SIFY LTD
Form 6-K
April 16, 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 December 31, 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 20F þ
Form 40 F o

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 o No þ

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 o No þ

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 o No þ

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 December 31, 2006 was 42,781,922.

Table of Contents

SIFY LIMITED
FORM 6-K
For the Quarter ended December 31, 2006
INDEX

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 December 31, 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 December 31, 2006 was Rs.44.11 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*.

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 December 31, 2006 Rs.	2006 $
ASSETS			
Current assets:			
Cash and cash equivalents	Rs. 2,822,501	Rs. 2,338,453	$ 53,014
Accounts receivable	838,433	1,028,911	23,326
Due from employees	23,818	5,472	124
Inventories	30,462	30,315	687
Prepaid expenses	91,158	131,284	2,976
Net investment in leases	10,776	18,713	424
Other current assets	212,696	348,700	7,905
Total current assets	**4,029,844**	**3,901,848**	**88,456**
Cash restricted	1,000	1,000	23
Net investment in leases	10,842	13,025	295
Property, plant and equipment-net	1,423,246	1,609,680	36,493
Goodwill and other intangible assets	62,436	199,185	4,516
Investments in affiliated companies	233,060	275,604	6,249
Other assets	191,343	95,863	2,173
Total assets	**Rs. 5,951,771**	**Rs. 6,096,205**	**$ 138,205**
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Current installments of capital lease obligations	2,759	2,225	50
Trade accounts payable	440,841	296,391	6,719
Accrued liabilities	584,264	636,378	14,428
Deferred revenue	444,333	391,037	8,865
Due to employees	1,300		
Advances from customers	112,512	62,566	1,418
Other current liabilities	74,174	110,928	2,515
Total current liabilities	**1,660,183**	**1,499,525**	**33,995**
Capital lease obligations, excluding current installments	2,546	3,035	69
Other liabilities	234,533	104,692	2,373
Total liabilities	**1,897,262**	**1,607,252**	**36,437**
Minority interest		147,130	3,336
Stockholders equity			

Common stock, Rs 10 par value; 50,000,000 equity shares authorized (as of March 31, 2006 : 50,000,000) ; Issued and outstanding: 42,781,922 shares as of December 31,2006 and 42,389,514 shares as of March 31, 2006	423,895	427,819	9,699
Additional paid-in capital	16,238,413	16,307,348	369,697
Deferred compensation employee stock offer plan	(41,925)		
Accumulated deficit	(12,565,874)	(12,393,344)	(280,964)
Total stockholders equity	**4,054,509**	**4,341,823**	**98,432**
Total liabilities and stockholders equity	**Rs. 5,951,771**	**Rs. 6,096,205**	**$ 138,205**

See accompanying notes to unaudited condensed consolidated financial statements

4

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

	Quarter ended December 31,			Nine Months ended December 31,		
	2005	2006	2006	2005	2006	2006
	Rs.	Rs.	$	Rs.	Rs.	$
Revenue						
Products	Rs. 82,337	Rs. 136,457	$ 3,094	Rs. 229,985	Rs. 385,407	$ 8,738
Services	1,113,351	1,254,830	28,448	3,090,610	3,707,359	84,048
	Rs. 1,195,688	Rs. 1,391,287	31,542	Rs. 3,320,595	Rs. 4,092,766	92,786
Revenue from related parties						
Products				43,879		
Services	6,137			31,519		
	6,137			75,398		
Total Revenue	**1,201,825**	**1,391,287**	**31,542**	**3,395,993**	**4,092,766**	**92,786**
Cost of revenue						
Products	63,784	121,744	2,760	229,162	334,420	7,582
Services	559,544	624,536	14,159	1,635,883	1,813,215	41,107
	623,328	746,280	16,919	1,865,045	2,147,635	48,689
Selling, general and administrative expenses	482,052	437,853	9,926	1,380,223	1,397,427	31,681
Provision for doubtful receivables and advances	13,718	68,676	1,557	46,763	142,340	3,227
Depreciation	102,778	102,385	2,321	317,151	297,705	6,749
Amortisation of intangible assets	8,306	10,964	249	30,502	44,400	1,007
Amortisation of deferred stock compensation expense	3,502	5,039	114	5,472	46,509	1,054
Foreign exchange fluctuation (gain) / loss	(3,976)	20,558	466	(6,609)	(23,781)	(539)

Total operating expenses		**1,229,708**		**1,391,755**		**31,552**		**3,638,547**		**4,052,235**		**91,868**
Operating profit / (loss)		(27,883)		(468)		(10)		(242,554)		40,531		918
Other income, net		9,065		31,059		704		34,592		97,125		2,202
Profit / (loss) before taxes and equity in profit of affiliate		(18,818)		30,591		694		(207,962)		137,656		3,120
Equity in profit of affiliate		5,849		18,650		423		35,257		42,544		965
Gain on sale of investment in subsidiary				226		5				226		5
Minority interest				(7,896)		(179)				(7,896)		(179)
Profit / (loss) before tax		(12,969)		41,571		943		(172,705)		172,530		3,911
Taxes												
Net profit / (loss) after tax	**Rs.**	**(12,969)**	**Rs.**	**41,571**	**$**	**943**	**Rs.**	**(172,705)**	**Rs.**	**172,530**	**$**	**3,911**
Net profit / (loss) per share Basic		(0.37)		0.97		0.02		(4.88)		4.03		0.09
Net profit / (loss) per share Diluted				0.97		0.02				4.02		0.09
Weighted average equity shares Basic		35,397,821		42,743,011		42,743,011		35,386,149		42,822,399		42,822,399
Weighted average equity shares Diluted				42,842,653		42,842,653				42,927,221		42,927,221

See accompanying notes to unaudited condensed consolidated financial statements

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

	Nine months ended December 31,		
	2005	2006	20
	Rs.	Rs.	
t profit / (loss)	**Rs. (172,705)**	**Rs. 172,530**	**$ 3,9**
justments to reconcile net loss to net cash provided by / (used in) operating activities:			
preciation, impairment and amortization of intangible assets and deferred stock compensation	353,125	388,614	8,8
uity in profit of affiliate	(35,257)	(42,544)	(9
n on sale of investment	(2,548)		
in) / Loss on sale of property, plant and equipment	819	(165)	
vision for doubtful receivables and advances	46,763	142,340	3,2
ite back of amortisation of intangibles	(4,815)		
nority interest		7,896	1
realized (gain) / loss on account of exchange differences		(6,400)	(1
nslation (gain) / loss on cash and cash equivalents	(6,454)	2,857	
n on disposal of subsidiary	(1,595)	(226)	
anges in assets and liabilities:			
counts receivable	(174,251)	(325,832)	(7,3
e from employees	(18,833)	17,378	3
nority interest		139,460	3,1
entories	(8,058)	147	
paid expenses	(20,612)	(40,126)	(9
ner assets	(14,585)	(41,016)	(9
investment in leases	4,955	(10,120)	(2
de accounts payable and accrued liabilities	52,927	(92,773)	(2,1
ferred revenue	94,831	(53,296)	(1,2
vances from customers	12,247	(49,817)	(1,1
ner liabilities	5,423	(116,371)	(2,6
t cash provided/(used) by operating activities	**Rs. 113,874**	**Rs. 92,536**	**$ 2,0**
sh flows from investing activities:			
penditure on property, plant and equipment	(481,370)	(481,995)	(10,9
ceeds from sale of property, plant and equipment	3,487	3,909	
penditure on intangible assets		(66,177)	(1,5
siness acquisition		(92,934)	(2,1
movement in cash restricted	31,240		
ceeds from sale of investments	139,810		
t cash used in investing activities	**Rs. (306,833)**	**Rs. (637,197)**	**$ (14,4**
sh flows from financing activities:			
ncipal payments under capital lease obligations	(5,855)	(4,805)	(1
proceeds from issuance of common stock	14,850	68,275	1,5

t cash provided by financing activities	**Rs. 8,995**	**Rs. 63,470**	**$ 1,4**
ect of exchange rate changes on cash and cash equivalents	8,679	(2,857)	(
t increase / (decrease) in cash and cash equivalents	(175,285)	(484,048)	$ (10,9
sh and cash equivalents at the beginning of the period	1,323,912	2,822,501	63,9
sh and cash equivalents at the end of the period	**Rs. 1,148,627**	**Rs. 2,338,453**	**$ 53,0**
pplementary Information			
sh paid towards interest	9,702	566	
sh paid / (refund received) towards income taxes	(15,843)	46,102	1,0
ditions to property, plant and equipment represented by capital lease obligations	2,186	4,453	1

See accompanying notes to unaudited condensed consolidated financial statements

6

SIFY LIMITED and Subsidiaries
UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME
(in thousands, except share data and as stated otherwise)

	Common Stock		Additional	Comprehensive	Deferred Compensation - Employee Stock Offer	Accumulated	Total Stockholders
	Shares	Par Value	Paid In Capital	Income	Plan	Deficit	Equity
	Nos.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as of March 31, 2006	42,389,514	423,895	16,238,413		(41,925)	(12,565,874)	4,054,509
Issue of common stock	392,408	3,924	64,351				68,275
Compensation related to stock option grants			46,509				46,509
Reversal of unamortized compensation cost pursuant to adoption of SFAS 123R			(41,925)		41,925		
Net profit				172,530		172,530	172,530
Comprehensive income				172,530			
Balance as of December 31, 2006	42,781,922	427,819	16,307,348			(12,393,344)	4,341,823
Balance as of December 31, 2006 (in US$)		9,699	369,697			(280,964)	98,432

7

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 nine months ended December 31, 2006 have been translated into United States dollars at the noon buying rate in New York City on December 31, 2006 for cable transfers in Indian rupees, as certified for customs purposes by the Federal Reserve Bank of New York of US$1 = Rs. 44.11. 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 December 31, 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.

d. Recent accounting 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.

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:

Cash price	Rs. 112,220	(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.

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
Total	**116,219**

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 at a prescribed rate 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 discontinued amortization of the IP-VPN license effective November 10, 2005 and reversed the amortization of the license fee.

As the NLD / ILD licenses were under the regime of Department of Telecommunications, the notification of the GOI dated 7 November 2005 was required to be complied with to receive NLD / ILD licenses. The primary condition set out in the notification among other conditions was that, the total composite foreign holding by the applicant should not exceed 74 per cent. Given that the foreign shareholding in Sify was higher than the aforesaid threshold limit, Sify Communications Limited (Sify Comm), a wholly-owned subsidiary of the Company proposed to obtain the NLD/ILD licenses in its name and made necessary applications in this regard. To facilitate this, Sify divested its stake in Sify Comm to the extent of 26% (refer to note 5 below) and the Company decided to transfer the IP-VPN business to Sify Comm effective from the date the NLD/ILD licences are received.

On November 21, 2006, Sify Comm executed two License Agreements with GOI, for NLD / ILD services respectively, which enabled Sify Comm to provide IP-VPN services. Accordingly, the Company has transferred its IP VPN business to Sify Comm effective November 22, 2006 and the latter commenced the said services on the same day. Sify Comm has also 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 19th year of license.

Pursuant to its arrangements with Sify Comm and GOI notification dated 7 November 2005, allowing adjustment of the one time entry fee of Rs. 100,000 paid by Sify towards the entry fee payable by Sify Comm, during the quarter ended December 31, 2006, the Company has adjusted Rs 75,000 towards the annual recurring fees and the balance Rs. 25,000 towards the entry fee payable by Sify Comm. Sify Comm paid the balance Rs. 25,000 towards entry fee for NLD / ILD Licenses.

5. Sale of 26% holding in Sify Communications Limited (Sify Comm)

The new guidelines issued by the GOI for NLD / ILD licenses limit foreign direct investment (FDI) for the telecommunication sector to 74% of the equity shares outstanding. As the foreign shareholding in Sify was 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 Comm, a subsidiary of Sify.

On December 19, 2005 Sify contributed Rs.700,000 as additional equity in Sify Comm to make the net worth of Sify Comm positive. Pursuant to the agreement entered with Infinity Satcom, Sify divested 26% of its holding in Sify Comm, or 4,680 shares, to M/s Infinity Satcom Universal (P) Ltd (Infinity Satcom), a related party, for a sale consideration of Rs.139,810 during the quarter ended December 31, 2005. M/s Infinity Satcom a company incorporated under the laws of India, is owned by Anand Raju, who is the brother of Raju Vegesna, 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.

Pending receipt of the ILD / NLD licences by Sify Comm, based on legal advice, Sify continued to carry on IP VPN business and accordingly, the amount received as against the sale proceeds, was included under other liabilities and the corresponding gain on divestment of 26% was also not recognized at that stage.

As indicated in note 4 above, the ILD / NLD licences were granted by GOI on November 21, 2006. Accordingly, during the quarter ended 31 December, 2006, the Company has recognized a gain of Rs. 226 on the divestment of 26% holding in Sify Comm.

6. Cash and cash equivalents

Cash and cash equivalents as on December 31, 2006 amounted to Rs. 2,338,453 (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 **a**gainst 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 December 31, 2006, the Company s goodwill and other intangible assets amounted to Rs. 41,516 and Rs. 157,668 respectively (Rs 14,596 and Rs.47,840, as at March 31, 2006 respectively). The following are the details of other intangible assets:

	As at March 31, 2006			As at December 31, 2006		
	Weighted Average Life	**Gross carrying amount**	**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	52,690
Customer contracts and others	4.04	56,084	39,119	4.62	141,883	54,506
IP VPN Licence				20.00	50,000	281
Software	2.90	222,119	197,422	2.91	235,742	215,210
Total		**Rs 413,686**	**Rs. 365,846**		**563,108**	**405,440**

The aggregate amortization expense for the quarter ended December 31, 2006 was Rs. 10,964 (Rs. 8,306 for the quarter ended December 31, 2005) and for the nine months ended December 31, 2006 was Rs. 44,400 (Rs. 30,502 for the nine months ended December 31, 2005).

Estimated amortization expense

For the year ending March 31,	
2007	Rs. 49,619
2008	35,423
2009	29,525
2010	21,597
2011	20,110
2012	4,394
2013-2026	35,000
2027	1,594

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 nine months ended December 31, 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.

		Quarter ended December 31, 2005		Nine months ended December 31, 2005
Net loss as reported	Rs.	(10,421)	Rs.	(170,157)
Add: Stock based compensation expense included in reported net loss		3,502		5,472
Less: Stock based compensation expense determined under fair value method		18,370		39,524
Pro forma net loss	Rs.	(25,289)	Rs.	(204,209)
Loss per share:				
Basic and diluted reported	Rs.	(0.29)	Rs.	(4.81)
Basic and diluted proforma	Rs.	(0.71)	Rs.	(5.77)

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. 5,039 for the quarter ended December 31, 2006 and Rs. 46,509 for nine months ended December 31, 2006

During the nine months ended December 31, 2006, the Company has issued 221,000 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 December 31,		Nine months ended December 31	
	2005	2006	2005	2006
Dividend Yield				
Assumed volatility	78.5% - 116.6%	57.70% - 95.45%	78.5% - 116.6%	57.70% - 95.45%
Risk-free interest rate	7.5%	4.84% - 7.5%	7.5%	4.84% - 7.5%
Expected Term	12-40 months	18 40 months	12-40 months	18 40 months

12

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 December 31,		Nine months ended December 31,	
	2005	**2006**	**2005**	**2006**
Service cost	Rs. 1,702	1,904	Rs. 5,105	5,712
Interest cost	348	416	1,044	1,249
Expected returns on plan assets	(135)	(41)	(404)	(122)
Amortization				
Recognized net actuarial (gain)/ loss	(122)	(117	(367)	(350)
Net gratuity costs	**Rs. 1,793**	**2,163**	**Rs. 5,378**	**6,489**

	Quarter ended December 31,		Nine months ended December 31,	
	2005	**2006**	**2005**	**2006**
Principal actuarial assumptions:				
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. 5,000 . 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. 1,337
2008	1,672

2009	2,523
2010	4,125
2011	6,607
2012-2017	37,694

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:

	As at	
	March 31, 2006	**December 31, 2006**
Corporate network / data services	Rs. 305,028	Rs. 250,681
Internet access services	133,613	75,894
Online portal services	623	602
Other services	5,069	63,860
Total	**Rs. 444,333**	**Rs. 391,037**

11. Advertising costs

Advertising costs incurred during the quarter have been expensed. The total amount of advertising costs expensed during the quarter ended December 31, 2006 was Rs. 9,282 (Rs. 10,855 for the quarter ended December 31, 2005) and for the nine months ended December 31, 2006 was Rs. 33,391 (Rs. 40,378 for the nine months ended December 31, 2005).

12. Products and services

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

	Quarter ended December 31,		**Nine months ended December 31,**	
	2005	**2006**	**2005**	**2006**
Revenue				
Services revenue	Rs. 1,028,751	Rs. 1,176,129	Rs. 2,856,571	Rs. 3,458,028
Initial franchisee fee	25,811	11,666	79,319	47,244
Installation services revenue	64,926	67,035	186,239	202,087
	1,119,488	1,254,830	3,122,129	3,707,359
Products revenue	Rs. 82,337	Rs. 136,457	Rs. 273,864	Rs. 385,407
	Rs. 1,201,825	**Rs. 1,391,287**	**Rs. 3,395,993**	**Rs. 4,092,766**

	Quarter ended December 31,		**Nine months ended December 31,**	
	2005	**2006**	**2005**	**2006**
Cost of revenues (excluding depreciation and amortization)				

Products	Rs. 63,784	Rs. 121,744	Rs. 229,162	Rs. 334,420
Services	549,225	605,562	1,611,321	1,747,686
Annual fee on IP VPN revenue	10,319	18,974	24,562	65,529
	Rs. 623,328	**Rs. 746,280**	**Rs. 1,865,045**	**Rs. 2,147,635**

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-relat 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:

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 December 31, 2005 and 2006 and for the nine months ended December 31, 2005 and 2006 is presented below:

	Quarter ended December 31, 2005				
	Corporate Network/Data Services	Internet Access Services	Online Portal Services	Other Services	Total
Revenues	Rs. 644,804	Rs. 463,306	Rs. 47,932	Rs. 45,783	Rs. 1,201,825
Allocated expenses	(349,352)	(448,767)	(48,441)	(37,903)	(884,463)
Equity in profits of affiliates			5,849		5,849
Minority interest					
Segment operating income / (loss)	Rs. 295,503	Rs. 14,539	Rs. 5,340	Rs. 7,880	Rs. 323,211
Unallocated corporate expenses					(241,034)
Foreign exchange gain / (loss), net					3,976
Other income / (expense), net					7,702
Depreciation and amortization					(114,585)
Interest income, net					7,761
Net Profit/(loss)					Rs. (12,969)

	Quarter ended December 31, 2006				
	Corporate Network / Data Services	Internet Access Services	Online Portal Services	Other Services	Total
Revenues	Rs. 810,151	458,311	75,668	47,157	1,391,287
Allocated expenses	(519,090)	(431,031)	(86,354)	(39,598)	(1,076,073)
Equity in profits of affiliates			18,650		18,650
Minority Interest	(7,896)				(7,896)
Segment operating income / (loss)	283,165	27,280	7,964	7,559	325,968

Unallocated corporate expenses	(180,958)
Foreign exchange gain / (loss), net	(20,558)
Other income / (expense), net	(2,518)
Depreciation and amortization	(118,388)
Interest income, net	38,025
Net Profit/(loss)	41,571

	Nine months ended December 31, 2005				
	Corporate Network / Data Services	Internet Access Services	Online Portal Services	Other Services	Total
Revenues	Rs. 1,833,593	Rs. 1,333,167	Rs. 122,543	Rs. 106,690	Rs. 3,395,993
Allocated expenses	(1,080,744)	(1,339,858)	(132,274)	(105,685)	(2,658,561)
Equity in profits of affiliates			35,257		35,257
Minority interest					
Segment operating income / (loss)	Rs. 752,900	Rs. (6,691	Rs. 25,526	Rs. 1,005	Rs. 772,689
Unallocated corporate expenses					(639,868)
Foreign exchange gain / (loss), net					6,609
Other income / (expense), net					15,014
Depreciation and amortization					(353,125)
Interest income, net					25,976
Net Profit/ (loss)					Rs. (172,705)

	Nine months ended December 31, 2006				
	Corporate Network / Data Services	Internet Access Services	Online Portal Services	Other Services	Total
Revenues	2,351,441	1,410,435	211,409	119,481	4,092,766
Allocated expenses	(1,420,130)	(1,353,647)	(203,658)	(106,365)	(3,083,800)
Equity in profits of affiliates			42,544		42,544
Minority interest	(7,896)				(7,896)
Segment operating income / (loss)	923,415	56,788	50,295	13,116	1,043,614
Unallocated corporate expenses					(614,368)
Foreign exchange gain / (loss), net					23,781
Other income / (expense), net					(1,721)
Depreciation and amortization					(388,614)
Interest income, net					109,838
Net Profit/(loss)					172,530

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 December 31, 2006:

Minimum lease payments receivable	Rs. 33,997
Less: Unearned income	(2,259)
Net investment in sales-type leases	31,738

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

For the year ending March 31, 2007	Rs. 4,602
2008	17,455
2009	6,934
2010	5,006

17

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.77,724 stating that no withholding tax has been deducted in respect of international bandwidth and leased line payments made by the Company to international bandwidth / lease line service providers.

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

The Commissioner of Income Tax (Appeals) heard the Company s appeal against the order of the Income Tax Officer and directed the Assessing Officer to comment on the submissions filed by the Company. The appeal will be disposed off only after the remand report is received from the Assessing Officer.

Subsequent to the quarter ended December 31, 2006, the Company has also filed a petition for stay of collection of tax demanded in the order until the disposal of the appeal. The appeal was rejected and the Company has been directed to pay the same in installments. Hence, the Company is paying under protest the entire demand in twelve equal installments. This is subject to the outcome of the appeals filed by the Company.

b) The Company has outstanding financial and performance guarantees for various statutory purposes and letters of credit totalling Rs. 475,600 and Rs.635,116 as of December 31, 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.

In July 2002, an omnibus motion to dismiss all complaints against issuers and individual defendants affiliated with issuers was filed by the entire group of issuer defendants in these similar actions. In October 2002, the cases against the Company s executive officers who were named as defendants in this action were dismissed without prejudice. In February 2003, the court in this action issued its decision on defendants omnibus motion to dismiss. This decision denied the motion to dismiss the Section 11 claim as to the Company and virtually all of the other issuer defendants. The decision also denied the motion to dismiss the Section 10(b) claim as to numerous issuer defendants, including the Company. On 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