**
Unallocated expenses:				
Cost of goods sold				(45,853)
Selling, general and administrative expenses				(936,870)

Depreciation and amortization	(656,797)
Other income / (expense), net	131,789
Income from legal settlement	561,120
Finance income	27,994
Finance expenses	(293,873)
Share of profit of equity accounted investee	91,135
Profit / (loss) before tax	**(54,666)**
Income tax (expense) / benefit	81,479
Profit / (loss) for the year	**26,813**

Year Reconciliations

	Cost of goods sold	Selling, general and administrative expenses	Finance expenses	Total
Year ended March 31, 2012				
Allocated segment expenses	4,660,773	1,569,622	-	6,330,395
Unallocated segment expenses	-	977,587	306,732	
Total as per income statement	**4,660,773**	**2,547,209**	**306,732**	
Year ended March 31, 2011				
Allocated segment expenses	4,173,208	1,461,446	-	5,634,654
Unallocated segment expenses	36,222	980,353	258,622	
Total as per income statement	**4,209,430**	**2,441,799**	**258,622**	
Year ended March 31, 2010				
Allocated segment expenses	4,050,685	1,545,545	-	5,596,230
Unallocated segment expenses	45,853	936,870	293,873	
Total as per income statement	**4,096,538**	**2,482,415**	**293,873**	

Reorganization of business segments

We have been historically operating with three segments of business viz Corporate network/data services, Internet access services (including Online portal services and content offerings) and others (e-Learning and Infrastructure Management services). The Industry in which these segments compete has witnessed newer competitions, business models resulting in dynamic market changes. In order to leverage the versatility and the organizational capability, the Chief Operations Decision Maker (CODM) has evaluated options of integrating certain services to address customers across segments, achieve better marketability, flexibility and scale. Based on the management decision, certain changes to the business structure are made effective April 1, 2011. Consequently 'Application services' have been realigned out of 'Corporate Data/Networking' (revised segment - Enterprise Services) and have been reported as a part of Software Services. 'Infrastructure Management Services' have been realigned out of 'Other Services' and have been reported as a part of Enterprise Services. The Corresponding revenues and costs have been regrouped into the respective segments. Manpower cost of Technology division, comprising of Infrastructure, Managed Services and Software, is now identified as a specific operating cost to all relevant segment.

Consequently the revised operating segments are as below:

Enterprise Service: Connectivity and voice services will be offered as Network Services, while Data Center Hosting and Managed Services, along with System Integration, will comprise IT services. They will service both domestic and International clients from large corporate and mid-market customers.

Commercial and Consumer Service: The scope of the Consumer business is being expanded to include SOHOs and SMBs apart from the cybercafés, Portals and broadband-to-home services, offering network, IT services and applications through the Cloud.

Software Service: The application services and e-learning would from Software services. This business line will offer applications through the Cloud, primarily targeted at enterprise and international customers.

These reorganization of operating segments did not have any effect on reported consolidated operating income, income before income taxes, net income or per share amounts. The following table provides the amounts reclassified for all prior periods.

Revenue reclassifications

For the year ended March 31, 2011

Previous operating segments	Corporate network / data services	Consumer one	Other services	Total
As previously reported	**5,671,909**	**526,366**	**688,354**	**6,886,629**
Revenue from Managed services	411,085	-	(411,085)	-
Revenue from application services	(330,115)	-	330,115	-
Revised operating segments	**5,752,879**	**526,366**	**607,384**	**6,886,629**
	Enterprise services	**Commercial and consumer services**	**Software services**	

For the year ended March 31, 2010

Previous operating segments	Corporate network / data services	Consumer one	Other services	Total
As previously reported	**5,335,268**	**844,771**	**530,149**	**6,710,188**
Revenue from Managed services	289,146	-	(289,146)	-
Revenue from application services	(355,884)	-	355,884	-
Revised Revenue	**5,268,530**	**844,771**	**596,887**	**6,710,188**
Revised operating segments	**Enterprise services**	**Commercial and consumer services**	**Software services**	

Operating and unallocated cost reclassifications:

For the year ended March 31, 2011

Previous operating segments	Corporate network / data services	Consumer one	Other services	Unallocated expenses and income
As previously reported	4,026,865	639,463	536,176	2,201,760
Cost of goods sold	309,580	45,094	134,129	(488,802)
Finance expenses	(52,916)	(2,210)	(1,527)	56,653
Operating expenses	119,906	41,936	(161,842)	-
Revised Costs	**4,403,435**	**724,283**	**506,936**	**1,769,610**
Revised operating segments	**Enterprise services**	**Commercial and consumer services**	**Software services**	

For the year ended March 31, 2010

Previous operating segments	Corporate network / data services	Consumer one	Other services	Unallocated expenses and income
As previously reported	3,929,727	898,397	406,063	1,483,398
Cost of goods sold	293,922	41,137	96,895	(431,954)
Finance expenses	(66,656)	(2,557)	698	69,911
Operating expenses	(160,068)	143,259	16,809	-
Revised Costs	3,996,925	1,080,236	519,069	1,121,335
Revised operating segments	**Enterprise services**	**Commercial and consumer services**	**Software services**	

Geographic segments

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

Description	India	Rest of the world	Total
Revenues			
Year ended March 31, 2012	4,864,915	2,834,034	7,698,949
Year ended March 31, 2011	4,495,801	2,390,828	6,886,629
Year ended March 31, 2010	4,950,352	1,759,836	6,710,188

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

The revenue from transactions with a single external customer did not exceed more than 10% of the total revenue of the Company for each of the three years ended March 31, 2012.

35. Contingencies

a)During the previous years, the Group had received assessment orders from the Income-tax Department of India for various financial years disallowing certain expenditure like bandwidth charges and foreign currency payments for non-deduction of withholding taxes. The Company appealed against those order before Commissioner of Income Tax (Appeals) (CIT(A)) and received favourable orders. The department has filed appeals before Income Tax Appellate Tribunal (ITAT) disputing CIT(A) orders. The group believes that the appeal by the department is not sustainable and consequently no loss contingency is necessary as at March 31, 2012. Income tax claims against the company as at March 31, 2012 amounted to Rs.84,981 (March 31, 2011: Rs.84,981).

b) Contingencies due to certain service tax claims as at March 31, 2012 amounted to Rs.421,730 (March 31, 2011: Rs 243,610).

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

d)The Group during the year ended March 31, 2009 entered into a contract with Emirates Integrated Telecom for the construction and supply of capacity from the Europe India Gateway. As per the contract with Emirates, the Group is required to pay its share of decommissioning costs if any that may arise in the future. No provision has been made by the Group for such decommissioning costs as the amount of provision cannot be measured reliably as at March 31, 2012.

e) Liability on customer letter of credit discounted amounted to Rs.87,793 (March 31, 2011: Nil).

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

36. Legal proceedings

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

On April 2, 2009, the parties lodged with the Court a motion for preliminary approval of a proposed settlement between all parties, including the Company and its former officers and directors. The proposed settlement provides the plaintiffs with $586 million in recoveries from all defendants. Under the proposed settlement, the Issuer Defendants collectively would be responsible for $100 million, which would be paid by the Issuers' insurers, on behalf of the Issuer Defendants and their officers and directors.

Accordingly, any direct financial impact of the proposed settlement is expected to be borne by the Sify's insurers. On June 12, 2009, the Federal District Court granted preliminary approval of the proposed settlement. On October 6, 2009, the District Court issued an order granting final approval of the settlement. Subsequent to the final approval of Settlement agreement by the District court, there were several notices of appeal filed. Most were filed by the same parties that objected to the settlement in front of the District Court. These appeals were consolidated into a single appeal and briefing schedule was held. On January 9, 2012, the class counsel and issuer defendant's counsel entered into a Settlement Agreement, which agreement includes an agreement to dismiss the above appeal. Thus the above appeal has been dismissed with prejudice confirming the Settlement agreement entered before the District Court.

The Company believes, the maximum exposure under this settlement is approximately USD 338,983, an amount which its insurer will pay as per the Settlement Agreement on behalf of the Company.

(b) Proceedings before the Department of Telecommunications

(i) License fees

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

The above demands were made by the DoT on the premise that all amounts of income (whether direct or indirect) including items such as other income, interest on deposits, gain on foreign exchange fluctuation, profit on sale of assets & provision written back, that are in anyway related to telecom operations of the Company or arise in connection with the Telecom business of the Company, are to be considered as income for the purpose of calculation of the license fee. The Company replied suitably on the above demand notice.

Various service providers approached Telecom Disputes Settlement & Appellate Tribunal ('TDSAT') to clarify what items of income should be included in the calculation of license fee and what items of income should not be included in such calculation. TDSAT by its order clarified on the above. The TDSAT order was challenged by DoT in Surpreme Court of India and the Supreme Court has set aside the TDSAT order. The service providers through their associations have filed a review petition in Supreme Court of India against the order. Sify believes that the above demands are not tenable under law nor fit into the definition of Adjusted Gross Revenue as defined

by DoT. The Company believes it has adequate defenses for these demands and are awaiting the outcome of the review petition.

(ii) In November 2009, the Company received a demand notice pertaining to the allocation of spectrum in the 3.3-3.4 GHz frequency, from DoT, demanding INR 345 million (US $ 7.05 million) towards spectrum charges payable from the date of issue of allocation letter for 170 Base Stations. As per the notice, in case no payment is received within 15 days from the date of issue of the notice, then it would be presumed that the Company is no longer interested for the frequency assignments in 3.3-3.4 GHz band.

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

(c) The Group is party to additional legal actions arising in the ordinary course of business. Based on the available information, as at March 31, 2012, 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. However in the event of adverse judgement in all these cases, the maximum financial exposure would be Rs.129,041 (March 31, 2011: Rs 9,051).

37. Related parties

The related parties where control / significant influence exists are subsidiaries and associates. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director whether executive or otherwise. Key management personnel includes the board of directors and other senior management executives. The other related parties are those with whom the Group has had transaction during the years ended March 31, 2012, 2011 and 2010 are as follows:

Particulars	**Country of incorporation**	**% of Ownership interest**	
		March 31, 2012	**March 31, 2011**
Holding Company			
Infinity Satcom Universal Private Limited		-	-
Raju Vegesna Infotech & Industries Private Limited (Refer note 16 and note 42)		-	-
Ramanand Core Investment Company Private Limited		-	-
Subsidiaries			
Sify International Inc.	USA	100	100
Sify Software Limited (Formerly Sify Networks Private Limited)	India	100	100
Sify Technologies (Singapore) Pte. Limited (Incorporated on December 7, 2009)	Singapore	100	100
Hermit Projects Private Limited (Acquired on November 28, 2011)	India	100	100
Pace Info Com Park Private Limited (Acquired on November 28, 2011)	India	100	100
Associates			
MF Global-Sify Securities India Private Limited	India	29.85	29.85
Others (Entities in which the Key Management Personnel have controlling interest / significant influence and relatives of Key Management Personnel)			
Radhika Vegesna	India	-	-
Server Engines LLC	USA	-	-
Server Engines India Private Limited	India	-	-

VALS Developers Private Limited	India	-	-
Raju Vegesna Developers Private Limited	India	-	-

The following is a summary of the related party transactions for the year ended March 31, 2012:

Transactions	Holding Company	Associates	Others	Key Management Personnel***
Consultancy services received	-	-	-	240
Sitting fees paid	-	-	-	1,280
Salaries and other short term benefits	-	-	-	37,385
Contributions to defined contribution plans	-	-	-	1,602
Share based payment transactions	-	-	-	1,041
Issue of shares on private placement basis**	1,500,000	-	-	-
Advance lease rentals and refundable deposits refunded*	-	-	2,175	-
Refundable lease deposit paid****	-	-	-	-
Lease rentals paid****	150	-	3,129	-
Amount of outstanding balances				
Advance lease rentals and refundable deposits made****	-	-	2,558	-

The following is a summary of the related party transactions for the year ended March 31, 2011:

Transactions	Holding Company	Associates	Others	Key Management Personnel***
Consultancy services received	-	-	-	240
Sitting fees paid	-	-	-	1,200
Salaries and other short term benefits	-	-	-	40,328
Contributions to defined contribution plans	-	-	-	1,913
Share based payment transactions	-	-	-	4,226
Issue of shares on private placement basis**	1,000,000	-	-	-
Advance lease rentals and refundable deposits refunded	-	-	282,825	-
Refundable lease deposit paid****	-	-	2,558	-
Lease rentals paid****	-	-	2,558	-
Amount of outstanding balances				
Debtors	-	-	-	-
Advance lease rentals and refundable deposits made****	-	-	2,558	-

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

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

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

*Represents deposits made to VALS Developers Private Limited ("VALS").VALS was owned and controlled by Raju Vegesna Infotech & Industries Private Limited, in which Mr. Raju Vegesna, our principal share holder and Chief Executive Officer, was holding 94.66% equity in his personal capacity. During the year ended March 31, 2009, Sify entered into an agreement for Sub Lease with VALS Developers Private Limited to take on lease on long term basis the proposed building which is in the process of being constructed. The lease agreement, when final and executed, was expected to have an initial non-cancellable term of 5 years, with a further option for Sify to renew or cancel the lease for the incremental five year terms. In terms of this Agreement for Sub Lease, Sify has paid a security deposit of Rs.125,700 and advance rental of Rs.157,125 to VALS. As per the terms of the Sub Lease, the security deposit will be refunded at the end of lease term and the advance rental would be adjusted over a period of 15 months from the commencement of the lease. To give effect to the above arrangement, VALS had entered into a Memorandum of Understanding on 16th June 2008 with M/s. Advance India Projects Limited (AIPL) and M/s. Pace Info com Private Limited (PACE), wherein PACE is an allottee of the land situated at B-07, Sector-132, Noida and VALS had through a Special Purpose Vehicle Hermit Projects Private Limited (HERMIT) decided to acquire the shares of PACE including the land held by it. VALS has paid a sum of Rs.285,000 to AIPL at the time of signing the MoU.

During the year, on October 30, 2010, the Board of Directors have approved to cancel the MoU for lease arrangement and have decided to acquire the property which is under construction from the third party directly. On 12th January 2011, through a Memorandum of Amendment, the company with the intention to acquire the said land, had substituted its name with that of VALS and through such amendment VALS had agreed to assign all rights, responsibilities, obligations, title etc. in favour of the company, thus making the company eligible to acquire PACE through HERMIT and subsequently the land and also making liable to pay the entire consideration of Rs.1,140,000. Hence the Company has paid VALS an amount of Rs.2,175 i.e., difference between the amount paid by the Company to VALS and the amount paid by VALS to AIPL.

During the year, the Company acquired the leasehold rights alongwith the building under construction through acquisition of entire shares HERMIT which in turn holds the entire shares of PACE, the original allottee of the land.

** Also refer note 16 in relation to transactions relating to issue of equity shares on private placement basis to Raju Vegesna Infotech & Industries Private Limited.

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

****The company has entered into a lease agreement with Ms Radhika Vegesna, Daughter of Mr. Ananda Raju Vegesna, Executive Director of the company, to lease the premises owned by her for a period of three years effective June 1, 2010 on a rent of Rs.256 per month and payment of refundable security deposit of Rs.2,558. This arrangement will be automatically renewed for a further period of two blocks of three years with all the terms remaining unchanged.

****During the year, the Company has entered into a lease agreement with M/s Raju Vegesna Infotech and Industries Private Limited, the holding Company, to lease the premises owned by it for a period of three years effective February 1, 2012 on a rent of Rs.75 per month.

****During the year, the Company has entered into a lease agreement with M/s Raju Vegesna Developers Private Limited, a Company in which Mr Ananda Raju Vegesna, Executive Director of the Company and Mr Raju Vegesna, Chairman and Managing director of the Company exercise significant influence, to lease the premises owned by it for a period of three years effective February 1, 2012 on a rent of Rs.30 per month.

38. Financial instruments

Financial instruments by category

The carrying value and fair value of financial instruments by each category as at March 31, 2012 were as follows:

Particulars	Note	Loans and receivables	Financial assets / liabilities at fair value through profit and loss	Available for sale	Other financial liabilities	Total carrying value	Total fair value
Assets							
Cash and cash equivalents	8	892,768	-	-	-	892,768	892,768
Other assets	10	252,386	-	-	-	252,386	252,386
Trade receivables	13	2,411,946	-	-	-	2,411,946	2,411,946
Other receivables	13	122,214	-	-	-	122,214	122,214
Derivative financial instrument		-	2,891	-	-	2,891	2,891
Other investments	15	-	-	160	-	160	160
Liabilities							
Bank overdraft	8	-	-	-	798,180	798,180	798,180
Finance lease liabilities	17	-	-	-	176,926	176,926	176,926
Other liabilities	19	-	-	-	187,236	187,236	187,236
Borrowings from banks	20	-	-	-	375,906	375,906	375,906
Borrowings from others	20	-	-	-	353,435	353,435	353,435
Trade and other payables	21	-	-	-	2,325,447	2,325,447	2,325,447

The carrying value and fair value of financial instruments by each category as at March 31, 2011 were as follows:

Particulars	Note	Loans and receivables	Financial assets / liabilities at fair value through profit and loss	Available for sale	Other financial liabilities	Total carrying value	Total fair value
Assets							
Cash and cash equivalents	8	543,097	-	-	-	543,097	543,097
Other assets	10	212,969	-	-	-	212,969	212,969
Trade receivables	13	1,839,966	-	-	-	1,839,966	1,839,966
Other receivables	13	354,115	-	-	-	354,115	354,115
Other investments	15	-	-	160	-	160	160
Liabilities							
Bank overdraft	8	-	-	-	678,091	678,091	678,091
Finance lease liabilities	17	-	-	-	188,253	188,253	188,253
Other liabilities	19	-	-	-	163,245	163,245	163,245
Borrowings from banks	20	-	-	-	1,009,422	1,009,422	1,009,422
Borrowings from others	20	-	-	-	288,988	288,988	288,988
Trade and other payables	21	-	-	-	1,725,907	1,725,907	1,725,907

Details of financial assets pledged as collateral

The carrying amount of financial assets as March 31, 2012 and 2011 that the Group has provided as collateral for obtaining borrowings and other facilities from its bankers are as follows:

	March 31, 2012	March 31, 2011
Cash and cash equivalents	892,768	543,097
Other assets	252,386	212,969
Trade receivables	2,411,946	1,839,966
Other receivables	122,214	354,115
	3,679,314	**2,950,147**

Derivative financial instruments

Foreign exchange forward contracts and options are purchased to mitigate the risk of changes in foreign exchange rates associated with certain payables, receivables and forecasted transactions denominated in certain foreign currencies. These derivative contracts do not qualify for hedge accounting under IAS 39, and are initially recognized at fair value on the date the contract is entered into and subsequently re-measured at their fair value. Gains or losses arising from changes in the fair value of the derivative contracts are recognized immediately in profit or loss. The counterparties for these contracts are generally banks or financial institutions. The following table gives details in respect of the notional amount of outstanding foreign exchange and option contracts as on March 31, 2012 and 2011:

	As of	
	March 31, 2012	**March 31, 2011**
Forward contracts		
In U.S. Dollars (Sell)	-	-
In U.S Dollars (Buy)	-	-
Option contracts		
In U.S Dollars (Sell)	1,500	-
In U.S Dollars (Buy)	-	-

The Company recognized a net gain on derivative financial instruments of Rs.2,891 for the year ended March 31, 2012 and a net gain of Rs.6,998 during the year ended March 31, 2010.

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

	As of	
	March 31, 2012	**March 31, 2011**
Sell:		
Not later than one month	26,500	-
Later than one month and not later than three months	53,000	-
Later than three months and not later than six months	-	-
Later than six months and not later than one year	-	-
	79,500	**-**

	As of	
	March 31, 2012	**March 31, 2011**
Buy:		
Not later than one month	-	-
Later than one month and not later than three months	-	-
Later than three months and not later than six months	-	-
Later than six months and not later than one year	-	-
	-	**-**

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

Recognized in profit or loss

	Year ended		
	March 31, 2012	**March 31, 2011**	**March 31, 2010**
Loans and receivables			
Interest income on bank deposits	16,468	21,360	19,489
Interest income from other loans and receivables	3,706	3,871	8,505
Impairment loss of trade receivables	(193,232)	(161,922)	(121,987)
Impairment loss on finance lease receivables	-	-	-

Financial assets at fair value through profit or loss

Net change in fair value of derivative financial instruments	2,891	-	6,998
Other financial liabilities			
Interest expenses on lease obligations	(20,089)	(20,117)	(16,476)
Interest expenses on borrowings from banks, others and overdrafts	(157,510)	(161,897)	(177,156)

Recognized directly in other comprehensive income

	Year ended		
	March 31, 2012	**March 31, 2011**	**March 31, 2010**
Net change in fair value of available-for-sale financial assets	-	-	-

39. Financial Risk Management

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

- Credit risk
- Liquidity risk
- Market risk

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

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

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

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

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

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

Exposure to credit risk

The gross carrying amount of financial assets, net of any impairment losses recognized represents the maximum credit exposure. The maximum exposure to credit risk as at March 31, 2012 and 2011 was as follows:

	March 31, 2012	March 31, 2011
Cash and cash equivalents	892,768	543,097
Other assets	252,386	212,969
Trade receivables	2,411,946	1,839,966
Other receivables	122,214	354,115
Derivative financial instruments	2,891	-
Other investments	160	160
	3,682,365	**2,950,307**

Financial assets that are past due but not impaired

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

Period (in days)	March 31, 2012	March 31, 2011
Past due 181 - 270 days	168,171	143,919
Past due 271 - 365 days	173,385	50,796
More than 365 days	524,788	97,596
	866,344	**292,311**

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

Financial assets that are not past due

Cash and cash equivalents, other assets, other receivables and finance lease receivables are neither past due nor impaired. Of the total trade receivables that are not past due as at March 31, 2012 amounting to Rs.1,545,602 (March 31, 2011: Rs.1,329,698) impairment to the extent of Rs Nil (March 31, 2011: Rs Nil) has been recorded.

Details of collateral and other credit enhancements held

	March 31, 2012	March 31, 2011
Security deposits received for internet access services	4,915	7,432

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

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

As at March 31, 2012

	Carrying amount	Contractual cash flows	0-12 months	1-3 years	3-5 years
Non-derivative financial liabilities					
Bank overdrafts	798,180	798,180	798,180	-	-
Finance lease liabilities	176,926	205,675	91,923	99,521	14,231

Other liabilities	187,236	187,236	187,236	-	-
Borrowing from banks	375,906	381,269	381,269	-	-
Borrowings from others	353,435	416,449	202,842	185,060	28,547
Trade and other payables	2,325,447	2,325,447	2,325,447	-	-
	4,217,130	**4,314,256**	**3,986,897**	**284,581**	**42,778**

As at March 31, 2011

	Carrying amount	Contractual cash flows	0-12 months	1-3 years	3-5 years
Non-derivative financial liabilities					
Bank overdrafts	678,901	678,901	678,901	-	-
Finance lease liabilities	188,253	247,355	65,148	123,922	58,284
Other liabilities	163,245	163,245	163,245	-	-
Borrowing from banks	1,009,422	1,044,455	930,067	114,388	-
Borrowings from others	288,988	368,794	175,730	158,431	34,633
Trade and other payables	1,725,907	1,725,907	1,725,907	-	-
	4,054,716	**4,228,657**	**3,738,998**	**396,741**	**92,917**

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

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

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

The Group's exposure to foreign currency risk as at March 31, 2012 was as follows:

All amounts in respective currencies as mentioned (in thousands)

	USD	CAD	CHF	EUR	GBP	DHS	HKD	SGD
Cash and cash equivalents	758	-	-	-	-	-	-	
Trade receivables	17,046	5	539	12	136	-	-	6
Trade payables	(9,031)	-	(15)	(52)	(1)	(59)	(10)	-
Gross balance sheet exposure	**8,773**	**5**	**524**	**(40)**	**135**	**(59)**	**(10)**	**6**
Forward exchange / option contracts	(1,500)	-	-	-	-	-	-	-
Net exposure	**7,273**	**5**	**524**	**(40)**	**135**	**(59)**	**(10)**	**6**

The Group's exposure to foreign currency risk as at March 31, 2011 was as follows:

All amounts in respective currencies as mentioned (in thousands)

	USD	CAD	CHF	Euro	GBP	DHS	HKD	AED	SGD
Cash and cash equivalents	495	-	-	-	-	-	-		
Trade receivables	9,700	4	522	20	116	1	-	1	2
Trade payables	(5,688)	-	(18)	(301)	(1)	(32)	(10)	(25)	(83)

Gross balance sheet exposure	4,507	4	504	(281)	115	(31)	(10)	(24)	(81)
Forward exchange / option contracts	-	-	-	-	-	-	-	-	-
Net exposure	**4,507**	**4**	**504**	**(281)**	**115**	**(31)**	**(10)**	**(24)**	**(81)**

Sensitivity analysis

A 10% strengthening of the rupee against the respective currencies as at March 31, 2012 and 2011 would have increased / (decreased) other comprehensive income and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011.

	Other comprehensive income	Profit or loss
March 31, 2012	-	40,782
March 31, 2011	-	14,366

A 10% weakening of the rupee against the above currencies as at March 31, 2012 and 2011 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

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

Profile

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

	Carrying amount	
	March 31, 2012	**March 31, 2011**
Fixed rate instruments		
Financial assets		
- Fixed deposits with banks	400,629	84,765
Financial liabilities		
- Borrowings from banks	48,476	529,437
- Borrowings from others	353,435	288,988
Variable rate instruments		
Financial liabilities		
- Borrowings from banks	327,430	326,000
- Bank overdrafts	798,180	678,901

Fair value sensitivity for fixed rate instruments

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

Cash flow sensitivity for variable rate instruments

An increase of 100 basis points in interest rates at the reporting date would have increased / (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis has been performed on the same basis as 2011.

	Equity	Profit or loss
March 31, 2012	-	(11,256)
March 31, 2011	-	(10,049)

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

40. Acquisition of non-controlling interest in subsidiary

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

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

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

41. IPO listing

The Ministry of Finance of the Government of India ('MoF') issued a press release dated March 31, 2006, making amendments to the 'Issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depository Receipt Mechanism) Scheme 1993' ('the Scheme'). The amendments included a statement that unlisted Companies which had accessed FCCBs, ADR/GDRs in terms of guidelines of May 22, 1998 and are not making profit, be permitted to comply with listing condition on the domestic stock exchanges within three years of having started making profit. Further, the press release states that no fresh issues of FCCBs, ADR/GDRs by such companies will be permitted without listing first in the domestic exchanges. Hence the Company would not be able to raise funds by issuing ADRs until such time the Company complies with the 'Issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depository Receipt Mechanism) Scheme 1993' and lists in the domestic stock exchanges as per the above press release.

42. Issue of shares on a private placement basis to the existing promoter group

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

On October 22 2010, the company entered into a Subscription Agreement with Mr Ananda Raju Vegesna, acting as representative (the "Representative") of the purchasers in connection with the Offering. In pursuance of the Agreement, the company issued and allotted 125,000,000 equity shares to M/s Raju Vegesna Infotech and Industries Private Limited ("RVIIPL"), a promoter group company. In accordance with Indian law, the purchase price is to be paid at such time as determined by Board of Directors of the company.

On August 14, 2011, the company received a letter from RVIIPL expressing its intention to transfer the above partly paid shares to its wholly owned subsidiary M/s Ramanand Core Investment Company Private limited ("RCICPL"). The company, on August 26, 2011, registered such transfer of partly paid shares in the name of RCICPL.

On September 7, 2011, the parties entered into an amendment to the Subscription Agreement (the "Amendment") extending the validity of the agreement period to September 26, 2013. This Amendment provides the Board of Directors of the Company with additional time to call upon the purchasers to pay the balance money, in accordance with the terms of the Subscription Agreement, at any time before September 26, 2013.

As on March 31, 2012, these shares are partly paid to the extent of Rs.6.25 per share. Until the full purchase price is paid by the purchasers, the company retains a lien on the equity shares purchased in connection with the Offering. As of March 31, 2012, entities affiliated with our Chief Executive Officer, Raju Vegesna, beneficially owned approximately 86.27% of our outstanding equity shares, which includes the 125,000,000 shares (partly paid with proportionate voting rights) issued in connection with the above Offering.