

SIFY LTD  
Form 6-K  
January 17, 2007

**United States Securities and Exchange Commission**  
**Washington, DC 20549**  
**FORM 6-K**  
**Report of Foreign Private Issuer**  
**Pursuant to Rule 13a-16 or 15d-16**  
**of the Securities Exchange Act of 1934**  
**For the quarterly period ended September 30, 2006**  
**Commission File Number 000-27663**  
**SIFY LIMITED**

(Translation of registrant's name into English)

Tidel Park, Second Floor  
No. 4, Canal Bank Road, Taramani  
Chennai 600 113, India  
(91) 44-254-0770

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.  
Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T  
Rule 101(b)(1). Yes  No

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T  
Rule 101(b)(7). Yes  No

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby  
furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.  
Yes  No

If "Yes" is marked, indicate below the file number assigned to registrant in connection with Rule 12g3-2(b). Not  
applicable.

Sify Limited is incorporating by reference the information and exhibits set forth in this Form 6-K into its registration  
statements on Form S-8 (Registration Nos. 333-101322, 333-107938 and 333-135804) and on Form F-3 (Registration  
Nos. 333-101915 and 333-121047).

The number of equity shares of the Registrant outstanding as of September 30, 2006 was 42,712,480.

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### **Currency of Presentation and Certain Defined Terms**

Unless the context otherwise requires, references herein to we, us, the company or Sify are to Sify Limited, a limited liability company organized under the laws of the Republic of India. References to U.S. or the United States are to the United States of America, its territories and its possessions. References to India are to the Republic of India. Until December 2002, we were a majority-owned subsidiary of Satyam Computer Services Limited ( Satyam Computer Services ), a leading Indian information technology services company which is traded on the New York Stock Exchange and the major Indian stock exchanges. In January 2003, we changed the name of our company from Satyam Infoway Limited to Sify Limited. Sify, *SifyMax.in*, *satyamonline.com* and *Satyam iway* are trademarks used by us for which we have registration applications pending in India. All other trademarks or trade names used in this quarterly report are the property of their respective owners.

In this report, references to \$, US\$, Dollars or U.S. dollars are to the legal currency of the United States, and references to Rs., rupees or Indian Rupees are to the legal currency of India. References to a particular fiscal year are to our fiscal year ended March 31 of that year.

For your convenience, this report contains translations of some Indian rupee amounts into U.S. dollars which should not be construed as a representation that those Indian rupee or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Indian rupees, as the case may be, at any particular rate, the rate stated below, or at all. Except as otherwise stated in this report, all translations from Indian rupees to U.S. dollars contained in this report have been based on the noon buying rate in the City of New York on September 30, 2006 for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York. The noon buying rate on September 30, 2006 was Rs.45.95 per \$1.00.

Our financial statements are prepared in Indian rupees and presented in accordance with United States generally accepted accounting principles, or U.S. GAAP. In this report, any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

Information contained in our websites, including our principal corporate website, *www.sifycorp.com*, is not part of this report.

### **Forward-looking Statements May Prove Inaccurate**

IN ADDITION TO HISTORICAL INFORMATION, THIS REPORT CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE SUBJECT TO RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE REFLECTED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN THE SECTION ENTITLED RISK FACTORS AND ELSEWHERE IN THIS REPORT. YOU ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH REFLECT MANAGEMENT'S ANALYSIS ONLY AS OF THE DATE OF THIS REPORT. IN ADDITION, YOU SHOULD CAREFULLY REVIEW THE OTHER INFORMATION IN THIS REPORT AND IN OUR PERIODIC REPORTS AND OTHER DOCUMENTS FILED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE SEC ) FROM TIME TO TIME. OUR FILINGS WITH THE SEC ARE AVAILABLE ON ITS WEBSITE, *WWW.SEC.GOV*.

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**Part I. Financial Information**  
**Item 1. Financial Statements**

**SIFY LIMITED and Subsidiaries**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share data and as otherwise stated)

	As at March 31, 2006 Rs.	As at September 30, 2006 Rs.	2006 \$
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	Rs. 2,822,501	Rs. 2,315,552	\$ 50,393
Accounts receivable	838,433	1,052,468	22,905
Due from employees	23,818	3,633	79
Inventories	30,462	30,803	670
Prepaid expenses	91,158	130,777	2,846
Net investment in leases	10,776	16,003	348
Other current assets	212,696	286,100	6,226
<b>Total current assets</b>	<b>4,029,844</b>	<b>3,835,336</b>	<b>83,467</b>
Cash restricted	1,000	1,000	22
Net investment in leases	10,842	17,311	377
Property, plant and equipment-net	1,423,246	1,610,736	35,054
Goodwill and other intangible assets	62,436	156,056	3,396
Investments in affiliated companies	233,060	256,954	5,592
Other assets	191,343	194,153	4,225
<b>Total assets</b>	<b>Rs. 5,951,771</b>	<b>Rs. 6,071,546</b>	<b>\$ 132,133</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
<b>Current liabilities:</b>			
Current installments of capital lease obligations	2,759	2,418	53
Trade accounts payable	440,841	184,395	4,013
Accrued liabilities	584,264	667,252	14,521
Deferred revenue	444,333	473,786	10,311
Due to employees	1,300	1,200	26
Advances from customers	112,512	108,719	2,366
Other current liabilities	74,174	112,803	2,455
<b>Total current liabilities</b>	<b>1,660,183</b>	<b>1,550,573</b>	<b>33,745</b>
Capital lease obligations, excluding current installments	2,546	2,684	58
Other liabilities	234,533	240,006	5,223
<b>Total liabilities</b>	<b>1,897,262</b>	<b>1,793,263</b>	<b>39,026</b>
<b>Stockholders equity</b>	423,895	427,125	9,295

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Common stock, Rs 10 par value; 50,000,000 equity shares authorized (as of March 31, 2006 : 50,000,000) ; Issued and outstanding: 42,712,480 shares as of September 30,2006 and 42,389,514 shares as of March 31, 2006

Additional paid-in capital	16,238,413	16,286,073	354,430
Deferred compensation – employee stock offer plan	(41,925)		
Accumulated deficit	(12,565,874)	(12,434,915)	(270,618)
<b>Total stockholders equity</b>	<b>4,054,509</b>	<b>4,278,283</b>	<b>93,107</b>

<b>Total liabilities and stockholders equity</b>	<b>Rs. 5,951,771</b>	<b>Rs. 6,071,546</b>	<b>\$ 132,133</b>
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See accompanying notes to unaudited condensed consolidated financial statements

**SIFY LIMITED and Subsidiaries**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except share data and as otherwise stated)

	Quarter ended September 30,			Six Months ended September 30,		
	2005 Rs.	2006 Rs.	2006 \$	2005 Rs.	2006 Rs.	2006 \$
Revenue						
Products	Rs. 79,655	Rs. 128,905	\$ 2,805	Rs. 147,648	Rs. 248,950	\$ 5,418
Services	1,039,199	1,254,193	27,295	1,977,259	2,452,529	53,374
	Rs. 1,118,854	Rs. 1,383,098	30,100	Rs. 2,124,907	Rs. 2,701,479	58,792
Revenue from related parties						
Products	41,191			43,879		
Services	12,848			25,382		
	54,039			69,261		
<b>Total Revenue</b>	<b>1,172,893</b>	<b>1,383,098</b>	<b>30,100</b>	<b>2,194,168</b>	<b>2,701,479</b>	<b>58,792</b>
Cost of revenue						
Products	103,497	111,327	2,423	165,378	212,676	4,628
Services	556,245	594,712	12,943	1,076,339	1,188,679	25,869
	659,742	706,039	15,366	1,241,717	1,401,355	30,497
Selling, general and administrative expenses	473,098	478,794	10,420	898,171	959,574	20,883
Provision for doubtful receivables and advances	16,827	50,579	1,101	33,045	73,664	1,603
Depreciation	97,893	105,090	2,287	197,705	200,126	4,355
Amortisation of intangible assets	16,826	12,133	264	38,864	28,630	623
Amortisation of deferred stock compensation expense	813	5,527	120	1,970	41,470	903
Foreign exchange (gain) / loss	(2,853)	(302)	(7)	(2,633)	(44,339)	(965)
<b>Total operating expenses</b>	<b>1,262,346</b>	<b>1,357,860</b>	<b>29,551</b>	<b>2,408,839</b>	<b>2,660,480</b>	<b>57,899</b>
Operating profit / (loss)	(89,453)	25,238	549	(214,671)	40,999	893

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Other income, net	9,340	35,192	766	25,527	66,066	1,438
Profit / (loss) before taxes and equity in profit of affiliate	(80,113)	60,430	1,315	(189,144)	107,065	2,331
Equity in profit of affiliate	18,526	8,106	176	29,408	23,894	520
Profit / (loss) before income tax	(61,587)	68,536	1,491	(159,736)	130,959	2,851
Taxes						
<b>Net profit / (loss) after tax</b>	<b>Rs. (61,587)</b>	<b>Rs. 68,536</b>	<b>\$ 1,491</b>	<b>Rs. (159,736)</b>	<b>Rs. 130,959</b>	<b>\$ 2,851</b>
<b>Net profit / (loss) per share Basic</b>	(1.74)	1.60	0.03	(4.51)	3.07	0.07
<b>Net profit / (loss) per share Diluted</b>	(1.74)	1.60	0.03	(4.51)	3.06	0.07
<b>Weighted average equity shares Basic</b>	35,380,278	42,704,756	42,704,756	35,380,278	42,644,682	42,644,682
<b>Weighted average equity shares Diluted</b>	35,380,278	42,851,406	42,851,406	35,380,278	42,840,081	42,840,081

See accompanying notes to unaudited condensed consolidated financial statements



**SIFY LIMITED and Subsidiaries**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands and as otherwise stated)

	Six months ended September 30,		
	2005	2006	2006
	Rs.	Rs.	\$
<b>Net profit / (loss)</b>	<b>Rs. (159,736)</b>	<b>Rs. 130,959</b>	<b>\$ 2,851</b>
Adjustments to reconcile net loss to net cash provided by / (used in) operating activities:			
Depreciation, impairment and amortization of intangible assets and deferred stock compensation	238,539	270,226	5,881
Equity in profit of affiliate	(29,408)	(23,894)	(520)
(Gain) / Loss on sale of property, plant and equipment	780	(261)	(6)
Provision for doubtful receivables and advances	33,045	73,664	1,603
Unrealized (gain) / loss on account of exchange differences		765	17
Translation (gain) / loss on cash and cash equivalents	(2,070)	(11,235)	(244)
Gain on disposal of subsidiary	(1,595)		
<i>Changes in assets and liabilities:</i>			
Accounts receivable	(126,441)	(288,569)	(6,280)
Due from employees	(2,165)	20,384	443
Due from related parties	(16,544)		
Inventories	(18,240)	(341)	(7)
Prepaid expenses	27,441	(39,619)	(862)
Other assets	1,963	(76,316)	(1,661)
Net investment in leases	2,964	(11,696)	(255)
Trade accounts payable and accrued liabilities	62,264	(173,591)	(3,778)
Deferred revenue	99,771	29,453	641
Advances from customers	23,771	(3,771)	(82)
Other liabilities	(10,502)	20,818	453
<b>Net cash provided/(used) by operating activities</b>	<b>Rs. 123,837</b>	<b>Rs. (83,024)</b>	<b>\$ (1,806)</b>
<b>Cash flows from investing activities:</b>			
Expenditure on property, plant and equipment	(337,416)	(385,908)	(8,399)
Proceeds from sale of property, plant and equipment	1,280	1,640	36
Expenditure on intangible assets		(7,278)	(158)
Business acquisition		(92,934)	(2,023)
Net movement in cash restricted	21,240		
<b>Net cash used in investing activities</b>	<b>Rs. (314,896)</b>	<b>Rs. (484,480)</b>	<b>\$ (10,544)</b>
<b>Cash flows from financing activities:</b>			
Principal payments under capital lease obligations	(3,670)	(2,025)	(44)

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Net proceeds from issuance of common stock		51,345	1,117
<b>Net cash provided by financing activities</b>	<b>Rs. (3,670)</b>	<b>Rs. 49,320</b>	<b>\$ 1,073</b>
Effect of exchange rate changes on cash and cash equivalents	2,070	11,235	245
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>(192,659)</b>	<b>(506,949)</b>	<b>\$ (11,032)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>1,323,912</b>	<b>2,822,501</b>	<b>61,425</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>Rs. 1,131,253</b>	<b>Rs. 2,315,552</b>	<b>\$ 50,393</b>

**Supplementary Information**

Cash paid towards interest	6,425	4,012	87
Cash paid / (refund received) towards income taxes	(19,905)	23,766	517
Additions to property, plant and equipment represented by capital lease obligations	1,131	1,720	37

See accompanying notes to unaudited condensed consolidated financial statements

**SIFY LIMITED and Subsidiaries**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND**  
**COMPREHENSIVE INCOME**

(in thousands, except share data and as stated otherwise)

	Common Stock		Additional Paid-in Capital	Comprehensive Income	Deferred Compensation - Employee Stock Offer Plan	Accumulated Deficit	Total Stockholders Equity
	Shares Nos.	Par Value Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Balance as of March 31, 2006 (1)</b>	42,389,514	423,895	16,238,413		(41,925)	(12,565,874)	4,054,509
Issue of common stock	322,966	3,230	48,115				51,345
Compensation related to stock option grants			41,470				41,470
Reversal of unamortized compensation cost pursuant to adoption of SFAS 123R			(41,925)		41,925		130,959
Net profit				130,959		130,959	130,959
Comprehensive income				130,959			
<b>Balance as of September 30, 2006</b>	42,712,480	427,125	16,286,073			(12,434,915)	4,278,283
<b>Balance as of September 30, 2006 (in US\$)</b>		9,295	354,430			(270,618)	93,107

**SIFY LIMITED and Subsidiaries**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(In thousands, except share data and as stated otherwise)

**1. Description of business**

Sify Limited ( Sify ) together with its subsidiaries (the Company ) and its affiliates is engaged in providing various services, such as corporate network and data services, Internet access services, online portal and content offerings, and selling products related to such services.

**2. Summary of significant accounting policies**

**a. Basis of preparation of financial statements**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (US GAAP) in Indian Rupees, the national currency of India. Solely for the convenience of the reader, the financial statements as of and for the quarter and six months ended September 30, 2006 have been translated into United States dollars at the noon buying rate in New York City on September 30, 2006 for cable transfers in Indian rupees, as certified for customs purposes by the Federal Reserve Bank of New York of US\$1 = Rs. 45.95. No representation is made that the Indian rupee amounts have been, could have been or could be converted into United States dollars at such a rate or at any other rate on September 30, 2006 or at any other date.

**b. Interim Information**

Interim information presented in the condensed consolidated financial statements has been prepared by the management without audit and, in the opinion of management, includes all adjustments of a normal recurring nature that are necessary for the fair presentation of the financial position, results of operations, and cash flows for the periods shown, is in accordance with U.S. GAAP. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's annual report on Form 20-F for the fiscal year ended March 31, 2006.

**c. Business combinations**

Business combinations have been accounted using the purchase method under the provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standard (SFAS) No. 141, Business Combinations. Cash and amounts of consideration that are determinable at the date of acquisition are included in determining the cost of the acquired business.

**3. Acquisition of Globe Travel Business**

During the quarter ended June 30, 2006, the Company acquired Globe Travels which operates an online travel agency. The management believes this acquisition marks Sify's entry into the fast growing online travel business, particularly e-ticketing, the category with highest revenues and fastest growth in online e-commerce today. The management also believes that the addition of a travel portal is in line with the Company's strategy of providing end-to-end services to Sify users. The results of Globe Travels operations have been consolidated in the financial statements effective May 10, 2006, the date of acquisition. The purchase price in respect of the business acquisition comprises the following:

	Rs. 112,220
Cash price	(USD 2,500)
Stock options (No. of options)	140,000
Earn out payments	USD 500

The Cash price of USD 2,500 includes an amount of USD 500 as holdback amount payable upon the Airlines Reporting Corporation ( ARC ) approval of the Company's application for change of ownership of the travel portal. The

said holdback amount has been included and accounted as purchase consideration since the management, based on advice, believes that the resolution of the contingency (i.e approval of ARC) is beyond reasonable doubt.

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The Stock Options have been treated as compensation cost in accordance with the provisions of EITF 95-8 Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination. Further, as the Earn Out Payment is contingent upon continuing employment and achievement of specified earning levels the same will be treated as compensation cost in accordance with the provisions of EITF 95-8. As the cost of Stock Options and Contingency Earn out payments are treated as compensation cost, the cost of acquisition comprises of only cash price of Rs.112,220 and other incidental direct acquisition cost of Rs.3,999. The Cash Price has been allocated to the estimated fair value of the assets, properties including rights at the date of purchase of business.

The following table summarizes the preliminary allocation of estimated fair value of the assets, properties including rights at the date of purchase of the business. The allocation of the purchase price is subject to obtaining third party valuation of certain intangibles.

Property and Equipment	Rs. 1,246
Intangible Assets	88,052
Goodwill	26,921
<b>Total</b>	<b>116,219</b>

The acquired intangible assets, in the opinion of the management, have a weighted average useful life of five years. The intangible assets are as follows:

Customer and Contract related intangibles	Rs. 85,797
Software	2,255

#### 4. IP / VPN License

In December 2004, as per the Government of India ( GOI ) guidelines regarding Virtual Private Network( IP-VPN ) services by Internet Service Providers ( ISPs ), the Company paid Rs.100,000 as an entry fee for a 15 year license and submitted a financial bank guarantee of Rs.10,000 . In addition, the ISP licensees were required to pay an annual fee of 8% of the adjusted gross revenues generated under the ISP license for IP-VPN services.

On November 10, 2005, the GOI issued guidelines for obtaining National Long Distance ( NLD ) and International Long Distance ( ILD ) licenses including the terms and conditions for the licenses. These guidelines eliminated the IP-VPN license, entitling the Company to a full refund of the Rs.100,000 entry fee, and permitting existing IP-VPN license holders to migrate to the NLD and ILD service licenses effective January 1, 2006. The Company has applied for these licenses. The Company discontinued amortization of the IP-VPN license effective November 10, 2005 and reversed the amortization of the license fee.

As per the ILD and NLD license guidelines, the Company will be required to pay Rs. 50,000 as an entry fee for the ILD and NLD licenses when approval is obtained and submit a bank guarantee of Rs. 25,000 for the ILD license and Rs. 20,000 for the NLD license. This entry fee will be evenly amortized over the license period of 20 years. In addition to the entry fee, the Company has to pay an annual license fee of 6% on the Adjusted Gross Revenue generated (AGR) as defined under the ILD and NLD licenses for IP-VPN services.

During the quarter ended September 30, 2006, the Company has received Letters of Intent ( LOI ) from the GOI specifying certain conditions that would need to be complied with, in connection with the grant of aforesaid licenses. The Company would obtain the ILD / NLD and the license Agreements would be signed only after the compliance of such conditions and the Company is in the process of complying with the same.

## 5. Sale of 26% holding in Sify Communications Limited

The new guidelines issued by the GOI for ILD/NLD licenses limit foreign direct investment ( FDI ) for the telecom sector to 74% of the equity shares outstanding. As the foreign shareholding in Sify is more than the threshold limit, Sify would not be eligible for the NLD/ILD licenses. Accordingly, the Company determined to provide the IP-VPN services through Sify Communications Limited (formerly Safescrypt Limited), a subsidiary of Sify. On December 19, 2005 Sify contributed Rs.700,000 as additional equity in Sify Communications Limited to make the net worth of the Sify Communications positive. On December 20, 2005, the Company entered into an agreement to divest 26% of its holding in Sify Communications Limited, or 4,680,000 shares, to M/s Infinity Satcom Universal (P) Ltd, a related party, for a sale consideration of Rs.139,810 . M/s Infinity Satcom Universal (P) Ltd is owned by Anand Raju, who is the brother of Raju Vegesna. Raju Vegesna is the Chairman of Sify s Board of Directors and the principal of Infinity Capital Ventures, LP ( Infinity Capital ). Infinity Capital owns approximately 41.92 % of Sify s outstanding equity shares. Sify Communications Limited has applied for the ILD/NLD license to provide IP-VPN services.

The Company will be transferring the IP VPN business from Sify Limited to Sify Communications Limited upon the latter receiving the ILD / NLD license. Pending transfer of business as at September 30, 2006, the amount received against the sale proceeds is included under other liabilities. Further, Sify will carry on the business of IP VPN Services, until the business is transferred to Sify Communications Limited.

## 6. Cash and cash equivalents

Cash and cash equivalents as on September 30, 2006 amounted to Rs. 2,315,552 (Rs 2,822,501 as at March 31, 2006) and restricted cash included in non-current assets of Rs. 1,000 (Rs.1,000 as at March 31, 2006) representing deposits held under lien against bank guarantees given by the Company towards future performance obligations and letters of credit given to suppliers of the Company against purchase obligations.

## 7. Goodwill and other intangible assets

At September 30, 2006, the Company s goodwill and other intangible assets amounted to Rs. 41,516 and Rs. 114,540 respectively (Rs 14,596 and Rs.47,840, as at March 31, 2006 respectively). The following are the details of other intangible assets:

	Weighted Average Life	Gross carrying amount	As at March 31, 2006		As at September 30, 2006	
			Accumulated Amortization	Weighted average life	Gross carrying amount	Accumulated Amortization
Technical know how fees	5.00	Rs. 82,753	Rs. 79,240	5.00	82,753	82,753
Portals and web content	4.91	52,730	50,065	4.91	52,730	52,670
Customer contracts and others	4.04	56,084	39,119	4.62	141,883	48,762
Software	2.90	222,119	197,422	2.91	231,649	210,290
<b>Total</b>		<b>Rs. 413,686</b>	<b>Rs. 365,846</b>		<b>Rs. 509,015</b>	<b>Rs. 394,475</b>

The aggregate amortization expense for the quarter ended September 30, 2006 was Rs. 12,133 (Rs. 16,826 for the quarter ended September 30, 2005) and for the six months ended September 30, 2006 was Rs. 28,630 (Rs. 38,864 for the six months ended September 30, 2005).

**Estimated amortization expense**

For the year ending March 31,

2007	Rs. 48,241
2008	31,540
2009	25,647
2010	18,237
2011	17,610
2012	1,894

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, the Company does not amortize goodwill but tests it for impairment on an annual basis. The Company has not recognized any impairment of goodwill during the year ended March 31, 2006 or the six months ended September 30, 2006.

**8. Employee Stock Options**

Prior to March 31, 2006, the Company applied the intrinsic value based method of accounting prescribed by the Accounting Principles Board (APB) Opinion (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations including FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation* an interpretation of APB Opinion No. 25, issued in March 2000 to account for fixed Stock Option Plans. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price.

SFAS 123, *Accounting for Stock Based Compensation*, established accounting and disclosure requirements using a fair value based method of accounting for Stock based employee compensation plans. As allowed by SFAS 123, the Company elected to continue to apply the intrinsic value based method of accounting described above, and adopted the disclosure requirements of SFAS 148, *Accounting for Stock based Compensation Transition and Disclosure*, and amendment of FASB Statement 123. All Stock options issued to date have been accounted as fixed stock option plan. The following table illustrates the effect on net income and earnings per share if the Company has applied the fair value recognition provisions of SFAS No. 123, *Accounting for Stock Based Compensation*, to account for stock based employee compensation.

	<b>Quarter ended September 30, 2005</b>	<b>Six months ended September 30, 2005</b>
Net loss as reported	Rs. (61,587)	Rs. (159,736)
Add: Stock based compensation expense included in reported net loss	813	1,970
Less: Stock based compensation expense determined under fair value method	(7,756)	(21,154)
Pro forma net loss	Rs. (68,530)	Rs. (178,920)
Loss per share:		
Basic and diluted reported	Rs. (1.74)	Rs. (4.51)
Basic and diluted proforma	Rs. (1.94)	Rs. (5.06)

On April 01, 2006, the Company adopted FASB Statement No. 123 (revised 2004), *Share-Based Payment* using the modified prospective approach. The Company recorded amortization of stock compensation expense of Rs. 5,527 for the quarter ended September 30, 2006 and Rs. 41,470 for six months ended September 30, 2006





During the half year ended September 30, 2006, the Company has issued 275,600 shares under Associate stock option plan 2005 and has been accounted under SFAS 123R.

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

	Quarter ended September 30,		Six months ended September 30,	
	2005	2006	2005	2006
Dividend Yield				
Assumed volatility	103.4%-116.6%	58.13% 95.45%	103.4%-116.6%	58.13% 95.45%
Risk-free interest rate	7.5%	4.52%-4.84%	7.5%	4.52%-4.84%
Expected Term	12-36 months	18-40 months	12-36 months	18-40 months

### 9. Gratuity

The Company provides for gratuity, a defined benefit retirement plan (the Gratuity Plan) covering all employees. The Gratuity Plan commenced on April 1, 1997. The plan provides a lump sum payment to vested employees at retirement or termination of employment based on the respective employee's salary and the years of employment with the Company. The Company provides the gratuity benefit through annual contributions to a fund managed by the Life Insurance Corporation of India (LIC). Under this scheme, the settlement obligation remains with the Company, although the LIC administers the scheme and determines the contribution premium required to be paid by the Company. The Gratuity Plan is accounted for in accordance with SFAS No. 87, *Employers' Accounting for Pensions*. The following table sets out the funded status of the Gratuity Plan and the amounts recognized in the Company's financial statements.

	Quarter ended September 30,		Six months ended September 30,	
	2005	2006	2005	2006
Service cost	Rs. 1,701	Rs. 1,904	Rs. 3,403	Rs. 3,808
Interest cost	348	417	696	833
Expected returns on plan assets	(134)	(41)	(269)	(81)
Amortization				
Recognized net actuarial (gain)/ loss	(123)	(117)	(245)	(234)
<b>Net gratuity costs</b>	<b>Rs. 1,792</b>	<b>Rs. 2,163</b>	<b>Rs. 3,585</b>	<b>Rs. 4,326</b>

	Quarter ended September 30,		Six months ended September 30,	
	2005	2006	2005	2006
<b>Principal actuarial assumptions:</b>				
Discount rate	8.0%	8.0%	8.0%	8.0%
Long-term rate of compensation increase	6.0%	6.0%	6.0%	6.0%
Rate of return on plan assets	7.5%	7.5%	7.5%	7.5%

The Company estimates the long term return on Gratuity Plan assets at 7.5% based on the average long term rate of return expected to prevail over the next 15 to 20 years on the type of investments held with LIC.

The Company's best estimate of contributions expected to be paid to the Gratuity Plan during fiscal 2007 amounts to Rs.2,500. Further, the benefits expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter are:

For the year ending March 31,	
2007	Rs. 1,827
2008	1,948
2009	2,748
2010	4,310
2011	6,942
2012-2016	38,558

**10. Deferred revenue:**

Deferred revenue includes the following amounts of unearned income:

for the Company's corporate network / data services division, revenue relating to the connectivity / hosting charges and from provision of digital certificates;

for the Company's Internet access services and online portal services divisions, revenue relating to the internet access charges and the advertisement charges respectively; and

for the Company's other service division, revenue relating to development of e- learning software.

The components of deferred revenue for these segments are:

	<b>March 31, 2006</b>	<b>As at September 30, 2006</b>
Corporate network / data services	Rs. 305,028	Rs. 358,030
Internet access services	133,613	103,457
Online portal services	623	468
Other services	5,069	11,831
<b>Total</b>	<b>Rs. 444,333</b>	<b>Rs. 473,786</b>

**11. Advertising costs**

Advertising costs incurred during the quarter have been expensed. The total amount of advertising costs expensed during the quarter ended September 30, 2006 was Rs. 9,850 (Rs. 22,340 for the quarter ended September 30, 2005) and for the six months ended September 30, 2006 was Rs. 24,109 (Rs. 29,523 for the six months ended September 30, 2005).

**12. Products and services**

Break-up of revenues and cost of revenues against products and services are as follows:

	Quarter ended September 30,		Six months ended September 30,	
	2005	2006	2005	2006
<i>Revenue</i>				
Services revenue	Rs. 963,711	Rs. 1,170,081	Rs. 1,828,932	Rs. 2,331,971
Initial franchisee fee	29,683	19,578	52,396	35,578
Installation services revenue	58,653	64,534	121,313	84,980
	1,052,047	1,254,193	2,002,641	2,452,529
Products revenue	Rs. 120,846	Rs. 128,905	Rs. 191,527	Rs. 248,950
	<b>Rs. 1,172,893</b>	<b>Rs. 1,383,098</b>	<b>Rs. 2,194,168</b>	<b>Rs. 2,701,479</b>

	Quarter ended September 30,		Six months ended September 30,	
	2005	2006	2005	2006
<i>Cost of revenues (excluding depreciation and amortization)</i>				
Products	Rs. 103,497	Rs. 111,327	Rs. 165,378	Rs. 212,676
Services	548,355	574,070	1,062,096	1,142,124
Annual fee on IP VPN revenue	7,890	20,642	14,243	46,555
	<b>Rs. 659,742</b>	<b>Rs 706,039</b>	<b>Rs. 1,241,717</b>	<b>Rs. 1,401,355</b>

**13. Segment reporting**

SFAS No 131, Disclosures about Segments of an Enterprise and Related Information, establishes standards for the way that public business enterprises report information about operating segments and related disclosures about products and services, geographic areas and major customers. The Company's operations predominantly relate to connectivity to enterprises and providing Internet access to retail subscribers (both home access and public access). The Company also operates Portals, Sify.com., Samachar.com and SifyMax.in, that provide a variety of India-related content to audiences both in India and abroad, and which generates revenue from advertisements and other value added services.

The primary operating segments of the Company are:

Corporate network/data services, which provides private network services, messaging services and web hosting to businesses;

Internet access services;

Online portals services and content offerings; and

Other services such as development of e-learning software.

The Chief Operating Decision Maker ( CODM ) evaluates the Company s performance and allocates resources to various strategic business units that are identified based on the products and services that they offer and on the basis of the market served. The measure of profit/loss reviewed by the CODM was Earnings/loss before interest, taxes, depreciation and amortization.

Revenue in relation to segments is categorized based on items that are individually identifiable to that segment. Bandwidth costs, which form a significant part of the total expenses, are allocated primarily between the corporate network/data services and Internet access services businesses as described below:

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

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

Last mile costs related to dial-up access (E1/R2 costs) and spectrum fees for wireless connectivity that can be directly identified to businesses are allocated directly. Certain expenses, such as depreciation, technology and administrative overheads, which form a significant component of total expenses, are not allocable to specific segments as the underlying services are used interchangeably. Management believes that it is not practical to provide segment disclosure of these expenses and, accordingly, they are separately disclosed as unallocated and adjusted only against the total income of the Company

A significant part of the fixed assets used in the Company's business are not identifiable to any of the reportable segments and can be used interchangeably between segments. Management believes that it is not practicable to provide segment disclosures relating to total assets since a meaningful segregation of the available data is onerous. The Company's operating segment information for the quarters ended September 30, 2005 and 2006 and for the six months ended September 30, 2005 and 2006 is presented below:

	<b>Quarter ended September 30, 2005</b>				
	Corporate Network/Data Services	Internet Access Services	Online Portal Services	Other Services	Total
Revenues	Rs. 638,150	Rs. 456,524	Rs. 41,008	Rs. 37,211	Rs. 1,172,893
Allocated expenses	(395,529)	(462,611)	(45,596)	(35,009)	(938,745)
Equity in profits of affiliates			18,526		18,526
Segment operating income / (loss)	Rs. 242,621	Rs. (6,087)	Rs. 13,938	Rs. 2,202	Rs. 252,674
Unallocated corporate expenses					(210,922)
Foreign exchange gain / (loss), net					2,853
Other income / (expense), net					4,151
Depreciation and amortization					(115,532)
Interest income, net					5,189
Net Profit/(loss)					Rs. (61,587)



**Quarter ended September 30, 2006**

	Corporate Network / Data	Internet Access	Online Portal	Other Services	Total
Revenues	Rs. 788,369	Rs. 486,601	Rs. 69,828	Rs. 38,300	Rs. 1,383,098
Allocated expenses	(476,685)	(469,049)	(54,701)	(32,806)	(1,033,241)
Equity in profits of affiliates			8,106		8,106
Segment operating income / (loss)	Rs. 311,684	Rs. 17,552	Rs. 23,233	Rs. 5,494	Rs. ,357,963
Unallocated corporate expenses					(205,246)
Foreign exchange gain / (loss), net					302
Other income / (expense), net					451
Depreciation and amortization					(122,750)
Interest income, net					37,816
Net Profit/(loss)					Rs. 68,536

**Six months ended September 30, 2005**

	Corporate Network / Data	Internet Access	Online Portal	Other Services	Total
Revenues	Rs. 1,188,789	Rs. 869,861	Rs. 74,611	Rs. 60,907	Rs. 2,194,168
Allocated expenses	(731,392)	(891,091)	(83,833)	(67,782)	(1,774,098)
Equity in profits of affiliates			29,408		29,408
Segment operating income / (loss)	Rs. 457,397	Rs. (21,230)	Rs. 20,186	Rs. (6,875)	Rs. 449,478
Unallocated corporate expenses					(398,835)
Foreign exchange gain / (loss), net					2,633
Other income / (expense), net					7,312
Depreciation and amortization					(238,539)
Interest income, net					18,215
Net Profit/ (loss)					Rs. (159,736)



## Six months ended September 30, 2006

	Corporate Network / Data Services	Internet Access Services	Online Portal Services	Other Services	Total
Revenues	Rs. 1,541,290	Rs. 952,124	Rs. 135,741	Rs. 72,324	Rs. 2,701,479
Allocated expenses	(901,040)	(922,616)	(117,304)	(66,767)	(2,007,727)
Equity in profits of affiliates			23,894		23,894
Segment operating income / (loss)	Rs. 640,250	Rs. 29,508	Rs. 42,331	Rs. 5,557	Rs. 717,646
Unallocated corporate expenses					(433,411)
Foreign exchange gain / (loss), net					44,339
Other income / (expense), net					797
Depreciation and amortization					(270,226)
Interest income, net					71,814
Net Profit/(loss)					Rs. 130,959

**14. Leases**

The Company's leasing arrangement consist of leasing various types of routers, modems and other equipment for setting up virtual private network and providing bandwidth to its customers in corporate connectivity business. The leases are classified as Sales-Type Leases and expire after a period of three years.

The following lists the components of the net investment in sales-type leases as of September 30, 2006:

Minimum lease payments receivable	Rs. 35,822
Less: Unearned income	Rs. 2,508
Net investment in sales-type leases	Rs. 33,314

The minimum lease payments receivable for each of the fiscal years are as follows:

For the year ending March 31,	
2007	Rs. 8,802
2008	16,650
2009	6,129
2010	4,242

**15. Commitments and contingencies**

a) The Company had received a notice from the Income-Tax Department of India for the financial years 2002 and 2003 for a sum of Rs.77,700 stating that no withholding tax has been deducted in respect of international bandwidth and leased line payments made by the Company to international bandwidth / lease line service providers.

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

b) The Company has outstanding financial and performance guarantees for various statutory purposes and letters of credit totalling

Rs. 343,200 and Rs. 220,731 as of September 30, 2005 and 2006, respectively. These guarantees are generally provided to governmental agencies.

c) Provident Fund contribution not provided for on leave encashment in respect of periods prior to April 01, 2005 is estimated at Rs.4,326.

**16. Legal proceedings**

The Company 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.

July 2002, an omnibus motion to dismiss all complaints against issuers and individual defendants affiliated with issuers was filed by the entire group of issuer defendants in these similar actions. In October 2002, the cases against the Company's executive officers who were named as defendants in this action were dismissed without prejudice. In February 2003, the court in this action issued its decision on defendants

omnibus motion to dismiss. This decision denied the motion to dismiss the Section 11 claim as to the Company and virtually all of the other issuer defendants. The decision also denied the motion to dismiss the Section 10(b) claim as to numerous issuer defendants, including the Company. On June 26, 2003, the plaintiffs in the consolidated IPO class action lawsuits currently pending against Sify and over 300 other issuers who went public between 1998 and 2000, announced a proposed settlement with Sify and the other issuer defendants. The proposed settlement provides that the insurers of all settling issuers will guarantee that the plaintiffs recover \$1 billion from non-settling defendants, including the investment banks who acted as underwriters in those offerings. In the event that the plaintiffs do not recover \$1 billion, the insurers for the settling issuers will make up the difference.

The Company believes that it has sufficient insurance coverage to cover the maximum amount that it may be responsible for under the proposed settlement. Although the Federal District Court has preliminarily approved the settlement, it is possible that the Federal District Court may not finally approve the settlement in whole or part. The Company believes the maximum exposure under this settlement, in the event that the plaintiffs recover nothing from the non-settling defendants, is approximately U.S. \$3.9 million, an amount which the Company believes is fully recoverable from the Company's insurer.

The Company is party to additional legal actions arising in the ordinary course of business. Based on the available information, as of September 30, 2006 Sify believes that it has adequate legal defenses for these actions and that the ultimate outcome of these actions will not have a material adverse effect on Sify.

#### **17. Subsequent Event**

Sify Communications Limited was granted NLD and ILD licenses by Government of (GOI) on November 21, 2006, which permits the company to offer and provide the IP VPN services to the customers. These licenses are valid for an initial period of 20 years from the date of grant and can be renewed for 10 years at one time, upon the request of the company, if made during the 19<sup>th</sup> year of the license period. Sify has transferred the IP VPN business effective November 22, 2006 to Sify Communications Limited, which commenced IP VPN services from that date.

#### **18. Reclassifications**

Certain prior period/year amounts have been reclassified to conform to the current year's presentation.

#### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

*The following discussion of the financial condition and results of operations of our company should be read in conjunction with the unaudited consolidated financial statements and the related condensed notes included elsewhere in this report and the audited financial statements and the related notes contained in our Annual Report on Form 20-F for the fiscal year ended March 31, 2006. This discussion contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please see the section in this report captioned Risk Factors.*

#### **Overview**

Our company, Sify Limited (formerly known as Satyam Infoway Limited), was organized as a limited liability company under the laws of the Republic of India pursuant to the provisions of the Indian Companies Act on December 12, 1995. Until December 2002, we were a majority-owned subsidiary of Satyam Computer Services, a leading Indian information technology services company traded on the New York Stock Exchange and the principal Indian stock exchanges. Our company was formed as a separate business unit of Satyam Computer Services to develop and offer connectivity-based corporate services allowing businesses in India to exchange information, communicate and transact business electronically. We conduct substantially all of our business in India. Our subsidiaries include Sify Communications Limited (formerly Safescrypt Limited), Indiaworld Communications Limited, Sify International Inc. and Sify Networks Private Limited. The address of our principal executive office is Tidel Park, 2nd Floor, No. 4, Canal Bank Road, Taramani, Chennai 600 113 India, and our telephone number is (91) 44-2254-0770.

From December 1995 through 1997, we focused on the development and testing of our private data network. In 1997, we began forming strategic partnerships with a number of leading technology and electronic commerce companies, including UUNet Technologies, in order to broaden our service offerings to our corporate customers. In March 1998, we obtained network certification for conformity with Indian and international network operating standards from the Technical Evaluation Committee of India. In April 1998, we began offering private network

services to businesses in India. Our initial services included electronic data interchange, e-mail and other messaging services, virtual private networks and related customer support.

In October 1998, we initiated our online content offerings with two websites: [carnaticmusic.com](http://carnaticmusic.com) and [indiaupdate.com](http://indiaupdate.com). We also started development of [www.sify.com](http://www.sify.com), our online portal, and other related content sites for personal finance, movies and automobiles with the goal of offering a comprehensive suite of websites offering content specifically tailored to Indian interests worldwide.

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On November 6, 1998, the Indian government opened the Internet service provider market place to private competition. Capitalizing on our existing private data network, we launched our Internet service provider business, *SifyOnline* (formerly known as *SatyamOnline*), on November 22, 1998 and became the first private national Internet service provider in India. We began offering *SifyOnline* Internet access and related services to India's consumer market as a complement to the network services offered to our business customers. Our *SifyOnline* service was the first in India to offer ready-to-use CD-ROMs enabling online registration and immediate usage.

In March 2000, we launched our network of public Internet cafés called *iways* to cater to the needs of Indians who do not have access to the Internet. In September 2000, we commenced our hosting services from our Tier-I data center at Vashi, Mumbai to provide colocation and managed services to our clients. In June 2001, we obtained permission to provide wireless connectivity on the 5.7 GHz spectrum from the Wireless Planning Commission. This enabled us to convert all our *iways* from Integrated Services Digital Network, or ISDN, connectivity on the last mile to wireless connectivity. This technology also enabled us to commence our high-speed/broadband access to homes, which began in March 2003. To enable quicker access to homes, we developed a model of partnering with Cable Television Operators, or CTOs, who already interface with households for providing cable television facilities to millions of households in India.

In April 2002, ISPs were permitted to provide restricted Voice Over Internet Protocol, or VoIP, which was limited to outbound calls to International destinations and personal computer to personal computer calls in India. We started providing this service through our network of cyber cafés, and later on through VoIP booths located in large commercial areas and corporate office complexes across major cities in India.

From the time we launched our corporate services in 1997, we have constantly upgraded our technology to provide data services to corporate clients. We were the first Internet service provider in India to make our entire network IP-based and subsequently Multi Protocol Label Switching (MPLS)-enabled, which permitted us to continue to grow our corporate customer base. As of September 30, 2006, we provide data connectivity services to more than 1,450 corporate clients in industries ranging from information technology, manufacturing, banking and financial services industry, pharmaceuticals, retail distribution and the government.

#### *Initial Public Offering and Subsequent Financing Transactions*

In October 1999, we completed our initial public offering on the Nasdaq Global Market and issued 4,801,250 ADSs at a price of \$18.00 per ADS. We received approximately \$79.2 million, net of underwriting discounts, commissions and other offering costs. In connection with our initial public offering, we received the benefit of exemptions from the Nasdaq corporate governance rules relating to shareholder meeting quorum, solicitation of proxies and shareholder approval for issue of shares other than in a public offering under Nasdaq Rules 4350(f), 4350(g) and 4350(i)(1)(D), respectively.

In February 2000, we completed a secondary offering and issued 467,175 ADSs at a price of \$320.00 per ADS. We received approximately \$141.2 million, net of underwriting discounts, commissions and other costs.

In October 2002, we agreed to sell an aggregate of 7,558,140 ADSs to Investment Company Limited, or SAIF, for consideration of \$13.0 million and to sell an aggregate of 2,034,884 equity shares to VentureTech Solutions Private Limited, or Venture Tech, for consideration of \$3.5 million. This transaction was approved by our shareholders at our Extraordinary General Meeting held on December 9, 2002. In December 2002, we completed the sale of the ADSs to SAIF and the sale of 2,034,883 equity shares to VentureTech. In April 2003, we sold an additional 1,017,442 equity shares to VentureTech. In July 2003, we sold an additional 1,017,441 ADSs to an affiliate of Venture Tech.

On November 10, 2005, Infinity Capital Ventures, LP or Infinity Capital, acquired 11,182,600 ADS of our Company from Satyam Computer Services Limited ( Satyam ) for US \$5.60 per share in cash through a Sponsored ADR Programme arranged by the Company. The total purchase price for the Satyam shares was approximately US \$62.6 million.

In a separate transaction, also on November 10, 2005, Infinity Capital entered into a Subscription Agreement with us pursuant to which, upon the terms and subject to the conditions set forth therein, Infinity Capital agreed to purchase from us approximately 6.7 million newly-issued equity shares or ADSs at a purchase price of US \$5.60 per share in cash. The total purchase price for the newly issued shares was approximately US \$37.6 million. This

transaction was approved by our shareholders at our Extraordinary General Meeting held on December 23, 2005. Subsequent to the quarter end, in January 2006, we completed the transaction. Also on November 10, 2005, Sify, Infinity Capital and Raju Vegesna entered into a Standstill Agreement pursuant to which, upon the terms and subject to the conditions set forth therein, Infinity Capital agreed not to purchase more than 45% of our fully diluted equity.

In connection with the transactions, Mr. Raju Vegesna of Infinity Capital was appointed as the Chairman of our Board of Directors. We also appointed Mr. P. S. Raju as the second nominee of Infinity Capital to our Board of Directors.

Based on our review of filings made with the SEC, we believe Infinity Capital now owns approximately 42% of our outstanding equity shares.

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*Investment Strategy*

In evaluating investment opportunities, we consider important factors, such as strategic fit, competitive advantage and financial benefit, through a formal net present value evaluation. There is no significant difference in the analysis undertaken in connection with an investment in an affiliate compared to other uses of cash. Our investment strategy has not undergone major changes in the last four years.

Globe Travels Inc.

In April 2006, we acquired Globe Travels Inc., a company engaged in the business of online travel and travel related business, for a total consideration of USD 4.50 million . This acquisition marks Sify s entry into the fast growing online travel business, particularly e-ticketing, the category with significant revenues and fastest growth in online e-commerce today.

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## Operating Results

The primary operating segments of our company are:

corporate network/data services, which include private network services, messaging services, security services, remote management services and web hosting for businesses;

Internet access services;

online portal services and content offerings; and

other services, such as development of content for e-learning.

## Revenues

### *Corporate network/data services*

Corporate network service revenues primarily include connectivity services and, to a lesser extent, the revenues from the sale of hardware and software purchased from third party vendors, installation of the link, and other ancillary services such as e-mail, document management and domain registration. Generally, these elements are sold as a package consisting of all or some of the elements. 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, in accordance with EITF Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables* (EITF 00-21), 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 Company. The arrangement consideration is allocated to the units of accounting based on their fair values. Revenue on delivered items is recognized when the revenue recognition criteria applicable to that unit of accounting are met.

The Company 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. The hardware and software are standard products that are being 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 Company is off-the-shelf software, such as anti-virus 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. Installation consists of commissioning of the last mile connectivity to the customer premises either through the Company's wireless mode of broadband delivery or through the carrier exchange (primarily Bharat Sanchar Nigam Limited, or BSNL, a Government of India entity). However, once commissioned, this last mile connectivity can be used by the customer to access any other service provider. The installation normally takes 4-6 weeks. When the customer has such last mile connectivity, the Company does not charge any installation fee. The revenue attributable to the installation of the link is recognized on completion of the installation work. Revenue from ancillary services such as e-mail, document management and domain registration are recognized over the period such facilities are provided. All revenues are shown exclusive of sales tax and service tax and net of applicable discounts and allowances.

Web hosting service revenues primarily include co-location services and connectivity services. On occasion, the Company also sells related hardware/software to its web hosting customers. At all times, such hardware and software belongs to the customer. This hardware and software is purchased from outside vendors and is freely traded in the market. The Company treats each element of the arrangement as a separate earnings process. The value of the hosting service is determined based on vendor specific objective evidence from similar services sold separately by the Company. When hardware and/or software is also included with hosting services and sold as a package the vendor specific objective evidence of the undelivered element is considered to arrive at the residual value of the delivered



element. Revenue from hosting services is recognized over the period during which the service is provided.

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***Internet access services***

Internet access services include Internet access at homes and businesses through dial-up or cable operator and Internet access through a network of cybercafés. It also includes revenues from VoIP.

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 a CD that allows them to access the Internet. The amounts received from customers on the sale of these CDs are not refundable. Sify recognizes revenue from sale of CDs based on usage by the customer. At the end of the specified period, the remaining unutilized hours, if any, are recognized as revenue. Revenue from unlimited Internet access is recognized ratably over the specified period.

VoIP services are mainly provided through Internet Telephony Booths at iway cybercafés and to a smaller extent through Cable TV operators, or CTOs, and through multi-dwelling units, or MDUs. The user purchases the packs that enables them to use the Internet telephone facility through CTO and MDUs. We recognize revenue on the basis of usage by the customer. The customer uses Internet telephony facilities at the iway cybercafés and makes the payment to the extent of usage of the facility. We recognize revenue on the basis of usage.

Internet access at homes and businesses through cable networks is provided through a franchised network of cable operators in India. Customers buy user accounts for a specified usage or volume of data transfer or for a specified period of time all within a contracted period. We recognize revenue 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.

Public Internet access is provided to customers through a chain of franchisee operated cybercafé outlets and, to a lesser extent, Sify-owned cybercafés. Sify enters into an arrangement with franchisees that provides for the payment of an initial non-refundable franchisee fee in consideration for establishing the franchisee relationship and providing certain initial services.

These initial services consist of a number of activities, including installing the broadband receiver equipment at the cybercafé and connecting it to one of Sify's broadcasting towers, obtaining regulatory approvals for clearance of the site for wireless transmission at the allotted frequency range and other ancillary services.

Initial franchisee fee revenue is recognized at the time of commencement of operations by the franchisee, in accordance with SFAS No. 45, Accounting for Franchisee Fee Revenue, because Sify believes that substantial performance for which these non-refundable payments are received is completed at the time of commencement of operations and no uncertainty exists with regard to the collection of such fees.

***Online portal services and content offerings***

Online portal services and content offerings revenues include advertising revenues from the various channels of our Internet portal, www.sify.com. We enter into contracts with customers to serve advertisements in the portal, and we are paid on the basis of impressions, click-throughs or leads. Revenues also accrue from commissions earned on products and services rendered through www.sifymall.com, and also from value-added services that are rendered using Sify's mobile telephone short code, 4545.

***Other services***

Other services include revenue from e-learning. We develop and upload content for e-learning to facilitate web-based learning in various organizations. We provide e-learning services on a time-and-materials or on a fixed-price basis.

In Item 15 of the condensed notes to our unaudited consolidated financial statements for the quarter ended September 30, 2006, we provided supplemental segment data, which provides separate revenue and operating income (loss) information for each of these business segments and is incorporated herein by reference.

**Expenses**

***Corporate network/data services***

Cost of revenues for the corporate network/data services division consists of telecommunications costs necessary to provide services, customer support costs, cost of goods in respect of communication hardware and security services sold and the cost of providing network operations. Telecommunications costs include the costs of international bandwidth procured from VSNL and satellite gateway providers and are required for access to the Internet, providing local telephone lines to our points of presence, the costs of using third-party networks pursuant to service agreements,

leased line costs and costs towards spectrum fees payable to the Wireless Planning Commission or WPC for provision of spectrum in the 5.7 GHz range to enable connectivity to be provided on the wireless mode for the last mile. In addition, the Government of India has imposed an annual license fee of 6% of the adjusted gross revenue generated from the provision of VPN services under the NLD/ILD license. Depreciation of plant and equipment has not been included in the cost of revenues since a significant part of the fixed assets are not directly identifiable.

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*Internet access services*

Cost of revenues for the Internet access services division consists primarily of recurring telecommunications costs necessary to provide service to subscribers, direct costs paid to franchisees for running the *iways* and to cable television operators for providing Internet services through cable to customers. We are also subject to a 6% annual licence fee on the adjusted gross revenues of our VoIP business. Another recurring cost included in cost of revenues is the personnel and related operating expenses associated with customer support and network operations.

*Online portal services and content offerings*

Cost of revenues for the online portal and content offerings division includes the cost of procuring and managing content for the websites and cost of ring tones downloaded by using Sify's mobile telephone short code, 4545.

*Other Services*

Cost of revenues for the eLearning division includes the cost of direct manpower that is involved in the design and uploading of content for facilitating web-based learning.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses consists of salaries and commissions for sales and marketing personnel, salaries and related costs for executives, financial and administrative personnel, sales, marketing, advertising and other brand building costs, travel costs, and occupancy and overhead costs.

We have an Employee Stock Option Plan, which we refer to as our Associate Stock Option Plan, or ASOP. A total of approximately 3.2 million equity shares are reserved for issuance under our ASOP. As of September 30, 2006, we had an aggregate of 1,075,200 options (net of 1,952,843 options expired or forfeited by employees and 1,162,137 options exercised for equity shares) outstanding under our ASOP with a weighted-average exercise price equal to approximately Rs.362.62 per equity share.

We depreciate our tangible assets on a straight-line basis over the useful life of assets, ranging from two to five years and, in the case of buildings, 28 years.

We assess for impairment of long-lived assets under SFAS No. 144, *Impairment and disposal of long-lived assets*. The carrying values of long-lived assets are compared with the adjusted estimated future cash flows at the identifiable business segment level. If the sum of such undiscounted cash flows is less than the aggregate carrying amount, the asset is not recoverable and the impairment loss is recognized.

In addition to our operations and those of our consolidated subsidiaries, our financial statements include our *pro rata* share of the financial results of Man Financial-Sify Securities India Private Limited, a company in which we have a significant, non-controlling minority interest. This investment is accounted for under the equity method of accounting.

Since our inception till the year ended March 31, 2006, we have incurred net losses. However, we have earned net profits during the quarters ended March 31, June 30 and September 30, 2006. Our ability to generate positive cash flow from operations and achieve profitability is dependent on our ability to continue to grow our revenues base and achieve further operating efficiencies.

For fiscal 2000 through 2003, we incurred negative cash flow from continuing operations of approximately Rs.596.9 million, Rs.1,133.4 million, Rs.775.7 million and Rs.238.3 million, respectively. During fiscal 2004, 2005 and 2006, we generated cash from operating activities of Rs.210.0 million, Rs.451.0 million, Rs.223.1 million, respectively. For the six months ended September 30, 2006, we used cash for operating activities of Rs. 83.0 million. For fiscal 2001 through 2006, we incurred net losses of approximately Rs.2,509.0 million, Rs.7,202.5 million, Rs.1,329.4 million, Rs.371.3 million, Rs.307.6 million and Rs.149.2 million, respectively. During the quarter ended September 30, 2006 we made a net profit of Rs.68.5 million (\$1.5 million) and for the six months ended September 30, 2006 we made a net profit of Rs. 131.0 million (\$2.9 million). As of September 30, 2006, we had an accumulated deficit of approximately Rs.12,434.9 million (\$270.6 million).

**Results of Operations**

*Quarter ended September 30, 2006 compared to quarter ended September 30, 2005*

*Revenues*. We recognized Rs.1,383.1 million (\$30.1 million) in revenues for the quarter ended September 30, 2006, as compared to Rs.1,172.9 million for the quarter ended September 30, 2005, representing an increase of Rs.210.2 million, or 17.9%.

The revenues generated by our corporate network/data services businesses increased by Rs.150.2 million, or 23.5%, over the same period in the previous year. The increase is attributable to increases in connectivity revenues of Rs.150.3 million, , increase in security consultancy revenues of Rs.4.2 million and installation revenues of Rs.2.1 million. These increases were partially offset by a decrease of Rs.6.4 million from the sale of hardware and software. The corporate network/data services businesses obtained a significant number of new orders and incremental orders from customers with operations throughout India for providing IP VPN and Internet connectivity. We currently have more than 1,450 corporate customers of our connectivity services.

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The increase in consumer Internet access revenues was Rs.30.1 million, or 6.6%, over the same period of the previous year. The increase was a result of increased revenues from home-based broadband subscribers of Rs.63.8 million, or 49.5% and an increase in public Internet access revenues by Rs.1.4 million, or 0.8%. These increases were partially offset by a decrease of Rs.10.8 million or 14.6% from Voice over IP services, a decrease of 9.7 million or 29.0% in the revenues from dial up business and a decrease of 8.5 million from the sale of hardware. The franchise fees and installation fee recognized for the quarter ended September 30, 2006 were at Rs.25.6 million, compared with Rs.31.7 million for the quarter ended September 30, 2005. This decrease is on account of the decrease in the number of cybercafés added during the Quarter ended September 30, 2006 compared with the same period in the previous year. During the quarter, the number of cybercafés increased from 3,410 to 3,559 compared to 2,900 as of September 30, 2005. The number of high speed subscribers of the Sify broadband service increased from about 124,685 in September 2005 to about 208,755 in September 2006. The increase in the subscriber base was partially offset by a drop in the monthly average revenue per user or ARPU by about 15.5%. The decrease in sale of hardware during the quarter ended September 30, 2006 was primarily on account of increase in the sale of gaming PCs during the quarter ended September 30, 2005 due to the scaling up of our gaming initiatives. We experienced more than 5 Million minutes increase in VoIP calls compared with same quarter of previous year, primarily from calls made by customers in the IT/ITES sector. The average realization per minute dropped by approximately 34.5% during the above period. Our dial-up business continued to decline with a decrease in the number of subscribers as well as the usage minutes. Bundling of services offered by the public sector telephone companies resulted in a marked decline in the market share of private ISPs in the dial-up market segment.

Our online portal and content offerings division accounted for Rs.69.8 million of revenues for the quarter ended September 30, 2006, as compared to Rs.41.0 million for the quarter ended September 30, 2005, representing an increase of Rs.28.8 million, or 70.2% growth. Partly attributable to the increase is the acquisition of Globe Travels, which has contributed revenues of Rs.10.3 million for the quarter ended September 30, 2006. Growth was witnessed across all segments, as advertisement revenues at Rs.50.2 million, grew by 32.8% compared to the same quarter of the previous year. Revenues from e-commerce initiatives has contributed to revenues of Rs.9.3 million for the quarter ended September 30, 2006 compared to Rs.3.2 million for the quarter ended September 30, 2005 representing an increase of Rs.6.1 million.

Revenues from our other businesses increased by Rs.1.1 million, or 3.0%.

*Cost of Revenues* . Cost of revenues was Rs.706.0 million (\$15.4 million) for the quarter ended September 30, 2006, compared to Rs.659.8 million for the quarter ended September 30, 2005, representing an increase of Rs.46.2 million, or 7.0%. This increase was primarily on account of an increase of Rs.32.2 million in the other direct costs incurred on newer installations cost, royalty cost and direct cost in line with increase in revenues. The other reasons for the increase are Rs.12.5 million increase in direct expenses paid to franchisees and Cable Television Operators, or CTOs, for providing broadband delivery through cable, Rs.7.8 million increase in cost of goods sold and an increase of Rs.1.1 million in personnel expenses of our directly billable manpower and the technology department . These increases were partially offset by a marginal decrease of Rs.7.4 million in lease line expenses.

*Selling, general and administrative expenses* . Selling, general and administrative expenses were Rs.478.8 million (\$10.4 million) for the quarter ended September 30, 2006, compared to Rs.473.1 million for the quarter ended September 30, 2005, representing an increase of Rs.5.7, million, or 1.2%. This increase was due to an increase in personnel expenses due to increase in salaries and on account of new recruits. This increase was partly offset by a decrease in marketing promotional expenses.

*Provision for doubtful receivables and advances*. Provision for doubtful receivables and advances was Rs.50.6 million (\$1.1 million) for the quarter ended September 30, 2006 compared to Rs.16.8 million for the quarter ended September 30, 2005 representing an increase of Rs.33.8 million.

*Depreciation*. Depreciation for the quarter ended September 30, 2006 was Rs.105.1 million (\$2.3 million), as compared to Rs.97.9 million for the quarter ended September 30, 2005, representing an increase of Rs.7.2 million, or 7.4%. The increase in depreciation compared to the same period of previous year is on account of capital expenditure incurred on expansion and also on account of new hosting center set up in Bangalore.

*Amortization of intangible assets.* Amortization of intangible assets was Rs.12.1 million (\$0.3 million) for the quarter ended September 30, 2006, compared to Rs.16.8 million for the quarter ended September 30, 2005, representing a decrease of Rs.4.7 million, or 28.0%. This decrease is attributable to the decrease in amortization of portal and content rights of Rs.6.8 million, decrease in amortization of IP VPN license of Rs.1.7 million and decrease in amortization of system software by 0.5 million partially offset by increase in amortization of Globe's customer and contract related intangibles of Rs. 4.3 million .

*Amortization of deferred stock compensation expenses.* Amortization of deferred stock compensation expenses was Rs. 5.5million (\$0.1 million) for the quarter ended September 30, 2006, compared to Rs.0.8 million for the quarter ended September 30, 2005, representing an increase of Rs.4.7 million. The increase is attributable to the charge on account of new stock options granted subsequent to October 2005 and also on account of adoption of SFAS 123-R, Accounting for Stock Based Compensation.

*Foreign exchange gain/loss.* Foreign exchange gain for the quarter ended September 30, 2006 was Rs.0.3 million , compared to a foreign exchange gain of Rs.2.9 million for the quarter ended September 30, 2005, representing a change of Rs.2.6 million. During the quarter ended September 30, 2006, the dollar appreciated from Rs.45.87 to Rs.45.95, which impacted the value of our dollar denominated deposits and resulted in a marginal foreign exchange fluctuation gain, whereas during the quarter ended September 30, 2005, the dollar appreciated from Rs.43.51 as of June 30 , 2005 to Rs.43.94 as of September 30, 2005.

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*Other income (net)* . Other income was Rs.35.2 million (\$0.8 million) for the quarter ended September 30, 2006, compared to Rs.9.2 million for the quarter ended September 30, 2005, representing an increase of Rs.26.0 million, or 282.6%. This increase is mainly on account of increase in interest income of Rs.27.3 million and a decrease in interest expense and other financial charges by Rs. 2.4 million which was partially offset by a decrease in miscellaneous income of Rs.3.7 million.

*Equity in profit of affiliates*. Equity in the profit of affiliates was Rs.8.1 million (\$0.2 million) for the quarter ended September 30, 2006, compared to Rs.18.5 million for the quarter ended September 30, 2005, representing a decrease of Rs.10.4 million, or 56.2%.

*Six months ended September 30, 2006 compared to six months ended September 30, 2005*

*Revenues* . We recognized Rs.2,701.5 million (\$58.8 million) in revenues for the six months ended September 30, 2006, as compared to Rs.2,194.2 million for the six months ended September 30, 2005, representing an increase of Rs.507.3 million, or 23.1%.

The revenues generated by our corporate network/data services businesses increased by Rs.352.6 million, or 29.7%, over the same period in the previous year. The increase is attributable to increases in connectivity revenues of Rs.265.6 million, increase in revenues from hardware and software sales of Rs.33.1 million, increase in security consultancy revenues of Rs.28.2 million and installation revenues of Rs.25.7 million. The corporate network/data services businesses obtained significant number of new orders and incremental orders from customers with operations throughout India for providing IP VPN and Internet connectivity. We currently have more than 1,450 corporate customers of our connectivity services.

The increase in consumer Internet access revenues was Rs.82.2 million, or 9.5%, over the same period of the previous year. The increase was a result of increased revenues from home-based broadband subscribers of Rs.136.8 million, or 57.7% and an increase in public Internet access revenues by Rs.8.3 million, or 2.5%. These increases were partially offset by a decrease of Rs.9.6 million or 6.8% from Voice over IP services, a decrease of 17.6 million or 25.5% in the revenues from dial up business and a decrease of 23.5 million from the sale of hardware. The franchise fees and installation fee recognized for the six months ended September 30, 2006 were at Rs.43.4 million, compared with Rs.55.6 million for the six months ended September 30, 2005. This decrease is on account of the decrease in the number of cybercafés added during the six months ended September 30, 2006 compared with the same period in the previous year. During the quarter, the number of cybercafés increased from 3,410 to 3,559, compared to 2,900 as of September 30, 2005. The number of high speed subscribers of the Sify broadband service increased from about 124,685 in September 2005 to about 208,755 in September 2006. The increase in the subscriber base was offset by a drop in the monthly average revenue per user or ARPU by about 15.5%. The decrease in sale of hardware during the six months ended September 30, 2006 was primarily on account of scaling up of gaming PCs sale during the six months ended September 30, 2005. We experienced a more than a 12 Million minutes increased in VoIP calls compared to the first six months of previous year, primarily from calls made by customers in the IT/ITES sector. The average realization per minute dropped by approximately 35% during the above period. Our dial-up business continued to decline with a decrease in the number of subscribers as well as the usage minutes. Bundling of services offered by the public sector telephone companies resulted in a marked decline in the market share of private ISPs in the dial-up market segment.

Our online portal and content offerings division accounted for Rs.135.7 million of revenues for the six months ended September 30, 2006, as compared to Rs.74.6 million for the six months ended September 30, 2005, representing an increase of Rs.61.1 million, or 81.9% growth. Partly attributable to the increase is the acquisition of Globe Travels, which has contributed revenues of Rs.16.3 million for the six months ended September 30, 2006. Growth was witnessed across all segments, as advertisement revenues at Rs.94.7 million, grew by 37.1% compared to the same period of the previous year. Revenues from e-commerce initiatives has contributed to revenues of Rs.24.7 million for the six months ended September 30, 2006 compared to Rs.5.5 million for the six months ended September 30, 2005 representing an increase of Rs.19.2 million.

Revenues from our other businesses increased by Rs.11.4 million, or 18.7%. During the course of the last few quarters, we have added new customers to our e-learning division, and these customers contributed to the increase in revenues.



*Cost of Revenues* . Cost of revenues was Rs.1,401.3 million (\$30.5 million) for the six months ended September 30, 2006, compared to Rs.1,241.9 million for the six months ended September 30, 2005, representing an increase of Rs.159.4 million, or 12.8%. This increase was primarily on account of an increase of Rs.75.7 million in the cost of goods sold. The other reasons for the increase are a Rs.36.1 million increase in direct expenses paid to franchisees and Cable Television Operators, or CTOs, for providing broadband delivery through cable, a Rs.47.8 million increase in other direct costs and an increase of Rs. 21.2 million in personnel expenses of our directly billable manpower and the technology department . These increases were partially offset by a decrease of Rs.21.4 million in lease line expenses.

*Selling, general and administrative expenses* . Selling, general and administrative expenses were Rs.959.6 million (\$20.9 million) for the six months ended September 30, 2006, compared to Rs.898.2 million for the six months ended September 30, 2005, representing an increase of Rs.61.4 million, or 6.8%. This increase was due to an increase in personnel expenses due to increase in salaries and on account of new recruits. This increase was partly offset by a decrease in marketing promotional expenses.

*Provision for doubtful receivables and advances*. Provision for doubtful receivables and advances was Rs.73.7 million (\$1.6 million) for the six months ended September 30, 2006 compared to Rs.33.0 million for the six months ended September 30, 2005 representing an increase of Rs.40.7 million.

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*Depreciation.* Depreciation for the six months ended September 30, 2006 was Rs.200.1 million (\$4.4 million), as compared to Rs.197.7 million for the six months ended September 30, 2005, representing an increase of Rs.2.4 million, or 1.2%. There was a significant purchase of assets during the period March to September 2000. Since most of the assets are depreciated over a 5-year period on the straight line method, these assets would have been fully depreciated by September 2005, and have not contributed to the depreciation charge during the six months ended September 30, 2006. This reduction has partially offset the increase in depreciation on account of capital expenditure incurred on expansion and also on account of new hosting center set up in Bangalore.

*Amortization of intangible assets.* Amortization of intangible assets was Rs.28.6 million (\$0.6 million) for the six months ended September 30, 2006, compared to Rs.38.8 million for the six months ended September 30, 2005, representing a decrease of Rs.10.2 million, or 26.3%. This decrease is mainly attributable to the decrease in amortization of portal and content rights, decrease in amortization of IP VPN license and decrease in amortization of system software partially offset by increase in amortization of Globe customer contracts.

*Amortization of deferred stock compensation expenses.* Amortization of deferred stock compensation expenses was Rs. 41.4 million (\$0.9 million) for the six months ended September 30, 2006, compared to Rs.2.0 million for the six months ended September 30, 2005, representing an increase of Rs.39.4 million. The increase is attributable to the charge on account of new stock options granted subsequent to September 2005 and also on account of adoption of SFAS 123-R, Accounting for Stock Based Compensation.

*Foreign exchange gain/loss.* Foreign exchange gain for the six months ended September 30, 2006 was Rs.44.3 million, compared to a foreign exchange gain of Rs.2.7 million for the six months ended September 30, 2005, representing a change of Rs.41.6 million. During the six months ended September 30, 2006, the dollar appreciated from Rs.44.48 to Rs.45.95, which impacted the value of our dollar denominated deposits and resulted in a foreign exchange translation gain, whereas during the six months ended September 30, 2005, the Rupee had been fairly stable against the dollar, appreciating marginally from Rs.43.62 as of March 31, 2005 to Rs.43.94 as of September 30, 2005.

*Other income (net).* Other income was Rs.66.0 million (\$1.4 million) for the six months ended September 30, 2006, compared to Rs.25.4 million for the six months ended September 30, 2005, representing an increase of Rs.40.6 million, or 159.8%. This increase is mainly on account of increase in interest income of Rs.45.8 million and a decrease in interest expense and other financial charges by Rs. 2.4 million which was partially offset by a decrease in miscellaneous income of Rs.7.6 million.

*Equity in profit of affiliates.* Equity in the profit of affiliates was Rs.23.9 million (\$0.5 million) for the six months ended September 30, 2006, compared to Rs.29.4 million for the six months ended September 30, 2005, representing a decrease of Rs.5.5 million, or 18.7%.

### Liquidity and Capital Resources

The following table summarizes our statements of cash flows for the periods presented:

	Fiscal year ended			For the six months ended	
	2004	March 31, 2005	2006	2006	September 30, 2006
	(in thousands)				
Net profit / (loss) from continuing operations	Rs. (371,284)	Rs. (307,576)	Rs. (149,245)	Rs. 130,959	\$ 2,851
Net decrease/(increase) in working capital	57,288	198,707	(128,119)	(523,248)	(11,388)
Other adjustments for non-cash items	524,922	559,821	500,478	309,265	6,731
Net cash provided by/(used in) operating activities	210,926	450,952	223,114	(83,024)	(1,806)
Net cash provided by/(used in) investing activities	74,386	(523,504)	(429,138)	(484,480)	(10,544)
	189,958	69,182	1,684,055	49,320	1,073

Net cash provided by/(used in) financing activities					
Effect of exchange rate changes on cash	(47,063)	1,479	20,558	11,235	245
Net increase/(decrease) in cash and cash equivalents	428,207	(1,891)	1,498,589	(506,949)	(11,032)

We intend to continue to focus on the reduction of our cash burn and generating cash surplus in fiscal 2007. Based upon our present business and funding plans, we believe that our cash and cash equivalents of Rs.2,315.55 million (\$50.4 million) as of September 30, 2006, excluding restricted cash included in non-current assets of Rs.1.0 million (\$0.02 million), is sufficient to meet our currently known requirements at least over the next twelve months. In light of the highly dynamic nature of our business, however, we cannot assure you that our capital requirements and sources will not change significantly in the future.

Cash balances held in foreign currency were Rs.557.7 million, Rs.293.2 million, Rs.1,956.4 million and Rs.351.2 million as of March 31, 2004, 2005, 2006 and September 30, 2006, respectively. Cash balances held in Indian currency were Rs.881.8 million, Rs.1,062.9 million, Rs.867.1 million and Rs.1,965.4 million as of March 31, 2004, 2005, 2006 and September 30, 2006, respectively. These amounts include cash and cash equivalents and restricted cash.

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Cash used by operating activities for the six months ended September 30, 2006 was Rs.83.0 million (\$1.8 million), representing cash provided by operations of Rs.440.2 million (\$9.6 million) and a decrease in working capital of Rs.523.2 million (\$11.4 million) due to increase in accounts receivable by Rs.288.6 million, decrease in trade accounts payable by Rs.173.6 million, decrease in advances received from customers by Rs.3.8 million, increase in other assets by Rs.76.3million, increase in inventories by Rs.0.3 million and investment in leases of Rs.11.7 million, increase in prepaid expenses by Rs.39.6 million, increase in other liabilities by Rs.20.8 million, decrease in dues from employees by Rs.20.4 million and increase in deferred revenues by Rs.29.5 million.

Cash used by investing activities for the six months ended September 30, 2006 was Rs.484.5 million (\$10.5million) and principally consisted of establishment of a new data center and purchase of routers, modems, ports, servers and other capital equipment in connection with the expansion of our network of Rs.385.9 million (\$8.4 million), acquisition of Globe Travels of Rs.92.9 million (\$2.0 million), expenditure on intangible assets of Rs.7.3 million (\$0.15 million), partially offset by proceeds from the sale of property, plant and equipment of Rs.1.6 million (\$0.04 million).

Cash provided by financing activities for the quarter ended September 30, 2006 was Rs.49.3 million (\$1.1 million) represented by proceeds from the issuance of common stock of Rs.51.3 million (\$1.1 million), partially offset by principal payment under capital lease obligations of Rs.2.0 million (\$0.04 million).

We incurred Rs.533.2 million and Rs.587.5 million for capital expenditure for the fiscal years ended March 31, 2005 and 2006, respectively. Capital expenditure for the six months ended September 30, 2006 were Rs.385.9 million.

Although we have 183 points of presence in India, a need for expansion into smaller towns could arise as our corporate and data network services and broadband businesses grow. There are a number of ISPs and data/network service providers exiting the business and, depending on pricing and other terms, we may acquire one or more of these third parties. We will need to invest in technologies to increase the speed of the backbone and edge networks. We will also have to invest in wireless and wire line methods of last mile Internet access delivery. We may also add an owned access capability in the United States.

In the ordinary course of our business, we regularly engage in discussions and negotiations relating to potential investments, strategic partnerships, acquisitions and other strategic transactions. We will continue to be aggressive in our efforts to identify one or more investment or acquisition opportunities.

#### **Income Tax Matters**

For the year ended March 31, 2006, the end of our most recently completed fiscal year, we had a net tax loss carry forward of approximately Rs.4,535.5 million (\$98.9 million).

For fiscal 2006, the basic rate of corporate tax and surcharge were at 30% and 10% respectively, the education cess was 2% on the total tax, resulting in an effective tax rate of 33.66%. For fiscal 2007, the tax rates continue to remain the same.

Under the Indian Income Tax Act, income tax is payable on the total income as computed under the Income Tax Act in respect of the previous year (fiscal year) relevant to the assessment year. Where the tax payable on the total income is less than 7.5% (excluding surcharges) of the book profit (profit computed as per the provisions of the Indian Companies Act), the book profit after adjusting for accumulated losses or carried forward depreciation (which ever is lower) shall be deemed to be the total income of the assessee, and the tax payable by the assessee on such total income shall be the amount of income tax at the rate of 7.5% (excluding surcharges).

Under the current Indian Income Tax Act, we will be liable for payment of income tax only after we utilize the unabsorbed business loss of Rs.2,116.3 million (\$46.1 million) (lower of carry forward depreciation or business loss). We cannot assure you that the current income tax rate will remain unchanged in the future. We also cannot assure you that the surcharge will be in effect for a limited period of time or that additional surcharges will not be levied by the Government of India.

The Finance Act, 2005 had introduced income tax on fringe benefits which is in addition to the income tax charged under the Income Tax Act, 1961. Fringe benefits tax ( FBT ) is payable by every employer in respect of fringe benefits provided or deemed to have been provided by the employer to his employees during the year. An employer is required to pay FBT even if no tax is payable on the total income. We have incurred an expenditure of FBT of Rs.4.3 million (\$0.1 million) for the quarter ended September 30, 2006 and Rs. 8.7 million(\$0.2 million) for the six months ended

September 30, 2006.

**Off Balance Sheet Arrangement**

None.

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**Commitments**

As of September 30, 2006, we had spent approximately Rs.2,809.1 million to develop and deploy our network infrastructure. As of September 30, 2006, our future contractual obligations and commercial commitments were as follows:

Contractual Obligations	Payments Due by Period			(Rs. Million)	
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Capital Lease Obligations	5.1	2.4	2.7		
Total Contractual Obligations	5.1	2.4	2.7		

Other Commercial Commitments	Amount of Commitment Expiration Per Period			(Rs. Million)	
	Total Amounts Committed	Less than 1 year	1-3 years	4-5 years	Over 5 years
Standby Letters of Credit	35.9	35.9			
Guarantees	184.8	31.6	151.9	1.3	
Other Commercial Commitments	56.9	56.9			
Total Commercial Commitments	277.6	124.4	151.9	1.3	

**Recent Pronouncements**

In 2006, the Financial Accounting Standards Board issued SFAS No. 158 Employer's accounting for Defined Benefit Pension and Other Postretirement Plans. New Statement 158 requires the company to recognize on balance sheets the funded status of pension and other postretirement benefit plans-as of March 31, 2007. The company is required to recognize actuarial gains and losses, prior service cost, and any remaining transition amounts from the initial application of Statements 87 and 106 when recognizing a plan's funded status, with the offset to accumulated other comprehensive income. Statement 158 will also require fiscal-year-end measurements of plan assets and benefit obligations. The new Statement amends Statements 87, 88, 106, and 132R, but retains most of their measurement and disclosure guidance and will not change the amounts recognized in the income statement as net periodic benefit cost. The company does not believe that adoption of SFAS 158 will have a material impact on the financial statements. In July 2006, the FASB issued Interpretation (FIN) No. 48, Uncertainty in Income Taxes. FIN 48 applies to all tax positions within the scope of Statement 109 and clarifies when and how to recognize tax benefits in the financial statements with a two-step approach of recognition and measurement. Fin No. 48 is effective for fiscal years beginning after December 15, 2006. FIN No. 48 also requires the enterprise to make explicit disclosures about uncertainties in their income tax positions, including a detailed roll forward of tax benefits taken that do not qualify for financial statement recognition. The company is currently evaluating the impact of this pronouncement and will adopt the guidelines stated FIN No. 48 from fiscal year beginning April 1, 2007.

**Contingencies**

The Company had received a notice from the Income-Tax Department of India for the financial years 2002 and 2003 for a sum of Rs.77,700 stating that no withholding tax has been deducted in respect of international bandwidth and leased line payments made by the Company to international bandwidth / lease line service providers.

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

**Effects of Inflation**

India has experienced relatively high rates of inflation. Since mid-November 2004, inflation in India is on a downward trend and has eased to 5.16% as of September 2006. However, inflation has not had a significant effect on our results of operations and financial condition to date.

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### **Item 3. Quantitative And Qualitative Disclosures About Market Risk**

Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

We also face market risk relating to foreign exchange rate fluctuations, principally relating to the fluctuation of U.S. dollar to Indian rupee exchange rate. Our foreign exchange risk principally arises from accounts payable to overseas vendors. This risk is partially mitigated as we hold balances in foreign currency with overseas banks. Our foreign exchange gain/(loss) was Rs.44.5 million, Rs.0.02 million, Rs.(52.1) million, Rs.2.6 million, Rs.23.2 million, Rs.0.3 million and Rs.44.3 million for fiscal years ended March 31, 2002, 2003, 2004, 2005 and 2006, for the quarter ended September 30, 2006 and for the six months ended September 30, 2006 respectively.

### **Item 4. Controls and Procedures**

Not applicable.

## **Part II. Other Information**

### **Item 1. Legal Proceedings**

See Note 15 and 16 of notes to our unaudited condensed consolidated financial statements in Part I above and Note 29 of the financial statements included in our Annual Report on Form 20-F for the year ended March 31, 2006.

### **Item 1A. Risk Factors**

*Any investment in our ADSs involves a high degree of risk. You should consider carefully the following information about these risks, together with the other information contained in the annual report for the year ended March 31, 2006, before you make an investment decision regarding our ADSs. If any of the following risks actually occurs, our company could be seriously harmed. In any such case, the market price of our ADSs could decline, and you may lose all or part of the money you paid to buy our ADSs.*

#### ***Risks Related to Sify Limited***

**Although we commenced operation of our private data network business in April 1998, launched our Internet portal website in October 1998 and Internet service provider operations in November 1998, we have added a number of new lines of business in the last five years, including the operation and licensing of public Internet cafés, as well as the provision of broadband services, security services and managed network services. It is therefore difficult to evaluate our company based on our historical results of operations.**

We commenced operation of our private data network business in April 1998 and launched our Internet portal website in October 1998 and Internet service provider operations in November 1998. We commenced retail Internet services by offering dial-up services from homes in November 1998, and later began offering public Internet access through a network of cybercafés in March 2000. In April 2002 we began offering VoIP services. In June 2003, we launched our high-speed Internet access through a network of independent Cable Television Operators, or CTOs. More recently, we launched our public Internet cafe business and began offering broadband services, security services and managed network services. The industry we operate in is still evolving and therefore comparable benchmarks are not readily available. As of December 2005, the Internet penetration in India was only 0.7% according to figures compiled from Telecom Regulatory Authority of India s, or TRAI s, Report on Performance of Telecom Industry, March 2006. Due to the relatively short operating history for our current lines of business, it is difficult to evaluate our performance in comparison to companies in other, more mature industries. You must consider the risks and difficulties frequently encountered by companies in this stage of development, particularly companies in the new and rapidly evolving Internet service markets. These risks and difficulties include our ability to:

continue to develop and upgrade our technology;

maintain and develop strategic relationships with business partners;

offer compelling online services and content; and



promptly address the challenges faced by early stage companies, which do not have an experience or performance base to draw on.

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Not only is our operating history short, but we have decided to compete in three primary businesses that we believe are complementary. These three businesses are corporate network/data services, retail Internet access services, online portal services and content offerings. We cannot assure you that we will successfully address the risks or difficulties described above. Failure to do so could lead to an inability to attract and retain corporate customers for our network/data services and subscribers for our Internet access services as well as the loss of advertising revenues. **For the fiscal years ended March 31, 2005 and 2006, we incurred net losses of Rs.307.6 million and Rs.149.2 million, respectively. As of September 30, 2006, we had an accumulated deficit of approximately Rs.12,434.9 million (\$270.6 million). We may incur additional losses in the future because our business plan, which is unproven, calls for additional corporate customers and subscribers to maintain profitability.**

We have incurred significant losses and negative cash flows. For the fiscal years ended March 31, 2005 and 2006, we incurred net losses of Rs.307.6 million and Rs.149.2 million and for the quarter ended and six months ended September 30, 2006 we made a net profit of Rs.68.5 million (\$1.5 million) and Rs.131.0 million (\$2.9 million) respectively. As of September 30, 2006, we had an accumulated deficit of approximately Rs.12,434.9 million (\$270.6 million). We may incur operating losses as we expand our services, advertise and promote our brand and respond to competition. Our business plan assumes that businesses in India will demand private network and related services. Our business plan also assumes that an increasing number of consumers and corporate customers in India will be attracted to and use Internet access services, content available on the Internet and other connectivity services offered by us. This business model is not yet proven in India, and we cannot assure you that we will be able to sustain profitability or that we may not incur operating losses in the future.

**We may be required to further modify the rates we charge for our services in response to new pricing models introduced by new and existing competition which would significantly affect our revenues.**

Our corporate network/data services business faces significant competition from well-established companies, including Bharti Airtel, Videsh Sanchar Nigam Limited, or VSNL, Reliance Infocomm, HCL Ininet, Tata Teleservices and the incumbent government-owned telecommunication companies, Bharat Sanchar Nigam Limited, or BSNL, and Mahanagar Telephone Nigam Limited, or MTNL. A significant number of competitors have entered India's liberalized Internet service provider market that were operational in India. New entrants into the national Internet service provider market in India, especially the state run telecommunication companies, may enjoy significant competitive advantages over our company, including greater financial resources, which could allow them to charge prices that are lower than ours in order to attract subscribers. These factors have resulted in periods of significant reduction in actual average selling prices for consumer Internet Service Provider, or ISP, services. We expect the market for Internet access and other connectivity services to remain extremely price competitive. Increased competition may result in operating losses, loss of market share and diminished value in our services, as well as different pricing, service or marketing decisions. We cannot assure you that we will be able to successfully compete against current and future competitors.

**The Indian Department of Telecommunications, or DOT, has imposed a license fee for ISPs, including our company, for providing Virtual Private Network, or VPN, services. In November 2005, DOT withdrew the VPN license and announced new guidelines whereby ISPs need to have National Long Distance/International Long Distance or NLD/ILD licenses to provide VPN services and eased the eligibility criteria for the provision of NLD/ILD services.**

In December 2004, Government of India (GOI) issued guidelines on offering Internet Protocol Virtual Private Network (IP-VPN) services by Internet Service Providers (ISPs). As per the guidelines, the Company paid Rs.100 million as one-time entry fee and submitted a financial bank guarantee of Rs.10 million to the Indian Government as required by the DOT. In addition, the ISP licensees were required to pay an annual fee of 8% of the adjusted gross revenues generated under the ISP license for IP-VPN services.

On November 10, 2005, the Government of India issued guidelines and license terms and conditions for National Long Distance, or NLD, and International Long Distance, or ILD services. These guidelines expressly prohibited ISPs to provide IP-VPN services and required existing IP-VPN provisional license holders to migrate to NLD / ILD service license, and, comply with the terms and conditions of such licenses within four months. The provisional license was issued to the Company on December 30, 2004, as an amendment to ISP license by a Letter of Intent to include provision of VPN services.

The Company, applied for NLD / ILD licenses through its wholly owned subsidiary Sify Communications Ltd or Sify Comm (formerly known as Safescrypt Ltd). As per extant Foreign Direct Investment Policy, foreign investment was permitted only up to 74% in these services, the Company sold its 26% interest in Sify Comm to M/s Infinity Satcom Universal (P) Ltd, a Company owned by Mr. Ananda Raju, brother of the Company's Director Mr. Raju Vegesna. Thus, this is a related party transaction.

In terms of the NLD / ILD license, Sify Comm will be required to pay Rs.50,000 as an entry fee for the ILD and NLD licenses once approval is obtained and also submit a bank guarantee for Rs.20,000 for the NLD license and Rs.25,000 for ILD license. The entry fee will be amortized for 20 years. In addition, effective from November 22, 2006, Sify Comm has to pay an annual license fee of 6% on the Adjusted Gross Revenue generated, or AGR, as defined in NLD / ILD licenses for IP-VPN services.

On November 21, 2006, Sify Comm executed two License Agreements with GOI, for NLD / ILD services respectively, which enable Sify Comm to provide VPN services. Sify Comm furnished bank guarantees for Rs.200,000 each for NLD and ILD licenses to GOI. These licenses are valid for an initial period of 20 years and can be renewed for another 10 years at one time, upon request of the licensee made during the 19<sup>th</sup> year of license. The Company has transferred its VPN business to Sify Comm effective November 22, 2006 and the latter commenced the said services on the same day.

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**Our marketing campaign to establish brand recognition and loyalty for the Sify Broadband, Sify Max, Sify and iway brands could be unsuccessful.**

In order to expand our customer base and increase traffic on our websites, we must establish, maintain and strengthen the Sify Broadband, Sify Max, Sify and *iway* and other key brands. We plan to continue to incur significant marketing expenditure to establish brand recognition and brand loyalty. If our marketing efforts do not produce a significant increase in business to offset our marketing expenditure, our losses will increase or, to the extent that we are generating profits, our profits will decrease. Furthermore, our Internet portal will be more attractive to advertisers if we have a large audience of consumers with demographic characteristics that advertisers perceive as favorable. Therefore, we intend to introduce additional and enhanced content, interactive tools and other services and features in the future in an effort to retain our current subscribers and users and attract new ones. Our reputation and brand name could be adversely affected if we are unable to do so successfully.

**If our efforts to retain our customers through past investment in network infrastructure and ongoing investment in online content offerings and customer and technical support are unsuccessful, our revenues will decrease without a corresponding reduction in costs.**

Our sales, marketing and other costs of acquiring new customers are substantial, relative to the fees actually derived from these customers. Accordingly, our long-term success depends to a great extent on our ability to retain our existing customers, while continuing to attract new customers. We have invested significant resources in our network infrastructure and continue to invest in online content offerings and in our customer and technical support capabilities to provide high levels of customer service. We cannot be certain, however, that these investments will maintain or improve subscriber retention. We believe that intense competition from our competitors has caused, and may continue to cause, some of our customers to switch to our competitors' services. In addition, some new customers use the Internet only as a novelty and do not become consistent users of Internet services, and therefore are more likely to discontinue their service. Any decline in our customer retention rate would likely decrease the revenues generated by our Internet access services division. Therefore, we may not be able to realize sufficient future revenues to offset our past investment in network infrastructure and our ongoing investment in online content offerings and technical support or achieve positive cash flow or profitability in the future.

**Despite cost-reduction measures, our future operating results could fluctuate in part because our expenses are relatively fixed in the short term while future revenues are uncertain, and any adverse fluctuations could negatively impact the price of our ADSs.**

Our revenues, expenses and operating results have varied in the past and may fluctuate significantly in the future due to a number of factors, many of which are outside our control. A significant portion of our investment and cost base is relatively fixed in the short term. Our revenues for the foreseeable future will depend on many factors, including the following:

- the range of corporate network/data services provided by us and the usage thereof by our customers; and

- the number of subscribers to our ISP services and the prevailing prices charged.

- advertising revenue generated by our online portal services.

Our future revenues are difficult to forecast and, in addition to the foregoing, will depend on the following:

- the timing and nature of any agreements we enter into with strategic partners of our corporate network/data services division;

- services, products or pricing policies introduced by our competitors;

- capital expenditure and other costs relating to our operations;

- the timing and nature of our marketing efforts;

our ability to successfully integrate operations and technologies from any acquisitions, joint ventures or other business combinations or investments;

the introduction of alternative technologies; and

technical difficulties or system failures affecting the telecommunication infrastructure in India, the Internet generally or the operation of our websites.

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We plan to continue to expand and develop content and enhance our technology. Many of our expenses are relatively fixed in the short-term. We cannot assure you that our revenues will increase in proportion to the increase in our expenses. We may be unable to adjust spending quickly enough to offset any unexpected revenues shortfall. This could lead to a shortfall in revenues in relation to our expenses.

You should not rely on yearly comparisons of our results of operations as indicators of future performance. It is possible that in some future periods our operating results may be below the expectations of public market analysts and investors. In this event, the price of our ADSs will likely fall.

**Because we lack full redundancy for our computer systems, a systems failure could prevent us from operating our business.**

We rely on the Internet and accordingly, depend upon the continuous, reliable and secure operation of Internet servers, related hardware and software and network infrastructure such as lines leased from telecom operators. We have a back-up data facility, but we do not have full redundancy for all of our computer and telecommunications facilities. As a result, failure of key primary or back-up systems to operate properly could lead to a loss of customers, damage to our reputation and violations of our Internet service provider license and contracts with corporate customers. A loss of customers or damage to our reputation would result in a decrease in the number of our subscribers, which would cause a material decrease in revenues. A violation of our Internet service provider license could result in the suspension or termination of that license, which would prevent us from carrying on a significant portion of our operations and materially adversely affect our operating results. Violations of our contracts with corporate customers could result in the termination of these contracts, which would cause a decrease in the revenues generated by our corporate data/network services division. Any of these failures could also lead to a decrease in value of our ADSs, significant negative publicity and litigation. From time to time, a number of large Internet companies have suffered highly publicized system failures resulting in adverse reactions to their stock prices, significant negative publicity and, in some instances, litigation.

We have at times suffered service outages. We guarantee to a number of our corporate customers that our network will meet or exceed contractual reliability standards, and our Internet service provider license requires that we provide an acceptable level of service quality and that we remedy customer complaints within a specified time period. Our computer and communications hardware are protected through physical and software safeguards. However, they are still vulnerable to fire, storm, flood, power loss, telecommunications failures, physical or software break-ins and similar events. We do not carry business interruption insurance to protect us in the event of a catastrophe even though such an event could lead to a significant negative impact on our business.

**Security breaches could damage our reputation or result in liability to us.**

Our facilities and infrastructure must remain secure, and be perceived by our corporate and consumer customers to be secure, because we retain confidential customer information in our database. Despite the implementation of security measures, our infrastructure may be vulnerable to physical break-ins, computer hacking, computer viruses, programming errors or similar disruptive problems. If a person circumvents our security measures, he or she could jeopardize the security of confidential information stored on our systems, misappropriate proprietary information or cause interruptions in our operations. We may be required to make significant additional investments and efforts to protect against or remedy security breaches. A material security breach could damage our reputation or result in liability to us, and we do not carry insurance that protects us from this kind of loss.

The security services that we offer in connection with our business customers' networks cannot assure complete protection from computer viruses, break-ins and other disruptive problems. Although we attempt to contractually limit our liability in such instances, the occurrence of these problems could result in claims against us or liability on our part. These claims, regardless of their ultimate outcome, could result in costly litigation and could damage our reputation and hinder our ability to attract and retain customers for our service offerings.

**Over the past several years we have experienced significant growth, and continuing this pace of growth could put excessive strain on our resources, which in turn could adversely affect our results of operations.**

Over the last several years, we have experienced a period of significant revenue growth. This growth has placed, and will continue to place, a significant strain on our managerial, operational, financial and information systems resources. We will have to implement new operational and financial systems and procedures and controls, expand our office facilities, train and manage our employee base and maintain close coordination among our technical,

accounting, finance, marketing, sales and editorial staff. If we are unable to manage our growth effectively, we will be unable to implement our strategy, upon which the success of our business depends.

**We face a competitive labor market for skilled personnel and therefore are highly dependent on our existing key personnel and on our ability to hire additional skilled employees.**

Our success depends upon the continued service of our key personnel. Most of our employees are located in India. Each of our employees may voluntarily terminate his or her employment with us. We do not carry key person life insurance on any of our personnel. Our success also depends on our ability to attract and retain additional highly qualified technical, marketing and sales personnel. The labor market for skilled employees in India is extremely competitive, and the process of hiring employees with the necessary skills is time consuming and requires the diversion of significant resources. We may not be able to continue to retain or integrate existing personnel or identify and hire additional personnel in the future. The loss of the services of key personnel, especially the unexpected death or disability of such personnel, or the inability to attract additional qualified personnel, could disrupt the implementation of our business strategy, upon which the success of our business depends.

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**The failure to keep our technical knowledge confidential could erode our competitive advantage.**

Like many of our competitors, we possess extensive technical knowledge about our products. Our know-how is a significant independent asset, which may not be protected by intellectual property rights such as patents, but is protected only by maintaining its confidentiality. As a result, we cannot be certain that our know-how will remain confidential in the long run. Employment contracts with certain of our employees who have special technical knowledge about our products or our business contain a general obligation to keep all such knowledge confidential and such obligation extends for a period of two years after the termination of employment. In addition to the confidentiality provisions, these employment agreements typically contain non-competition clauses. If either the confidentiality provisions or the non-competition clauses are unenforceable, we may not be able to maintain the confidentiality of our know-how. Even if every possible precaution, whether contractual or otherwise, is taken to protect confidential technical knowledge about our products or our business, there is still a danger that such information may be disclosed to others or become public knowledge in circumstance beyond our control. In the event that confidential technical information or know-how about our products or business becomes available to third parties or to the public, our competitive advantage over other companies in the wireless based IP/VPN industry could be harmed which could have a material adverse effect on our current business, future prospects, financial condition and results of operations.

**Compliance with new and changing corporate governance and public disclosure requirements adds uncertainty to our compliance policies and increases our costs of compliance.**

Changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 and, new SEC regulations and Nasdaq Global Market rules, are creating uncertainty for us and similarly situated companies. These new or changed laws, regulations and standards may lack specificity and are subject to varying interpretations. Their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such governance standards.

In particular, our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal controls over financial reporting and our independent registered public accounting firm's audit of that assessment will require the commitment of significant financial and managerial resources. We have formed an internal control steering committee and adopted a project work plan to assess the adequacy of our internal controls over financial reporting, remediate any control deficiencies that may be identified, and validate through testing that our controls are functioning as documented. Our independent registered public accounting firm may be unable to issue unqualified attestation reports on management's assessment on the operating effectiveness of our internal controls over financial reporting.

We are committed to maintaining high standards of corporate governance and public disclosure, and our efforts to comply with evolving laws, regulations and standards in this regard have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. In addition, the new laws, regulations and standards regarding corporate governance may make it more difficult for us to obtain director and officer liability insurance. Further, our board members, Chief Executive Officer, and Chief Financial Officer could face an increased risk of personal liability in connection with the performance of their duties. As a result, we may face difficulties in attracting and retaining qualified board members and executive officers, which could harm our business. If we fail to comply with new or changed laws or regulations, our business and reputation may be harmed.

**We may not comply with local laws of other countries.**

As part of our international business, we may negotiate with and enter into contracts with strategic partners, clients, suppliers, employees and other third parties in various countries. We have little or no experience conducting business in many of these countries and our failure to comply with their laws may result in lawsuits or penalties, which could adversely affect our business or results of operations.

**If there is an adverse outcome in the class action litigation that has been filed against us, our business may be harmed.**



Our company and certain of our 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 as defendants several of the underwriters involved in our initial public offering of American Depositary Shares. This class action is brought on behalf of a purported class of purchasers of our ADSs from the time of our Initial Public Offering, or IPO in October 1999 through December 2000. The central allegation in this action is that the underwriters in our IPO solicited and received undisclosed commissions from, and entered into undisclosed arrangements with, certain investors who purchased our ADSs in the IPO and the aftermarket. The complaint also alleges that we violated the United States federal securities laws by failing to disclose in the IPO prospectus that the underwriters had engaged in these allegedly undisclosed arrangements. More than 300 issuers have been named in similar lawsuits. In June 2003, the plaintiffs in the consolidated IPO class action lawsuits currently pending against us and more than 300 other issuers who went public between 1998 and 2000 announced a proposed settlement with us and the other issuer defendants. The proposed settlement provides that the insurers of all settling issuers will guarantee that the plaintiffs recover \$1.0 billion from non-settling defendants, including the investment banks who acted as underwriters in those offerings. In the event that the plaintiffs do not recover \$1.0 billion, the insurers for the settling issuers will make up the difference. We believe that we have sufficient insurance coverage to cover the maximum amount that we may be responsible for under the proposed settlement, which we estimate to be approximately U.S. \$3.9 million. Although the Federal District Court has preliminarily approved the settlement, it is possible that the Federal District Court may not approve the settlement in whole or part. We believe that we have adequate legal defenses for these actions and that the ultimate outcome of these actions will not have a material adverse effect on our company.

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**We face risks associated with potential acquisitions, investments, strategic partnerships or other ventures, including whether any such transactions can be identified, completed and the other party integrated with our business on favorable terms.**

We may attempt to grow our business through acquisitions. We are actively seeking opportunities to expand our corporate services business, including through possible acquisition transactions in India, the United States or elsewhere. We may acquire or make investments in other complementary businesses, technologies, services or products, or enter into additional strategic partnerships with parties that can provide access to those assets, if appropriate opportunities arise in the future. From time to time, we have had discussions and negotiations with a number of companies regarding our acquiring, investing in or partnering with their businesses, products, services or technologies, and we regularly engage in such discussions and negotiations in the ordinary course of our business. Some of those discussions also contemplate the other party making an investment in our company. We may not identify suitable acquisition, investment or strategic partnership candidates in the future, or if we do identify suitable candidates, we may not complete those transactions on commercially acceptable terms or at all. In addition, the key personnel of an acquired company may decide not to work for us. If we make other types of acquisitions, we could have difficulty in integrating the acquired products, services or technologies into our operations. These difficulties could disrupt our ongoing business, distract our management and employees and increase our expenses, which could adversely affect our operating results and cause the price of our ADSs to decline. Furthermore, we may incur indebtedness or issue additional equity securities to pay for any future acquisitions. The issuance of additional equity securities would dilute the ownership interests of the holders of our ADSs.

**Our financial results are impacted by the financial results of entities that we do not control.**

We have a significant, non-controlling minority interest in Man Financial Sify Securities India Private Limited (formerly known as Refco Sify Securities India Private Limited) that is accounted for under U.S. GAAP using the equity method of accounting. Under this method, we generally are obligated to report as Equity in losses (gains) of affiliates a pro rata portion of the financial results of any such company in our statement of operations even though we do not control the other company, subject to limitations in the case of losses that exceed our cost of investment. Thus, our reported results of operations can be significantly increased or decreased depending on the results of Man Financial Sify Securities India Private Limited or other companies in which we may make similar investments even though we may have only a limited ability to influence these activities.

**Our inter-city network is leased from other service providers and is dependent on their quality and availability.**

We have provided inter-city connectivity for our wireless-based IP/VPN business through lease arrangements rather than through capital investment in connectivity assets. Our ability to offer high quality telecommunications services depends, to a large extent, on the quality of the networks maintained by other operators, and their continued availability, neither of which is under our control. However, the abundance of supply of inter-city connectivity provides us with the ability of switching to companies offering better services. Although we always use more than one service provider where required, there can be no assurance that this dependence on external parties would not affect our network availability.

**A significant majority of the *ify* cybercafés are franchised operations that we do not operate or control. We also provide Internet access services through a network of Cable Television Operators, or CTOs, whom we do not control.**

As of September 30, 2006, 3,559 cybercafés, representing substantially all of the *ify* cafes, were franchised by our company. Broadband Internet access to homes was provided through a network of about 1,900 CTOs. Our relationships with franchisees and CTOs are subject to a number of special risks. For example, we do not operate or control our franchisees or CTOs, and they may not meet their obligations under our agreements with them. The failure of a franchisee or CTO to provide quality services to its customers could result in end user dissatisfaction with our company. We may become involved in disputes with our franchisees or CTOs, which may result in litigation or the termination of one or more of our agreements. Our franchisees or CTOs could attempt to organize themselves into unions in order to negotiate more favorable terms in our agreements. Any failure to continue our relationships with our franchisees or CTOs on favorable terms could reduce the size of our market share for Internet access in India and decrease the revenues generated by our Internet access services division. Our company does not provide any financial

support or guarantee to the franchisees.

**The legal system in India does not protect intellectual property rights to the same extent as the legal system of the United States, and we may be unsuccessful in protecting our intellectual property rights.**

Our intellectual property rights are important to our business. We rely on a combination of copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect our intellectual property.

Our efforts to protect our intellectual property may not be adequate. We hold no patents, and our competitors may independently develop similar technology or duplicate our services. Unauthorized parties may infringe upon or misappropriate our services or proprietary information. In addition, the laws of India do not protect proprietary rights to the same extent as laws in the United States, and the global nature of the Internet makes it difficult to control the ultimate destination of our services. For example, the legal processes to protect service marks in India are not as effective as those in place in the United States. The misappropriation or duplication of our intellectual property could disrupt our ongoing business, distract our management and employees, reduce our revenues and increase our expenses. In the future, litigation may be necessary to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Any such litigation could be time-consuming and costly.

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We could be subject to intellectual property infringement claims as the number of our competitors grows and the content and functionality of our websites or other service offerings overlap with competitive offerings. Defending against these claims, even if not meritorious, could be expensive and divert management's attention from operating our company. If we become liable to third parties for infringing their intellectual property rights, we could be required to pay a substantial damage award and forced to develop non-infringing technology, obtain a license or cease selling the applications that contain the infringing technology. We may be unable to develop non-infringing technology or obtain a license on commercially reasonable terms, or at all.

**Our current infrastructure and its scalability may not accommodate increased use while maintaining acceptable overall performance.**

Currently, only a relatively limited number of customers use our corporate network, our Internet service provider services and our Internet portal. We must continue to add to our network infrastructure to accommodate additional users, increasing transaction volumes and changing customer requirements. We may not be able to project accurately the rate or timing of increases, if any, in the use of our websites or upgrade our systems and infrastructure to accommodate such increases. Our systems may not accommodate increased use while maintaining acceptable overall performance. Service lapses could cause our users to use the online services of our competitors.

**The success of our newly acquired on line travel business in the United States depends on various factors, and to a large extent, beyond our control.**

The success of our online travel and travel related business, through our acquisition of Globe Travels, Inc., depends on various factors, among other things:

Obtaining the ARC Accreditation in the name of Sify from the Airline Reporting Corporation, an nodal agency run by various airline companies;

How quickly we integrate an airlines' on line platform for ticketing;

Our ability to quickly improve our online sales in the United States;

The growth of the tourism and the hospitality industry;

The threat of terrorism and outbreak of any epidemic;

Lost revenue from credit card fraud.

If the above risks are not addressed suitably, it may impact the volume and profitability of this segment of our business.

**We do not plan to pay dividends in the foreseeable future.**

We do not anticipate paying cash dividends to the holders of our ADSs and equity share holders in the foreseeable future. Accordingly, investors must rely on sales of their ADSs after price appreciation, which may never occur, as the only way to realize a positive return on their investment. Investors seeking cash dividends should not purchase our ADSs.

***Risks Related to the ADSs and Our Trading Market***

**The interests of our significant shareholder, Infinity Capital Ventures, L.P., may differ from your interests.**

Based on our review of filings made with the SEC, as of the date of this report, we believe Infinity Capital owns approximately 42% of our outstanding equity capital, and Mr. Raju Vegesna of Infinity Capital serves as our Chairman of the Board of Directors and we have appointed Mr. P.S. Raju as the second nominee of Infinity Capital to our Board of Directors. As a result, Infinity Capital will be able to exercise significant influence over many matters requiring approval by our Board of Directors and/or our shareholders, including the election of directors and approval of significant corporate transactions, such as a sale of our company. Under Indian law, a simple majority is sufficient to control all shareholder action except for those items, which require approval by a special resolution. If a special resolution is required, the number of votes cast in favor of the resolution must not be less than three times the number of votes cast against it. Examples of actions that require a special resolution include:

altering our Articles of Association;

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issuing additional shares of capital stock, except for pro rata issuances to existing shareholders;

commencing any new line of business; and

commencing a liquidation.

Circumstances may arise in which the interests of Infinity Capital, or a subsequent purchaser of the shares currently owned by Infinity Capital, could conflict with the interests of our other shareholders or holders of our ADSs. Infinity Capital could delay or prevent a change of control of our company even if a transaction of that sort would be beneficial to our other shareholders, including the holders of our ADSs.

**Holders of ADSs are restricted in their ability to exercise preemptive rights under Indian law and thereby may suffer future dilution of their ownership position.**

Under the Indian Companies Act, 1956, a public company incorporated in India must offer its holders of equity shares preemptive rights to subscribe and pay for a proportionate number of shares to maintain their existing ownership percentages prior to the issuance of any new equity shares, unless the preemptive rights have been waived by adopting a special resolution by holders, whether on a show of hands or on a poll, holding not less than three times the number of votes, if any, cast against the resolution. At our 2000 Annual General Meeting, our shareholders approved a special resolution permitting us to issue up to one million equity shares in connection with acquisitions. We issued virtually all of these equity shares in connection with our acquisitions of India World Communications, Indiaplaza.com and Kheladi.com and our investment in CricInfo Limited. At our 2001 Annual General Meeting, our shareholders approved a special resolution permitting us to issue up to four million additional equity shares in connection with acquisitions or capital raising transactions, and our ADS holders are deemed to have waived their preemptive rights with respect to these shares. At our December 2002 Extraordinary General Meeting, our shareholders approved a special resolution permitting us to issue up to 12.5 million additional equity shares in connection with the sale of equity shares to SAIF and Venture Tech, and our ADS holders are deemed to have waived their preemptive rights with respect to these shares. In December 2005 at an extraordinary general meeting, our shareholders waived their preemptive rights with respect to the issuance of 6.7 million shares to Infinity capital.

U.S. holders of ADSs may be unable to exercise preemptive rights for equity shares underlying ADSs unless approval of the Ministry of Finance of the Government of India is obtained and a registration statement under the Securities Act of 1933, as amended, is effective with respect to the rights or an exemption from the registration requirements of the Securities Act is available. Our decision to file a registration statement will depend on the costs and potential liabilities associated with any given registration statement as well as the perceived benefits of enabling the holders of our ADSs to exercise their preemptive rights and any other factors that we deem appropriate to consider at the time the decision must be made. We may elect not to file a registration statement related to preemptive rights otherwise available by law to our shareholders. In the case of future issuance, the new securities may be issued to our depository, which may sell the securities for the benefit of the holders of the ADSs. The value, if any, our depository would receive upon the sale of such securities cannot be predicted. To the extent that holders of ADSs are unable to exercise preemptive rights granted in respect of the equity shares represented by their ADSs, their proportional interests in our company would be reduced.

**Holders of ADSs may be restricted in their ability to exercise voting rights and the information provided with respect to shareholder meetings.**

As a holder of ADSs, you generally have the right under the deposit agreement to instruct the depository bank to exercise the voting rights for the equity shares represented by your ADSs. At our request, the depository bank will mail to you any notice of shareholders meeting received from us together with information explaining how to instruct the depository bank to exercise the voting rights of the securities represented by ADSs. If the depository bank timely receives voting instructions from a holder of ADSs, it will endeavor to vote the securities represented by the holder's ADSs in accordance with such voting instructions. However, the ability of the depository bank to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities on deposit. We cannot assure you that you will receive voting materials in time to enable you to return voting instructions to the depository bank in a timely manner.

Under Indian law, subject to the presence in person at a shareholder meeting of persons holding equity shares representing a quorum, all resolutions proposed to be approved at that meeting are voted on by a show of hands unless a shareholder present in person and holding at least 10% of the total voting power or on which an aggregate sum of not less than Rs.50,000 has been paid-up, at the meeting demands that a poll be taken. Equity shares not represented in person at the meeting, including equity shares underlying ADSs for which a holder has provided voting instructions to the depository bank, are not counted in a vote by show of hands. As a result, only in the event that a shareholder present at the meeting demands that a poll be taken will the votes of ADS holders be counted. Securities for which no voting instructions have been received will not be voted on a poll.

As a foreign private issuer, we are not subject to the SEC's proxy rules, which regulate the form and content of solicitations by United States-based issuers of proxies from their shareholders. To date, our practice has been to provide advance notice to our ADS holders of all shareholder meetings and to solicit their vote on such matters through the depository, and we expect to continue this practice. The form of notice and proxy statement that we have been using does not include all of the information that would be provided under the SEC's proxy rules.

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**The market price of our ADSs has been and may continue to be highly volatile.**

The market price of our ADSs has fluctuated widely and may continue to do so. Many factors could cause the market price of our ADSs to rise and fall. Some of these factors include:

perception of the level of political and economic stability in India;

actual or anticipated variations in our quarterly operating results;

announcement of technological innovations;

conditions or trends in the corporate network/data services, Internet and electronic commerce industries;

the competitive and pricing environment for corporate network/data services and Internet access services in India and the related cost and availability of bandwidth;

the perceived attractiveness of investment in Indian companies;

acquisitions and alliances by us or others in the industry;

changes in estimates of our performance or recommendations by financial analysts;

market conditions in the industry and the economy as a whole;

introduction of new services by us or our competitors;

changes in the market valuations of other Internet service companies;

announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;

our failure to integrate successfully our operations with those of any acquired companies;

additions or departures of key personnel; and

other events or factors, many of which are beyond our control.

The financial markets in the United States and other countries have experienced significant price and volume fluctuations, and the market prices of technology companies, particularly Internet-related companies, have been and continue to be extremely volatile with negative sentiment prevailing. Volatility in the price of our ADSs may be caused by factors outside of our control and may be unrelated or disproportionate to our operating results. In the past, following periods of volatility in the market price of a public company's securities, securities class action litigation has often been instituted against that company. Such litigation could result in substantial costs and a diversion of our management's attention and resources.

**We may not be able to maintain our Nasdaq Global Market listing.**

In order to maintain the listing of our ADSs on the Nasdaq Global Market, we are required to comply with, or obtain an exemption from, the continuing listing requirements of Nasdaq, including the \$1.00 minimum bid price requirement. In fiscal 2003, the price of our ADSs on the Nasdaq Global Market closed below \$1.00 for more than 30 consecutive days. Effective September 24, 2002, our equity share-to-ADS exchange ratio was adjusted to one-to-one in order to reestablish compliance with Nasdaq's minimum bid price requirement. There are also material changes to the listing requirements of the Nasdaq Global Market relating to implementation of the Sarbanes-Oxley Act of 2002 and other reforms that have been or will be implemented. These requirements have and will continue to impose



significant additional substantive and administrative requirements on all public companies listed on the Nasdaq Global Market, including foreign private issuers. We do not know whether we will be able to maintain our Nasdaq Global Market listing in the future.

**An active or liquid market for the ADSs is not assured.**

We cannot predict the extent to which an active, liquid public trading market for our ADSs will continue to exist. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. Liquidity of a securities market is often a function of the volume of the underlying shares that are publicly held by unrelated parties. Although ADS holders are entitled to withdraw the equity shares underlying the ADSs from the depository at any time, there is no public market for our equity shares in India or the United States.

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**The future sales of securities by our company or existing shareholders may reduce the price of our ADSs.**

Based on our review of filings made with the SEC, as of the date of this report, we believe Infinity Capital holds approximately 42% of our outstanding equity capital. Any significant sales of our equity shares or ADSs or a perception that such sales may occur might reduce the price of our ADSs and make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. We may issue additional equity shares to raise capital and to fund acquisitions and investments, and the parties to any such future transactions could also decide to sell them.

**Forward-looking statements contained in this report may not be realized.**

This report contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of the risks faced by us described above and elsewhere in this report. We do not intend to update any of the forward-looking statements after the date of this report to conform such statements to actual results.

***Risks Related to Investments in Indian Companies***

We are incorporated in India, and a significant majority of our assets and employees are located in India. Consequently, our financial performance and the market price of our ADSs will be affected by changes in exchange rates and controls, interest rates, Government of India policies, including taxation policies, as well as political, social and economic developments affecting India.

**Political instability in India and around the world could halt or delay the liberalization of the Indian economy and adversely affect business and economic conditions in India generally and our business in particular.**

During the past decade, the Government of India has pursued policies of economic liberalization, including significantly relaxing restrictions on the private sector. Nevertheless, the role of the Indian central and state governments in the Indian economy as producers, consumers and regulators has remained significant. The Government of India has changed six times since 1996, including most recently in May 2004. The rate of economic liberalization, specific laws and policies affecting technology companies, foreign investment, currency exchange rates and other matters affecting investment in our securities could also change. A significant change in India's economic liberalization and deregulation policies could adversely affect business and economic conditions in India generally and our business in particular.

**Conflicts in South Asia and terrorist attacks in the United States, South Asia and around the world could adversely affect the economy and cause our business to suffer.**

South Asia has from time to time experienced instances of civil unrest and hostilities among neighboring countries, including between India and Pakistan. In April 1999, India and Pakistan conducted long-range missile tests. Since May 1999, military confrontations between India and Pakistan have occurred in the Himalayan region of Kargil and other border areas. In October 1999, the leadership of Pakistan changed as a result of a coup led by the military. In September 2001, terrorist attacks were conducted in the United States, which caused various adverse consequences, including adverse economic consequences. In addition, in October 2001 the United States commenced military operations against targets located in Afghanistan. In December 2001, terrorist attacks were conducted on the Indian Parliament building resulting in heightened diplomatic and military tension between India and Pakistan. In 2003 and continuing through 2006, the United States and several other countries have conducted military operations against targets in Iraq. Events of this nature could influence the Indian and/or global economy and could have a material adverse effect on the market for securities of Indian companies, including our ADSs, and the market for our services.

**We are subject to foreign investment restrictions under Indian law that limit our ability to attract foreign investors which, together with the lack of a public market for our equity shares, may adversely impact the value of our ADSs.**

Currently, there is no public trading market for our equity shares in India or elsewhere nor can we assure you that we will take steps to develop one. Our equity securities are only traded on Nasdaq through the ADSs as described in this report. Under prior Indian laws and regulations, our depositary could not accept deposits of outstanding equity shares and issue ADRs evidencing ADSs representing such equity shares without prior approval of the Government of India. The Reserve Bank of India has announced fungibility regulations permitting, under limited circumstances, the conversion of ADSs to equity shares and the reconversion of equity shares to ADSs provided that the actual number of

ADSs outstanding after such reconversion is not greater than the original number of ADSs outstanding. If you elect to surrender your ADSs and receive equity shares, you will not be able to trade those equity shares on any securities market and, under present law, likely will not be permitted to reconvert those equity shares to ADSs.

If in the future a market for our equity shares is established in India or another market outside of the United States, those shares may trade at a discount or premium to the ADSs. Under current Indian regulations and practice, the approval of the Reserve Bank of India is required for the sale of equity shares underlying ADSs by a non-resident of India to a resident of India as well as for renunciation of rights to a resident of India, unless the sale of equity shares underlying the ADSs is through a recognized stock exchange or in connection with the offer made under the regulations regarding takeovers. Since exchange controls still exist in India, the Reserve Bank of India will approve the price at which the equity shares are transferred based on a specified formula, and a higher price per share may not be permitted. Holders who seek to convert the rupee proceeds from a sale of equity shares in India into foreign currency and repatriate that foreign currency from India will have to obtain Reserve Bank of India approval for each transaction. We cannot assure you that any required approval from the Reserve Bank of India or any other government agency can be obtained.

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**Because we operate our business in India, exchange rate fluctuations may affect the value of our ADSs independent of our operating results.**

The exchange rate between the rupee and the U.S. dollar has changed substantially in recent years and may fluctuate substantially in the future. Historically, the value of the rupee has declined against the U.S. dollar, although the rupee appreciated against the dollar in late 2003 and 2004. In fiscal 2005, the rupee depreciated in the first six months and thereafter appreciated considerably. Depreciation of the rupee will result in higher expenses to our company for the purchase of capital equipment, such as servers, routers, modems and other telecommunications and computer equipment, which is generally manufactured in the U.S. In addition, our market valuation could be materially adversely affected by the devaluation of the rupee if U.S. investors analyze our value based on the U.S. dollar equivalent of our financial condition and results of operations. Appreciation of the rupee against the U.S. dollar will result in foreign exchange losses to the extent we hold excess cash in U.S. dollar-denominated investments.

**The Government of India may change its regulation of our business or the terms of our license to provide Internet access services, VoIP and VPN services without our consent, and any such change could decrease our revenues and/or increase our costs, which would adversely affect our operating results.**

The Company's business is highly regulated as per extant telecom policy of the Government of India. The key areas of risks and / or the financial implications of such regulations include:-

The Company's ISP license issued in the year 1998 runs for a term of 15 years. If the Company is unable to renew the ISP license for any reason, the Company will not be able to carry on the said business beyond license term, and run the risk of primary sources of revenue.

The Internet Service Provider Association of India, or ISPAI, has preferred an appeal against this license with the Telecom Disputes Settlement and Arbitration Tribunal, or TDSAT. The tribunal has directed GOI to consult Telecom Regulatory Authority of India or TRAI for finalising the terms of license.

The GOI has right to revoke, terminate or suspend or take over entire operations for reasons such as national security or similar reasons without compensation to the Company.

In view of increasing cyber threats and attacks, the GOI may require telecom licensees (including ISPs) at their costs to provide monitoring facility across its network, and facilities for capture and retention of data in terms of traffic flow, usage details, etc. This would result in significant increase in costs and possible lesser usage due to perceived invasion of privacy by customers.

ISP as an intermediary is liable for third-party misuse / crimes under Section 79 of the Information Technology Act, 2000, unless it establishes that it had no knowledge or that it had undertaken due diligence. However, a recommendation has been made by an expert committee to the effect that a nework service provider is made liable only if there is a direct role.

Certain government departments have been making queries whether use of Session Initiation Protocol, or SIP, terminal to make calls to phones abroad is permissible within ISP license. The Company believes that such overseas phone calls are permitted, since, SIP terminal is a computer as defined in Information Technology Act, 2000. In case this view is not found favour by authorities, the Company may have to make significant investment as capital outlay in SIP terminals to make it a PC-equivalent.

**Changes in Indian income taxes will increase our tax liability and decrease any profits we might have in the future.**

The statutory corporate income tax rate in India was 30% during fiscal 2006 and was subject to a 10% surcharge and 2% education cess, resulting in an effective tax rate of 33.66%. For fiscal year 2007, the effective tax rate continues to remain the same. We cannot assure you that the surcharge will be in effect for a limited period of time or that additional surcharges will not be implemented by the Government of India. The Finance Minister of India had introduced a fringe benefits tax, or FBT, that would be levied on employers. Under this FBT, employers would be required to pay a tax of 30% exclusive of applicable surcharge and cess on the taxable value of the fringe benefits or privileges that are provided or deemed to be provided to employees on a collective, rather than individual, basis. The impact of FBT for the quarter ended and six months ended September 30, 2006 was Rs 4.3 million and 7.7 million respectively included under selling and administration expenses.

***Risks Related to the Internet Market in India***

Our success will depend in large part on the increased use of the Internet by consumers and businesses in India. However, our ability to exploit the Internet service provider and other data service markets in India is inhibited by a number of factors. If India's limited Internet usage does not grow substantially, our business may not succeed.

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**The success of our business depends on the acceptance of the Internet in India, which may be slowed or halted by high bandwidth costs and other technical obstacles in India.**

Bandwidth, the measurement of the volume of data capable of being transported in a communications system in a given amount of time, remains very expensive in India, especially when compared to bandwidth costs in the United States. Bandwidth rates are commonly expressed in terms of Kbps (kilobytes per second, or thousands of bits of data per second) or Mbps (megabytes per second, or millions of bits of data per second). Although prices for bandwidth in India have declined recently, they are high due to, among other things, capacity constraints and lack of competition. **The limited installed personal computer base in India limits our pool of potential customers and restricts the amount of revenues that our Internet access services division may generate.**

The market penetration rates of personal computers and online access in India are far lower than such rates in the United States. Alternate methods of obtaining access to the Internet, such as through set-top boxes for televisions, are currently not popular in India. There can be no assurance that the number or penetration rate of personal computers in India will increase rapidly or at all or that alternate means of accessing the Internet will develop and become widely available in India. While the personal computer penetration level in India is relatively low, we are addressing the demand for public Internet access through the establishment of a retail chain of public Internet access centers, which we refer to as cybercafés, under the *ipay* brand name. As of September 30, 2006, 3,525 *ipay* cybercafés were franchised and 34 *ipay* cybercafés were owned and operated by our company. Although this service creates a larger market, it also imposes on the operator of the cybercafé the considerable costs of providing the consumer access to a personal computer and related hardware and software.

**The high cost of accessing the Internet in India limits our pool of potential customers and restricts the amount of revenues that our Internet access services division might generate.**

The growth of our consumer services is limited by the cost to Indian consumers of obtaining the hardware, software and communications links necessary to connect to the Internet in India. If the costs required to access the Internet do not significantly decrease, most of India's population will not be able to afford to use our services. The failure of a significant number of additional Indian consumers to obtain affordable access to the Internet would make it very difficult to execute our business plan.

**The success of our business depends on the acceptance and growth of electronic commerce in India, which is uncertain, and, to a large extent, beyond our control.**

Many of our existing and proposed services are designed to facilitate electronic commerce in India, although there is relatively little electronic commerce currently being conducted in India. Demand and market acceptance for these services by businesses and consumers, therefore, are highly uncertain. Many Indian businesses have deferred purchasing Internet access and deploying electronic commerce initiatives for a number of reasons, including the existence or perception of, among other things:

inconsistent quality of service;

the need to deal with multiple and frequently incompatible vendors;

inadequate legal infrastructure relating to electronic commerce in India;

a lack of security of commercial data, such as credit card numbers; and

low number of Indian companies accepting credit card numbers over the Internet.

If usage of the Internet in India does not increase substantially and the legal infrastructure and network infrastructure in India are not developed further, we are not likely to realize any benefits from our investment in the development of electronic commerce services.

***Risks Related to the Internet***

**We may be liable to third parties for information retrieved from the Internet.**

Because users of our Internet service provider service and visitors to our websites may distribute our content to others, third parties may sue us for defamation, negligence, copyright or trademark infringement, personal injury or

other matters. We could also become liable if confidential information is disclosed inappropriately. These types of claims have been brought, sometimes successfully, against online services in the United States and Europe. Others could also sue us for the content and services that are accessible from our websites through links to other websites or through content and materials that may be posted by our users in chat rooms or bulletin boards. We do not carry insurance to protect us against these types of claims, and there is no precedent on Internet service provider liability under Indian law. Further, our business is based on establishing our network as a trustworthy and dependable provider of information and services. Allegations of impropriety, even if unfounded, could damage our reputation, disrupt our ongoing business, distract our management and employees, reduce our revenues and increase our expenses.

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**The success of our strategy depends on our ability to keep pace with technological changes.**

Our future success depends, in part, upon our ability to use leading technologies effectively, to continue to develop our technical expertise, to enhance our existing services and to develop or otherwise acquire new services that meet changing customer requirements. The markets for our service are characterized by rapidly changing technology, evolving industry standards, emerging competition and frequent new service introductions. We may not successfully identify new opportunities and develop and bring new services to market in a timely manner.

**Our business may not be compatible with delivery methods of Internet access services developed in the future.**

We face the risk that fundamental changes may occur in the delivery of Internet access services. Currently, Internet services are accessed primarily by computers and are delivered by modems using telephone lines. As the Internet becomes accessible by cellular telephones, personal data assistants, television set-top boxes and other consumer electronic devices, and becomes deliverable through other means involving digital subscriber lines, coaxial cable or wireless transmission mediums, we will have to develop new technology or modify our existing technology to accommodate these developments. Our pursuit of these technological advances, whether directly through internal development or by third-party license, may require substantial time and expense. We may be unable to adapt our Internet service business to alternate delivery means and new technologies may not be available to us at all.

**Our service offerings may not be compatible with industry standards developed in the future.**

Our ability to compete successfully depends upon the continued compatibility and inter-operability of our services with products and architectures offered by various vendors. Although we intend to support emerging standards in the market for Internet access, industry standards may not be established and, if they become established, we may not be able to conform to these new standards in a timely fashion or maintain a competitive position in the market. The announcement or introduction of new services by us or our competitors and any change in industry standards could cause customers to deter or cancel purchases of existing services.

**Item 2. Unregistered Sale of Equity Securities and Use of Proceeds**

None.

**Items 3. Defaults Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

None.

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**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: January 17, 2007

SIFY LIMITED

By: /s/ Pijush Kanti Das

Name: Pijush Kanti Das

Title: Chief Financial Officer