

## Board of Directors

**R Ramaraj**

Managing Director & CEO

**Donald Macinnes Peck**

**Eric Hsia**

**Ravi Chandra Adusumalli**

**Sandeep Reddy**

**V Srinivas**

**K Thiagarajan**

**T H Chowdary**

**S Srinivasan**

### Registered Office

2nd Floor, Tidel Park  
4, Canal Bank Road  
Taramani, Chennai – 600 113  
India.

**T R Santhanakrishnan**

Chief Financial Officer

**R Ramachandran**

Company Secretary

### Bankers

ABN Amro Bank

Citibank N.A.

ICICI Bank Limited

IDBI Bank Limited

### Auditors

Bharat S Raut & Co.

Chartered Accountants

Chennai, India.

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## Sify Limited

Tidel Park, 2nd Floor, 4, Canal Bank Road  
Taramani, Chennai 600 113, India.

April 17, 2003

To the holders of our American Depositary Shares:

On behalf of your Board of Directors and your management, I cordially invite you to attend our Seventh Annual General Meeting of stockholders. It will be held on Monday June 23, 2003, beginning at 11.00 a.m., at our registered office located at Tidel Park, 2<sup>nd</sup> Floor, 4, Canal Bank Road, Taramani, Chennai 600 113, India.

At the Annual General Meeting, you will be asked to consider and approve ordinary business matters, including the adoption of the Company's audited Balance Sheet, Profit and Loss Account, the Auditors' Report and Directors' Report for the fiscal year ended March 31, 2003, as well as the appointment of Directors and the ratification of selection of Accountants.

In addition to ordinary business matters, you will be asked to consider and approve six special business matter.

We are seeking your approval:

1. to consider and approve appointment of Mr Eric Hsia as a Director.
2. to consider and approve appointment of Mr Ravi Chandra Adusumalli as a Director.
3. to consider and approve appointment of Mr Sandeep Reddy as a Director.
4. to consider and approve appointment of Mr V Srinivas as a Director.
5. to consider and approve appointment of Mr K Thiagarajan as a Director.
6. to consider and approve sponsoring of an ADS issue.

The ordinary business matters are ordinary resolutions requiring the approval of a majority of the equity shareholders present in person or by proxy at the Annual General Meeting. The matters set forth in paragraphs 1 to 5 require an ordinary resolution and paragraph 6 requires a special resolution. Under Indian law, a special resolution must be approved by a number of votes, which is not less than three times the number of votes against the special resolution.

Our Board of Directors recommends that you approve each of these resolutions.

You are urged to read carefully the accompanying Notice of Annual General Meeting and Explanatory Statement pursuant to Section 173(2) of the Indian Companies Act, 1956 for additional information regarding the Annual General Meeting and the resolutions proposed.

The Board of Directors has fixed the close of business on May 2, 2003 as the record date for the determination of stockholders entitled to notice of and to vote at the Annual General Meeting. All stockholders are cordially invited to attend the Annual General Meeting. However, to ensure your representation, you are requested to complete, sign, date and return the enclosed voting direction card as soon as possible in accordance with the instructions on the card. A return addressed envelope is enclosed for your convenience. This card represents your instruction to the depositary regarding the voting of the equity shares underlying your ADRs.

Yours very truly,

**R Ramaraj**  
Managing Director & CEO.

## NOTICE OF SEVENTH ANNUAL GENERAL MEETING

**NOTICE** IS HEREBY GIVEN THAT THE SEVENTH ANNUAL GENERAL MEETING OF SIFY LIMITED WILL BE HELD ON MONDAY, 23 JUNE 2003 AT 11.00 A.M. AT THE REGISTERED OFFICE OF THE COMPANY AT 2nd FLOOR, TIDEL PARK, 4, CANAL BANK ROAD, TARAMANI, CHENNAI 600113, INDIA.

### Ordinary Business

- 1) To adopt the Audited Balance Sheet as of March 31, 2003 and the Profit and Loss Account, the Auditors' Report and the Directors' Report for the fiscal year ended March 31, 2003.
- 2) To appoint a Director in place of Mr Donald Peck, a Director who retires by rotation, and being eligible, offers himself for reappointment.
- 3) To reappoint M/s. Bharat S Raut & Co., Chartered Accountants, who retire at the conclusion of this Annual General Meeting, for a further period of one year i.e., till the conclusion of next Annual General Meeting, on a remuneration to be fixed by the Board of Directors.

### Special Business

- 4) Appointment of Mr Eric Hsia as a Director

To consider and if thought fit to pass with or without modifications, the following resolution as an Ordinary resolution.

“RESOLVED that Mr Eric Hsia who was appointed as an additional director of the Company by the Board and who ceases to hold office under section 260 of the Companies Act, 1956 and in respect of whom a notice under section 257 of the Companies Act, 1956 has been received by the Company proposing his candidature for the office of director, be and is hereby appointed as director of the Company.”

- 5) Appointment of Mr Ravi Chandra Adusumalli as a Director

To consider and if thought fit to pass with or without modifications, the following resolution as an Ordinary resolution.

“RESOLVED that Mr Ravi Chandra Adusumalli who was appointed as an additional director of the Company by the Board and who ceases to hold office under section 260 of the Companies Act, 1956 and in respect of whom a notice under section 257 of the Companies Act, 1956 has been received by the Company proposing his candidature for the office of director, be and is hereby appointed as director of the Company.”

- 6) Appointment of Mr Sandeep Reddy as a Director

To consider and if thought fit to pass with or without modifications, the following resolution as an Ordinary resolution.

“RESOLVED that Mr Sandeep Reddy who was appointed as an additional director of the Company by the Board and who ceases to hold office under section 260 of the Companies Act, 1956 and in respect of whom a notice under section 257 of the Companies Act, 1956 has been received by the Company proposing his candidature for the office of director, be and is hereby appointed as director of the Company.”

- 7) Appointment of Mr V Srinivas as a Director

To consider and if thought fit to pass with or without modifications, the following resolution as an Ordinary resolution.

“RESOLVED that Mr V Srinivas who was appointed as an additional director of the Company by the Board and who ceases to hold office under section 260 of the Companies Act, 1956 and in respect of whom a notice under section 257 of the Companies Act, 1956 has been received by the Company proposing his candidature for the office of director, be and is hereby appointed as director of the Company.”

8) Appointment of Mr K Thiagarajan as a Director

To consider and if thought fit to pass with or without modifications, the following resolution as an Ordinary resolution.

“RESOLVED that Mr K Thiagarajan who was appointed as an additional director of the Company by the Board and who ceases to hold office under section 260 of the Companies Act, 1956 and in respect of whom a notice under section 257 of the Companies Act, 1956 has been received by the Company proposing his candidature for the office of director, be and is hereby appointed as director of the Company.”

9) Sponsoring of an ADS Issue

To consider and if thought fit to pass with or without modifications, the following resolution as a Special resolution.

- a) “RESOLVED THAT, subject to the approval, consent, permission and sanction of the Foreign Investment Promotion Board, Government of India, Reserve Bank of India, Ministry of Finance, Department of Company Affairs and any other appropriate authorities, institutions or regulators as may be necessary and subject to such conditions as may be prescribed by any of them in granting any such approval, consent, permission or sanction, the Board of Directors (hereinafter referred to as the ‘Board’, which term shall be deemed to include any committee thereof) be and are hereby authorized on behalf of the Company, in accordance with FEMA, to sponsor the issue of American Depository Shares (hereinafter “ADSs”) with an Overseas Depository against existing Equity Shares of the Company deposited by the shareholders of the Company (hereinafter referred to as the “Equity Shareholders”), pursuant to an option given to all Equity Shareholders in terms of the Sponsored ADR Regulations, (hereinafter “Sponsored ADS Offering”), on such terms and conditions as the Board may in its absolute discretion deem fit, and to cause allotment to the investors in such foreign markets (whether institutions and/or incorporated bodies and/or individuals or otherwise and whether such Investors are members of the company or otherwise) of ADSs by the Overseas Depository, in a private or public transaction where each such ADSs shall represent one existing fully paid up Equity Share of par value Rs.10 per share, deposited pursuant to the Sponsored ADS offering, and the size of the Sponsored ADS Offering shall not be the lesser of 3,600,000 Equity Shares and the greater of 4,605,000 Equity Shares”.
- b) “RESOLVED FURTHER THAT the Company through the Overseas Depository, sponsor the issue of Depository Receipts representing the underlying Equity Shares deposited pursuant to the Sponsored ADS Offering”.
- c) “RESOLVED FURTHER THAT for the purpose of giving effect to the Sponsored ADS Offering or the allotment of the ADSs, the Board and other designated officers of the Company be and are hereby authorized on behalf of the Company, to do all such acts, agreements, deeds, documents, incur costs in connection with the Sponsored ADS Offering and to do things as it may at its discretion deem necessary or desirable for such purpose including without limitation, circulation and the Invitation to Offer to all the Equity Shareholders, to the extent required by applicable law, filing a Registration Statement and other documents with the United States Securities and Exchange Commission (SEC), listing the securities on the Nasdaq National Market and entering into private placement underwriting, indemnification, escrow, marketing and depository arrangements in connection with the Sponsored ADS Offering, as it may in its absolute discretion deem fit”.
- d) “RESOLVED FURTHER THAT the pricing of the Sponsored ADS Offering be determined by the Lead Manager, in accordance with the provisions of Regulation 4B (i) of the FEMA Notification No. 41/2001 dated 2 March 2001”.

- e) “RESOLVED FURTHER THAT the Board be and is hereby authorized to determine all terms and conditions of the Sponsored ADS Offering, settle all questions, difficulties or doubts that may arise in regard to the Sponsored ADS Offering, offer or allotment of ADS and in complying with the Sponsored ADR Regulations, nature and manner of offering in case any of the existing shareholders do not opt for disinvestment through ADS as the Board may in its absolute discretion deem fit, without being required to seek any further clarification, consent or approval of the members or otherwise to the end and intent that the members shall be deemed to have given their approval thereto expressly by the authority of this resolution”.
- f) “RESOLVED FURTHER THAT the Board be and is hereby authorized to delegate all or any of its powers conferred to any committee of directors or Managing Director or Director(s) or any other Officer(s) of the Company to give effect to these aforesaid resolutions”.

By Order of the Board  
For Sify Limited

**R Ramachanderan**  
*Company Secretary*

Place : Chennai  
Date : 17 April 2003

**NOTES:**

A member entitled to attend and vote at the meeting is entitled to appoint a proxy and such proxy need not be a member of the Company. In order to be effective, proxies must be received by the Company not less than 48 hours before the commencement of the meeting.

An Explanatory Statement pursuant to Section 173(2) of the Indian Companies Act, 1956, is annexed hereto.

## EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE INDIAN COMPANIES ACT, 1956

In accordance with Section 173(2) of the Indian Companies Act, 1956, the following information is given in respect of the special business set out in the notice of the annual general meeting of the Company to be held on June 23, 2003.

### Item No. 4 to 8

Mr Eric Hsia, Mr Ravi Chandra Adusumalli, Mr Sandeep Reddy, Mr V Srinivas and Mr K Thiagarajan, were appointed as Additional Directors of the Company with effect from 16 December 2002 and hold office as Additional Directors upto the date of the Annual General Meeting. Notice has been received from a member under Section 257 of the Companies Act, 1956 alongwith the deposit amount of Rs.2,500/- proposing the candidature of Mr. Eric Hsia, Mr Ravi Chandra Adusumalli, Mr Sandeep Reddy, Mr V Srinivas and Mr K Thiagarajan, under the relevant provisions of the Companies Act, 1956.

The Directors recommend the resolution for approval of the shareholders.

### Memorandum of Interest

Mr Eric Hsia, Mr Ravi Chandra Adusumalli, Mr Sandeep Reddy, Mr V Srinivas and Mr K Thiagarajan, are interested in the proposal under this item as it relates to their appointment. No other Director is interested or concerned in the resolution.

### Item No 9

The Reserve Bank of India (RBI) has notified in FEMA Notification No. 41/2001 dated 2 March 2001 the provisions for a company to sponsor an issue of American Depository Shares with an Overseas Depository against existing Equity Shares held by the Equity Shareholders of the Company. This transaction could be by way of a private placement or a public offering. The Operative Guidelines issued by the Government of India, Ministry of Finance and the RBI following the aforesaid notification require the Company to obtain the approval of the members by special resolution to sponsor such an offering.

As per the Sponsored ADR Regulations, the program has to be sponsored by the Company and all expenses incurred by the Company in relation to the Sponsored ADS Offering will be deducted from the proceeds and only the net amount will be paid to the Equity Shareholders whose shares have been accepted in the Sponsored ADS Offering. **In the event the Sponsored ADS Offering is not concluded for any reason, all expenses incurred in connection with the sponsored ADS Offering shall be borne by the Company.**

By seeking this approval, neither the Company nor any equity shareholder is offering to sell or soliciting an offer to buy any equity shares or ADSs.

The Board recommends all the resolutions contained in this Notice for the approval of members.

### Memorandum of Interest

The directors of the Company, to the extent of the Equity Shares held by them in the company, if any, may be deemed to be interested in the aforesaid resolutions in Item 9, solely in their capacity as Equity Shareholders to whom the Sponsored ADS Offering proposed for the approval of the members, would provide an option to participate in the Sponsored ADS Offering, on a *pari passu* basis with all other shareholders of the Company.

By Order of the Board  
For Sify Limited

**R Ramachanderan**  
Company Secretary

Place : Chennai, India  
Date : 17 April 2003



## DIRECTORS' REPORT

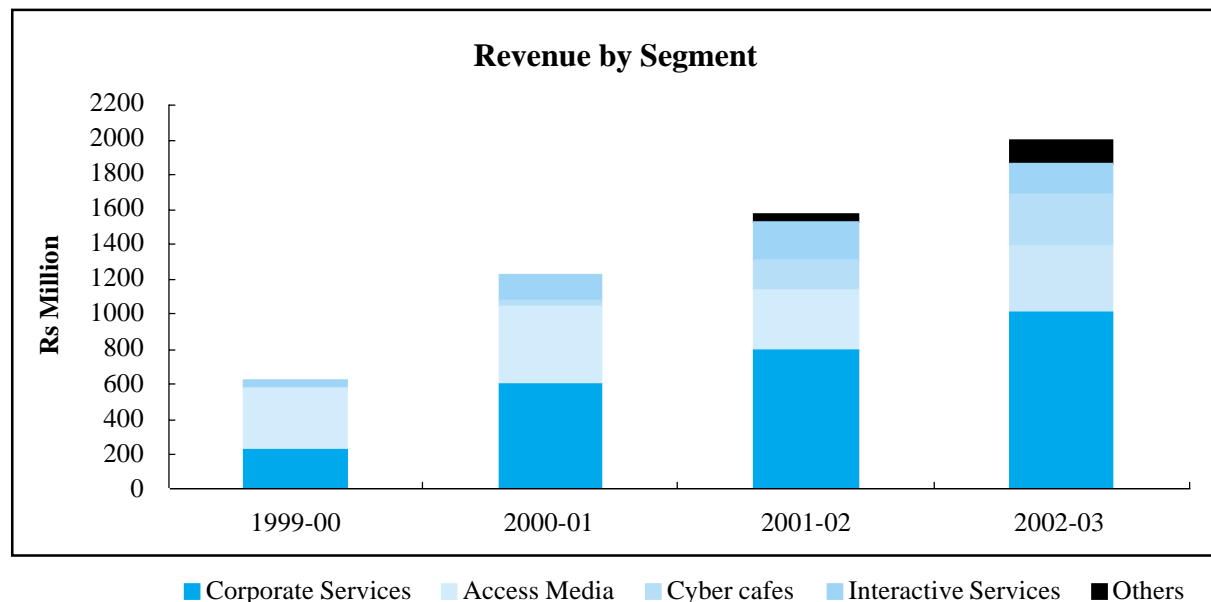
Dear Members,

Your Directors have pleasure in presenting the Seventh Annual Report together with the audited accounts of Sify, your company for its financial year ended 31 March 2003.

### Review of Activities

Sify completed several milestones in the financial year:

- After several quarters spent on building the business, Sify reported in the last quarter, ended 31 March 2003, a cash profit and positive cash generation from operations for the quarter for the first time in the last three years. This validates Sify's business model and the trust and faith reposed in the company by its customers and vendors as well as by its shareholders, in addition to enhancing the morale of the people who work for Sify.
- During the financial year, Sify arranged for \$ 20 million in new equity for the Company from a group of investors including Softbank Asia Infrastructure Fund. The investors have already injected \$ 16.5 million into Sify. The remaining amount is expected to be injected before 30 April 2003. The new investors' investment thesis is principally Sify's leadership in network/data services to business enterprises.
- Consequent to the issue of fresh equity, Satyam Computer Services (SCSL), our erstwhile parent, saw its shareholding diluted from 52.5% to 37.1%. This is expected to go down further to 35.0% [or 33% fully diluted for ESOPs] after the second tranche is introduced by the new investors. Your Company appreciates the parent/subsidiary relationship it had with SCSL and the able guidance provided by Mr Ramalinga Raju who resigned from the Board of Sify on consummation of the deal with the new investors. Sify's Board has since been augmented by appointments representing the new investors. The Company changed its name to Sify Limited and has moved its registered office from Hyderabad to Chennai. The Company continues to be listed and traded on Nasdaq under the code "SIFY".
- Sify continued to reaffirm its leadership in the marketplace. Total revenues grew by 26% over last year to Rs 1,994 million. Network/data services to business enterprises ("Corporate Services") continued to dominate topline revenues and accounted for 51% of Sify's revenues. Sify's franchised chain of cybercafes branded "i-way" was a noticeable growth area.
- The following shows Sify's revenues by segment:



- While Corporate Services continued to be profitable, the losses in the retail segment, especially the dial-up access business, were brought down which contributed significantly to the cash breakeven achieved during the last quarter of the year.

### Network/data services to business enterprises (“Corporate services”)

During the year under review, Corporate Services business accounted for 51% of the total revenue, recording a growth of 26% over the previous year. The year on year growth was seen in all components of this offering including: Network connectivity, VPNs, security services, messaging services, hosting services and related value-added services.

A vindication of Sify’s leadership is the acknowledgment by International Data Corporation (IDC) in its report titled “VPN Market Services in India” issued in January 2003. We are proud to quote IDC:

“Sify seems to be the clear-cut leader in the VPN market space. It is the first private ISP that has the experience as well as expertise to handle and manage large Virtual Private Networks of corporates. It has the largest market share and commands the highest respect about its services from clients.”

Key customer wins in Data / Network services during the year include corporates like Hutch India, GE India, ITC Infotech, North Delhi Power, SKF, GE Global Exchange and Hinduja TMT. The transition of over 200 corporate customers we acquired from Wipro during the year was very smooth. They included blue-chip companies such as Godrej, HDFC, Canon, Xerox, Ranbaxy, Gillette, Whirlpool and Carborundum Universal.

Sify also deployed fixed wireless broadband last mile solutions for corporates, aggressively implementing this service for over 200 customers, and thus providing an effective alternative to the last mile challenges posed by existing players. This resulted in an expansion of the market for high-quality internet services for corporates.

The Applications services segment, which offers Messaging Solutions, Internet Business Solutions and Security Services, registered a quantum jump in revenues. We added a number of prestigious clients including British Council India, National Panasonic India, Hindustan Aeronautics, ISRO, ABN Amro, Mahindra Holidays, Canara Bank and Sundaram Fasteners. The first intranet version of the powerful web-based collaboration tool “Expressmeet” was sold to Birla Management Corporation Limited. Sify also bagged a prestigious order from e-Commodities to develop India’s first web-based Sugar Futures Trading Exchange.

In Hosting services segment, we signed new orders from National Stock Exchange, Pacsoft, Canara Bank, Procter & Gamble and Hutch. We introduced a series of value-added services and pursued a tightly defined co-location model thus ensuring acceptable margins on this business for Sify.

Sify’s subsidiary, Safescrypt became a market leader as the first Certifying Authority under India’s IT Act 2000. The market for PKI services gained ground over the year. Enterprises began showing interest in progressively deploying PKI solutions across several kinds of applications, involving the acquisition of clients across verticals including Infosys, Bharat Heavy Electricals, Wipro and ICICI Bank.

### New Initiatives

Sify took several proactive initiatives during the year to meet the challenges in the short-term and to sustain growth in the long term. The emphasis on building long-standing relationships was evident in the increased share of business from existing clients. Further, a continuing emphasis on building competencies to enhance business propositions and an aggressive foray into different geographical markets is yielding positive results. Some of these initiatives are described below.

- Sify re-launched SifySecureConnect, a comprehensive range of IP VPN solutions including managed VPN services and security solutions. We have in place an alignment with Cisco for making a joint pitch to corporate customers, which is expected to give a significant impetus to our marketing strategy.
- Sify installed Tier 1 IP backbone infrastructure powered by Gigabit Switched Routers (GSRs) in a national backbone; a first in India. Sify’s customers can now benefit from one of the fastest and advanced networks in the world. This would enable Sify to deliver next generation networking services to customers.

- Hosting services segment of the business established Tidel Park, Chennai as India's first full-fledged off-site Disaster Recovery site and commenced offering services in the form of cold stand by, hot stand by and real time disaster recovery. Sify also became the first hosting services provider in India to introduce SLA-based security services branded "FortKnox".

### Access Media

In a very challenging year for the industry, Sify's Access media revenues grew by 31% over last year. Sify now offers access services at 55 points of presence (PoPs) spread across the country.

In the dial-up market segment, which saw the closure of many ISPs, Sify retains its leadership position by offering superior quality user experience, with first-time connectivity, uninterrupted services and speedy downloads. We were able to increase revenues and ARPUs (Average Revenue Per Subscriber) and also retain valuable customers.

In the Sify iways business, we saw a rapid migration of most iways to broadband connectivity resulting in high speed, reliable last mile managed by Sify. This has enabled delivery of significantly superior and unmatched user experience compared with our competition. Our chain of iways has expanded from 680 last year to 844 this year, taking the iway experience into new cities like Jamshedpur, Trichy, Madurai, Coimbatore, Cochin and Jodhpur, and helping us to grow revenues from cybercafes by 67% over the previous year.

### New Initiatives

- Sify successfully launched a broadband internet access offering to homes in 7 cities. Sify has also tied up with several cable operators to deliver broadband internet access to homes reached by cable operators.
- Upon opening up of Voice over IP, Sify launched "Way2Talk" in May 2002 facilitating international voice calls to be made from homes and iways. In public access points, special instruments have been used to ensure that quality is on par with that of the telecom companies. The service has been well received by consumers, resulting in a growth in usage and revenue. However, with the recent price cuts introduced by various ILD operators, Sify has a conservative view on the growth potential in this service.

### Interactive Services

The flagship brand of Sify's online portal business [www.sify.com](http://www.sify.com) was revamped by providing a uniform look and feel and a superior navigation to browsers. A single sign on was introduced for the convenience of the browsers. The Samachar website was modified, with content enhancement through strategic tie-ups.

### Developing Market Leadership

Sify has ambitious plans to consolidate its position as a market leader and accelerate growth by:

- Building the most robust backbone network by leasing fiber bandwidth from the best telecom players in each of the geographical markets.
- Aggressively pushing IP VPN and premium internet bandwidth for the end-to-end networking needs of corporates.
- Offering comprehensive, high quality networking, security and hosting solutions for corporates.

### Financial Highlights

Sify Limited registered sales of Rs 1,994 million during the period under review. The net loss for the financial year was Rs 1,329 million.

### Social Programs

Sify approaches its social responsibility as a corporate citizen in much the same way that it approaches the rest of the business - with zeal, commitment and forethought. Sify took the initiative of setting up Chennai centre of "Sify Alambana Trust", a non-profit social organisation run by spouses of Associates. The Alambana philosophy is to improve the quality of life of the under privileged members of the society it resides in by focusing on education, health, environment and to facilitate them to participate in creation of wealth using information technology. So far, Alambana has trained and successfully placed over 100 young adults in IT related careers.

## **Directors**

Mr Donald Peck, Director retires by rotation during the ensuing Annual General Meeting and being eligible offers himself for re-appointment. Your Directors recommend his re-appointment.

Mr Eric Hsia, Mr Ravi Adusumalli and Mr Sandeep Reddy were appointed as additional directors in December 2002 upon consummation of the first tranche of investment by the new investors. Mr V Srinivas and Mr K Thiagarajan, nominees of Satyam Computers were also appointed as additional directors.

## **Directors' Responsibility Statement**

Your directors state:

- (i) that in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (ii) that they had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that period;
- (iii) that they had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act of 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- (iv) that they had prepared the annual accounts on a going concern basis.

## **Audit Committee**

The Audit Committee was reconstituted on 16 December 2002 to include Mr Donald Peck, Mr Ravi Adusumalli and Mr Sandeep Reddy.

## **Auditors**

Our Statutory auditors M/s. Bharat S. Raut & Co. retire at the ensuing Annual General Meeting and are eligible for re-appointment.

## **Fixed Deposits**

Your Company has not accepted any deposits and as such, no amount of principal or interest was outstanding on the date of the Balance Sheet.

## **Conservation of Energy, Technology Absorption and Foreign Exchange**

The particulars prescribed under clause (e) of sub section (1) of section 217 of the Indian Companies Act, 1956, read with the Companies (Disclosure of Particulars in Report of Board of Directors) Rules 1998 are given in Annexure 'A' of this report.

## **Employees' Particulars in terms of Section 217(2A) of the Indian Companies Act, 1956**

The particulars of employees as required to be disclosed in accordance with the provisions of Section 217 (2A) of the Indian Companies Act, 1956, and the Companies (Particulars of Employees) Rules, 1975, as amended, are annexed to the Directors' Report.

However, as per the provision of Section 219(1)(b)(iv) of the Indian Companies Act, 1956, the Report and the Accounts are being sent to all shareholders of the Company excluding the aforesaid information. Any shareholder interested in obtaining such particulars may write to the Company Secretary at the registered office of the Company.

## **Associate Stock Option Plan**

Members of the Company have so far allocated 1,833,000 equity shares to be issued as stock options to associates under the two Associate Stock Option Plans (ASOP 1999 and ASOP 2000)

The total number of options granted and outstanding under the various ASO Plans as of 31 March 2003 is as below:

Options convertible to Shares at the time of exercise	:	Nil
Options convertible to American Depositary Receipts at the time of exercise	:	390,560

The particulars of Stock options under ASOP 1999 and ASOP 2000 are also disclosed in accordance with Clause 12 of SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme Guidelines, 1999) by way of additional information in Annexure B.

For and on behalf of the  
Board of Directors

Director

Place : Chennai

Date : 17 April 2003

#### Annexure A

Particulars furnished pursuant to Companies (Disclosure of Particulars in the Report of Board of Directors) Rules 1988.

- A. *Conservation of Energy*: The Company is not a manufacturing Company and hence the details in respect of the above are not applicable.
- B. *Research and Development*: The Company has not undertaken any R&D activity in any specific area during the year under review, and hence no cost has been incurred towards the same.
- C. *Technology Absorption* : Nil.
- D. *Foreign Exchange Earnings and Outgo*:
- |                                 |   |                |
|---------------------------------|---|----------------|
| Total Foreign Exchange earnings | : | Rs 353 million |
| Total Foreign Exchange outgo    | : | Rs 297 million |

#### Annexure B

The details of ASOP 1999 and ASOP 2000 are given below:

a. No. of options granted	:	ASOP 1999	ASOP 2000
		Nil	15,480
b. The pricing formula	:	In accordance with the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and Guidelines for ADR Linked Stock Option Scheme for Software Companies issued by Ministry of Finance (Investment Division).	
c. Options vested	:	ASOP 1999	ASOP 2000
		Nil	177,393
d. Options exercised	:	ASOP 1999	ASOP 2000
		Nil	Nil

e.	The total number of shares arising as a result of exercise of option	:	ASOP 1999 Nil	ASOP 2000 Nil
f.	Options lapsed	:	ASOP 1999 Nil	ASOP 2000 208,760
g.	Variation of terms of options	:	None	
h.	Money realized by exercise of options	:	Not applicable	
i.	Total number of options in force	:	ASOP 1999 Nil	ASOP 2000 390,560
j.	Employee-wise details of options granted	:		
	i) Senior managerial personnel			
			Name of the Associate	ASOP 2000
			Mr. Shrikant Joshi	5,100
			Mr. Dasaratharaman	5,100
	ii) No employee received options amounting to 5% or more of options granted during the year.			
	iii) No employee was granted options during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant.			
k.	Diluted Earnings Per Share (EPS) (on par value of Rs 10 per share) calculated in accordance with Accounting Standard 20.	:	Rs Nil	

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders

Sify Limited (formerly known as Satyam Infoway Limited)

We have audited the accompanying consolidated balance sheets of Sify Limited (formerly known as Satyam Infoway Limited) and subsidiaries as of March 31, 2002 and 2003, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows, for each of the years in the three-year period ended March 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sify Limited (formerly known as Satyam Infoway Limited) and subsidiaries as of March 31, 2002 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, the consolidated financial statements expressed in Indian Rupees have been translated into dollars on the basis set forth in Note 3 of the notes to the consolidated financial statements.

KPMG  
Chennai, India  
April 17, 2003

**SIFY LIMITED (formerly known as Satyam Infoway Limited) and Subsidiaries**  
**CONSOLIDATED BALANCE SHEETS**  
*(In thousands, except share data and as stated otherwise)*

	<b>2002</b>	<b>As at March 31,</b>	<b>2003</b>
	Rs.	Rs.	\$
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	658,111	897,596	18,885
Cash restricted	52,389	74,612	1,570
Accounts receivable	419,961	346,270	7,285
Due from officers and employees	38,675	982	21
Due from related parties	8,137	16,016	337
Inventories	35,426	39,971	841
Prepaid expenses	114,755	124,785	2,625
Other current assets	76,891	72,948	1,535
<b>Total current assets</b>	<b>1,404,345</b>	<b>1,573,180</b>	<b>33,099</b>
Cash restricted	100,000	100,010	2,104
Property, plant and equipment-net	1,932,046	1,542,829	32,460
Goodwill and other intangible assets	341,179	166,983	3,513
Investments in affiliated companies	170,332	140,053	2,947
Investments in securities	9,477	1,140	24
Other assets	139,152	176,192	3,707
<b>Total assets</b>	<b>4,146,274</b>	<b>3,700,387</b>	<b>77,854</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Current installments of capital lease obligations	3,218	2,482	52
Trade accounts payable	243,099	89,259	1,878
Accrued liabilities	256,291	271,632	5,715
Deferred revenue	144,519	289,297	6,087
Advances from customers	15,320	26,171	551
Other current liabilities	21,278	60,520	1,273
<b>Total current liabilities</b>	<b>683,725</b>	<b>739,361</b>	<b>15,556</b>
Capital lease obligations, excluding current installments	3,922	3,767	79
Deferred Tax Liability	13,388	-	-
Other liabilities	39,877	65,864	1,386
<b>Total liabilities</b>	<b>740,912</b>	<b>808,992</b>	<b>17,021</b>
<b>Minority interest</b>	<b>11,249</b>	<b>2,699</b>	<b>57</b>
<b>Stockholders' equity</b>			
Common stock, Rs 10 par value; 35,000,000 equity shares authorized; Issued and outstanding: 23,202,176 shares as of March 31,2002 and 32,795,200 as of March 31,2003	232,022	327,952	6,900
Additional paid-in capital	13,649,324	14,326,742	301,425
Deferred compensation - employee stock offer plan	(74,961)	(24,839)	(523)
Accumulated deficit	(10,408,381)	(11,737,769)	(246,955)
Accumulated other comprehensive income	(3,891)	(3,390)	(71)
<b>Total stockholders' equity</b>	<b>3,394,113</b>	<b>2,888,696</b>	<b>60,776</b>
<b>Total liabilities and stockholders' equity</b>	<b>4,146,274</b>	<b>3,700,387</b>	<b>77,854</b>

See accompanying notes to consolidated financial statements

**SIFY LIMITED (formerly known as Satyam Infoway Limited) and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
*(In thousands, except share data and as stated otherwise)*

	Year ended March 31,			
	2001 R.s.	2002 R.s.	2003 R.s.	2003 \$
Revenues	1,200,833	1,493,636	1,862,585	39,188
Initial services charges	19,691	66,652	97,270	2,046
Satyam Computer Services Limited	4,957	17,200	34,345	723
<b>Total Revenue</b>	<b>1,225,481</b>	<b>1,577,488</b>	<b>1,994,200</b>	<b>41,957</b>
Cost of revenues (excluding depreciation and amortization)	(1,177,106)	(1,192,671)	(1,264,101)	(26,596)
<b>Gross profit (excluding depreciation and amortization)</b>	<b>48,375</b>	<b>384,817</b>	<b>730,099</b>	<b>15,361</b>
<b>Operating expenses:</b>				
Selling, general and administrative expenses	1,855,864	1,860,967	1,635,103	34,401
Provision for doubtful receivables and advances	31,460	101,500	156,233	3,287
Acquisition expenses	-	20,000	-	-
Amortisation / impairment of goodwill	931,967	4,420,644	-	-
Impairment of assets	-	-	246,999	5,197
Amortisation of deferred stock compensation expense	61,451	9,686	57,729	1,215
Foreign exchange gain	(162,136)	(44,520)	18	-
<b>Total operating expenses</b>	<b>2,718,606</b>	<b>6,368,277</b>	<b>2,096,082</b>	<b>44,100</b>
Operating loss	(2,670,231)	(5,983,460)	(1,365,983)	(28,739)
Other income, net	242,368	32,711	52,948	1,114
Loss before taxes, equity in losses of affiliates and minority interest	(2,427,863)	(5,950,749)	(1,313,035)	(27,625)
Equity in losses of affiliates				
Operating losses	(263,178)	(1,225,444)	(50,689)	(1,066)
Gain on sale of investment in affiliates			24,628	518
Minority interest	11,137	17,928	12,564	264
Losses before income taxes	(2,679,904)	(7,158,265)	(1,326,532)	(27,909)
Taxes	(1,707)	-	(2,856)	(60)
<b>Loss from continuing operations</b>	<b>(2,681,611)</b>	<b>(7,158,265)</b>	<b>(1,329,388)</b>	<b>(27,969)</b>
<b>Discontinued operations</b>				
Income / (loss) from discontinued operations	172,581	(125,373)	-	-
Profit on sale of discontinued operations	-	81,121	-	-
<b>Net loss</b>	<b>(2,509,030)</b>	<b>(7,202,517)</b>	<b>(1,329,388)</b>	<b>(27,969)</b>
<b>Net loss per share - continuing operations</b>	<b>(117.34)</b>	<b>(308.59)</b>	<b>(51.15)</b>	<b>(1.08)</b>
<b>Net loss per share - discontinued operations</b>	<b>7.55</b>	<b>(1.91)</b>	<b>-</b>	<b>-</b>
<b>Net loss per share</b>	<b>(109.79)</b>	<b>(310.50)</b>	<b>(51.15)</b>	<b>(1.08)</b>
Weighted equity shares used in computing loss per equity share	22,852,600	23,196,428	25,988,095	25,988,095

See accompanying notes to consolidated financial statements

**SIFY LIMITED (formerly known as Satyam Infoway Limited) and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME**  
(In thousands, except share data and as stated otherwise)

	Common Stock		Additional Paid In Capital Rs.	Compre – hensive Income Rs.	Accumulated Comprehensive Income Rs.	Other Comprehensive Income Rs.	Compensation- Employee Stock Offer Plan Rs.	Accumulated Deficit Rs.	Total Stockholders' Equity Rs.
	Shares	Par Value							
	Nos.	Rs.							
<b>Balance as of March 31, 2000</b>	22,249,425	222,494	10,520,953			1,451	(120,225)	(696,834)	9,927,839
Issue of common stock for acquisitions and investments	933,678	9,337	3,122,097						3,131,434
Compensation related to stock option grants			67,676				(67,676)		
Amortization of compensation related to stock option grants							86,796		86,796
Capital transaction of investee			(41,156)						(41,156)
Comprehensive income									
Net loss				(2,509,030)				(2,509,030)	(2,509,030)
Other comprehensive income									
Unrealized loss on investments, net				(7,547)		(7,547)			(7,547)
Comprehensive income				(2,516,577)					
<b>Balance as of March 31, 2001</b>	23,183,103	231,831	13,669,570			(6,096)	(101,105)	(3,205,864)	10,588,336
Issue of common stock for acquisitions and investments	19,073	191	49,077						49,268
Compensation related to stock option grants			72,492				(72,492)		
Amortization of compensation related to stock option grants			(83,962)				98,636		14,674
Capital transaction of investee			(57,853)						(57,853)
Comprehensive income									
Net loss				(7,202,517)				(7,202,517)	(7,202,517)
Other comprehensive income									
Unrealized loss on investments, net				(356)		(356)			(356)
Foreign exchange translation adjustment				2,561		2,561			2,561
Comprehensive income				(7,200,312)					
<b>Balance as of March 31, 2002</b>	23,202,176	232,022	13,649,324			(3,891)	(74,961)	(10,408,381)	3,394,113
Issue of common stock (net of expenses)	9,593,024	95,930	664,543						760,473
Compensation related to stock option grants			86				(86)		
Amortization of compensation related to stock option grants			12,789				50,208		62,997
Capital transaction of investee									
Comprehensive income									
Net loss				(1,329,388)				(1,329,388)	(1,329,388)
Other comprehensive income									
Unrealized loss on investments, net				(1,253)		(1,253)			(1,253)
Foreign exchange translation adjustment				1,754		1,754			1,754
Comprehensive income				(1,328,887)					
<b>Balance as of March 31, 2003</b>	32,795,200	327,952	14,326,742			(3,390)	(24,839)	(11,737,769)	2,888,696
<b>Balance as of March 31, 2003 (in US\$)</b>		6,900	301,425	(27,959)		(71)	(523)	(246,955)	60,776

See accompanying notes to consolidated financial statements

**SIFY LIMITED (formerly known as Satyam Infoway Limited) and Subsidiaries**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

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

	Year ended March 31,			
	2001 Rs.	2002 Rs.	2003 Rs.	2003 \$
<b>Net loss from continuing operations</b>	<b>(2,681,611)</b>	<b>(7,158,265)</b>	<b>(1,329,388)</b>	<b>(27,969)</b>
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation, amortization and impairment	1,431,459	5,020,600	854,182	17,971
Equity in losses of affiliates	263,178	1,225,444	26,061	548
Gain on sale of investments	(28)	–	(1,495)	(31)
Loss on sale of plant and equipment	661	3,652	2,552	54
Provision for doubtful receivables and advances	31,460	101,500	156,233	3,287
Deferred taxes	(120)	–	–	–
Inventory write down	–	22,085	6,720	141
Minority interest	(11,137)	(17,928)	(12,564)	(264)
Others	–	–	(7,106)	(150)
<i>Changes in assets and liabilities:</i>				
Accounts receivable	(304,155)	(15,997)	(65,793)	(1,384)
Due from officers and employees	(83,466)	26,152	62,552	1,316
Due from related parties	(30,041)	4,159	(7,879)	(166)
Inventories	(91,670)	50,557	(11,265)	(237)
Prepaid expenses	42,203	94,580	(10,030)	(211)
Other assets	(127,237)	21,815	(24,962)	(525)
Trade accounts payable and accrued liabilities	320,490	(14,477)	(78,836)	(1,659)
Deferred revenue	33,298	(39,484)	144,778	3,046
Advances from customers	79,181	(84,388)	10,851	228
Other liabilities	(5,900)	(15,685)	32,904	692
<b>Net cash used in continuing operations</b>	<b>(1,133,435)</b>	<b>(775,680)</b>	<b>(238,273)</b>	<b>(5,013)</b>
<b>Net cash provided by / (used in) discontinued operations</b>	<b>(174,927)</b>	<b>237,531</b>	<b>0</b>	<b>0</b>
<b>Net cash used in operating activities</b>	<b>(1,308,362)</b>	<b>(538,149)</b>	<b>(238,273)</b>	<b>(5,013)</b>
<b>Cash flows from investing activities:</b>				
Expenditure on plant and equipment	(1,888,020)	(181,217)	(284,346)	(5,982)
Proceeds from sale of plant and equipment	934	12,559	12,055	254
Expenditure on investment in affiliates	(163,627)	(119,741)	29,162	614
Net movement in cash - restricted	(7,045)	(122,287)	(22,233)	(468)
Purchase consideration for acquisition, net of cash	(2,233,121)	(11,210)	–	–
Expenditure on intangible assets	(28,000)	(59,240)	(16,891)	(355)
Proceeds from sale of investments	147	–	8,579	180
<b>Net cash provided by/(used in) continuing operations</b>	<b>(4,318,732)</b>	<b>(481,136)</b>	<b>(273,674)</b>	<b>(5,757)</b>
<b>Net cash provided by/(used in) discontinued operations</b>	<b>(26,804)</b>	<b>(71,279)</b>	<b>0</b>	<b>0</b>
<b>Proceeds from sale of discontinued operation</b>	<b>0</b>	<b>349,165</b>	<b>0</b>	<b>0</b>
<b>Net cash provided by/(used in) investing activities</b>	<b>(4,345,536)</b>	<b>(203,250)</b>	<b>(273,674)</b>	<b>(5,757)</b>
<b>Cash flows from financing activities:</b>				
Principal payments of long-term debt	(208,167)	–	–	–
Principal payments of short term loans	(1,800)	–	–	–
Principal payments under capital lease obligations	(6,568)	(9,097)	(1,696)	(36)
Net proceeds from issuance of common stock	70	–	760,473	16,000
<b>Net cash used in continuing operations</b>	<b>(216,465)</b>	<b>(9,097)</b>	<b>758,776</b>	<b>15,964</b>
<b>Net cash used in discontinued operations</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net cash used in financing activities</b>	<b>(216,465)</b>	<b>(9,097)</b>	<b>758,776</b>	<b>15,964</b>
Effect of exchange rate changes on cash	–	(5,598)	(7,345)	(155)
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>(5,870,363)</b>	<b>(756,094)</b>	<b>239,485</b>	<b>5,039</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>7,284,568</b>	<b>1,414,205</b>	<b>658,111</b>	<b>13,846</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>1,414,205</b>	<b>658,111</b>	<b>897,596</b>	<b>18,885</b>
<b>Supplementary Information</b>				
Cash paid towards interest	11,695	2,838	795	17
Cash paid towards taxes	935	44,958	20,048	422
<b>Supplemental schedule of non cash financing activity</b>				
Capital leases	12,994	9,440	2,956	62
Additional common stock issued for acquisition of business	3,131,364	49,268	–	–
Property plant and equipment purchased on credit during the year	93,660	80,148	20,397	429

See accompanying notes to consolidated financial statements

**SIFY LIMITED (formerly known as Satyam Infoway Limited) and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*(In thousands, except share data and as stated otherwise)*

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**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.

**2. Change of name**

The company changed its name from Satyam Infoway Limited to Sify Limited effective January 6, 2003.

**3. Summary of significant accounting policies**

*Basis of preparation of financial statements*

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States (US GAAP) in Indian Rupees (Rs.), the national currency of India. Solely for the convenience of the reader, the financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars at the noon buying rate in New York City on March 31, 2003 for cable transfers in Indian rupees, as certified for customs purposes by the Federal Reserve Bank of New York of US\$1 = Rs. 47.53. 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 March 31, 2003 or at any other date.

*Use of estimates*

In conformity with US GAAP, management of the Company has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements. Some of the more significant estimates include allowances for doubtful accounts, depreciation and amortization of long-lived assets and the valuation allowance for deferred tax assets. Actual results could differ from those estimates.

*Principles of consolidation*

The consolidated financial statements of Sify include financial statements of its majority-owned subsidiaries, which are more than 50% owned and where Sify is able to exercise control over the operating and financial policies of the investees. All material inter-company accounts and transactions are eliminated on consolidation.

*Investments in affiliates*

The Company accounts by the equity method for investments between 20% and 50% or where it would be otherwise able to exercise significant influence over the operating and financial policies of the investees. Prior to the adoption of Statement of Financial Accounting Standards (SFAS) No. 142, the excess of cost of the stock of those affiliates over the Company’s share of their net assets at the acquisition date was recognized as goodwill and was being amortized on a straight-line basis over 5 years. However, such goodwill was completely written-off prior to the adoption of the SFAS No. 142. Subsequent to the adoption of SFAS No. 142, the company will not amortise any goodwill recognised from an investment in an affiliate. The Company would recognize a loss when there is a loss in value in the equity method investment which is other than a temporary decline.

*Cash, cash equivalents and short-term investments*

The Company considers all highly liquid investments with remaining maturities, at the date of purchase/investment, of three months or less to be cash equivalents. Cash and cash equivalents currently consist of cash and cash on deposit with banks which are unrestricted as to its use.

*Revenue recognition*

The operating segments of the Company include:

- Corporate network/data services, which provides private network services, messaging services and web hosting to businesses;
- Internet access services;
- Online portal services and content offerings ; and
- Other services such as development of e-learning software

These segments recognize revenues on the following basis:

**SIFY LIMITED (formerly known as Satyam Infoway Limited) and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*(In thousands, except share data and as stated otherwise)*

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*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, fax and domain registration. Generally, these elements are sold as a package consisting of all or some of the elements. This multiple element arrangement is 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. 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 an off-the-shelf software, such as antivirus utilities and firewalls. The fair value for the hardware and software is available from the market. The revenue attributable to hardware/software is recognized on delivery. Installation consists of commissioning of the last mile connectivity to the customer premises from the carrier exchange (primarily Bharat Sanchar Nigam Limited, or BSNL, a Government of India entity). However, once commissioned this connection 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. When installation and connectivity services are provided as a package, the value of the installation service is based on the residual amount using the residual method as defined in SOP 98-9. Revenue from ancillary services such as email facilities, fax facility 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 based on the guidelines of SOP 97-2, *Software Revenue Recognition*. 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 under SOP 98-9. Revenue from hosting services is recognized over the period during which the service is provided.

*Internet access services*

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 and electronic mail access is recognized over the specified period.

Public Internet access is provided to customers through a chain of franchisee 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. The amount of initial franchisee fee revenue recognized during the year ending March 31, 2003 was Rs.21.4 million (US\$ 0.45 million). As of March 31, 2003, Sify owned 27 of the 844 cybercafés. Internet access revenue is recognized based on usage by the customer.

*Online portal services*

The Company enters into contracts with customers to serve advertisements in the portal and the Company is paid on the basis of impressions, click-throughs or leads and in each case the revenue is recognized based on actual impressions/

**SIFY LIMITED (formerly known as Satyam Infoway Limited) and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

click throughs/ leads delivered. There are no performance obligations or minimum guarantees. Revenues from electronic commerce transactions are recognized when the transactions are completed.

*Other services*

The Company provides e-learning software development services to facilitate web-based learning in various organisations. Revenue from such projects is recognised on the proportionate performance method.

*Inventories*

Inventories are generally stated at the lower of cost as determined using the first-in-first-out method (FIFO), and net realisable value. The Company makes a provision for the slow moving inventory on the basis of age of inventory.

*Property, plant and equipment*

Property, plant and equipment are stated at cost. Plant and equipment under capital leases are stated at the present value of minimum lease payments. The Company computes depreciation for all plant and equipment using the straight-line method. Leasehold improvements are amortized on a straight-line basis over the shorter of the primary lease period or estimated useful life of the asset. Routine repairs and maintenance costs are expensed as incurred. The estimated useful lives of assets are as follows:

Buildings .....	28 years
Plant and machinery .....	5 years
Computer equipment .....	2 years
Office equipment .....	5 years
Furniture and fixtures .....	5 years
Vehicles .....	5 years

Software for internal use is acquired primarily from third-party vendors and is in ready-to-use condition. Costs for acquiring such software are capitalized. Capitalized software costs are amortized on a straight-line basis over the estimated useful life of the software. Software acquired for internal use with estimated useful life of less than one year is expensed upon acquisition. Deposits paid towards the acquisition of plant and equipment outstanding at each balance sheet date and the cost of property, plant and equipment not ready to be put to use are disclosed under Construction-in-progress.

*Goodwill and intangible assets*

The Company adopted the provisions of SFAS No. 141 for business combinations initiated after June 30, 2001, which requires that all business combinations be accounted for under the purchase method.

The Company adopted the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets* effective April 1, 2002. Under SFAS No. 142, we no longer amortize goodwill or indefinite-lived intangible assets. The Company has assessed the remaining useful lives of identified intangibles with definite useful lives and provides for amortization over the determined useful life of the asset. Goodwill is tested for impairment periodically and diminution in value, if any, is provided for through a charge in the statement of operations. The company does not have any intangible assets with indefinite useful lives.

The Company assesses the recoverability of goodwill by reference to the valuation methodology on the acquisition date. Accordingly, the Company considers goodwill to be impaired when, in conjunction with its valuation methodology, its expectations with respect to the acquisitions deteriorate coupled with adverse market conditions. The Company would assess, to the extent appropriate, at the enterprise level by comparing its market capitalization to the carrying value of goodwill.

Prior to the adoption of SFAS No. 142, the Company recorded intangible assets at cost or fair value and amortised such assets on a straight-line basis over the economic lives of the respective assets. Goodwill was amortised on a straight-line basis over 5 years.

*Foreign currency translations*

The functional and reporting currency of the Company is the Indian Rupee, except that of India Plaza Inc. (a wholly owned subsidiary incorporated in United States) whose functional currency is the US Dollar. The translation of the

## **SIFY LIMITED (formerly known as Satyam Infoway Limited) and Subsidiaries**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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US Dollar into Indian Rupee is performed for balance sheet accounts using the exchange rate in effect at the balance sheet date and for revenue and expense accounts using a monthly simple average exchange rate for the respective periods. The gains or losses resulting from such translation are reported in other comprehensive income, a separate component of shareholders' equity.

#### *Foreign currency transactions*

Assets and liabilities denominated in foreign currencies are expressed in the functional currency at the rates of exchange as of the balance sheet date. The unrealized gain or loss resulting from this translation is reflected in the statements of operations. Income and expenses in foreign currencies are expressed in the functional currency at exchange rates prevailing when income is earned or expenses are incurred.

#### *Earnings per share*

In accordance with SFAS No. 128, basic earnings per share are computed using the weighted average number of common shares outstanding during the period. Disclosure of diluted earnings per share is not applicable as the potential equity shares are anti-dilutive. The Company's outstanding shares includes shares held with a depository to represent equity shares underlying the Company's ADSs. Effective September 24, 2002, one ADS represented one equity share. The Company's 1-for-4 ADS reverse ratio change on September 24, 2002 does not have any effect on our equity shares or per equity share amounts, as the underlying shares representing ADSs were unchanged.

#### *Income taxes*

Income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits for which realization is uncertain.

#### *Advertising costs*

Advertising costs incurred during the year have been expensed. The total amount of advertising costs expensed was Rs. 299,855 Rs. 25,800 and Rs. 29,329 for the years' ended March 31, 2001, 2002 and 2003 respectively.

#### *Retirement benefits to employees*

##### *Provident fund*

In accordance with Indian law, all employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and employer make monthly contributions to the plan, each equal to a specified percentage of employee's basic salary. The Company has no further obligations under the plan beyond its monthly contributions.

##### *Gratuity*

The Company provides for gratuity, a defined benefit retirement plan (the Gratuity Plan) covering 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 an amount 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.

#### *Stock-based compensation*

The Company applies the intrinsic-value-based method of accounting prescribed by Accounting Principles Board (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 its fixed-plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. SFAS No. 123,

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*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 No. 123, the Company has elected to continue to apply the intrinsic-value-based method of accounting described above, and has adopted only the disclosure requirements of SFAS No. 123 as amended by SFAS No. 148 *Accounting for Stock-Based Compensation – Transition and Disclosure*.

The Company has adopted pro forma disclosure provisions of SFAS No. 123 and SFAS No. 148. The following table illustrates the effect on net income and earnings per share if the company had applied the fair value recognition provisions of FASB statement No. 123, *Accounting for Stock Based Compensation* to stock based employee compensation.

	<b>Year ended March 31,</b>		
	<b>2001</b>	<b>2002</b>	<b>2003</b>
	Rs.	Rs.	Rs.
Net Loss - As reported	(2,509,030)	(7,202,517)	(1,329,388)
Less : Stock based compensation expense included in reported net loss	79,224	14,673	62,997
Add : Total stock based employee compensation expense determined under fair value based method for all awards	(336,160)	(306,645)	(181,600)
Pro forma net loss	(2,765,966)	(7,494,489)	(1,210,785)
Loss Per Share:			
Basic and Diluted – as reported	(109.79)	(310.50)	(51.15)
Basic and Diluted – pro forma	(121.03)	(323.01)	(46.59)

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

	<b>Year ended March 31,</b>		
	<b>2001</b>	<b>2002</b>	<b>2003</b>
Dividend yield	–	–	–
Expected volatility	118%	114%	105%
Risk-free interest rate	9.50%	7.5-9%	6%
Expected term	12-36 months	12-36 months	12-36 months

*Impairment of long-lived assets and long-lived assets to be disposed of*

The Company adopted SFAS No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* effective April 1, 2002. Long-lived assets, including amortizable intangibles, are tested for impairment if impairment triggers occur. If an assessment indicates impairment, the impaired asset is written down to its fair market value based on the best information available. Estimated fair market value is generally measured using discounted estimated cash flows.

*Investment securities*

The Company has evaluated its investment policies consistent with the provisions of SFAS No 115, *Accounting for Certain Investments in Debt and Equity Securities*, and determined that all of its investment securities are to be classified as available-for-sale. Accordingly, such securities are carried at fair value with unrealized gains and losses, net of taxes, reported as other comprehensive income, a separate component of stockholders' equity. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis and included in other income.

*Fair value of financial instruments*

The carrying amounts reflected in the balance sheets for cash, cash equivalents, accounts receivable and accounts payable approximate their respective fair values due to the short maturities of these instruments.

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*Recent Accounting Pronouncements*

In November 2002, the Emerging Issues Task Force reached a consensus on Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables* applicable for fiscal periods beginning after June 2003. This issue addresses when and, if so, how an arrangement involving multiple deliverables should be divided into separate units of accounting, where the deliverables (the revenue generating activities) are sufficiently separable and have standalone value to the customer. It is also necessary that there exist sufficient evidence of fair value to separately account for some or all of the deliverables. The Company is currently evaluating the impact of Issue No. 00-21.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees Including Indirect Guarantees of Indebtedness of Others*. The adoption of the Interpretation did not have a material impact on the Company's accounting or disclosure policies.

In January 2003, the FASB issued interpretation No. 46 *Consolidation of Variable Interest Entities*, an interpretation of ARB No. 51, that applies to variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date. The Company has assessed the implication of this Interpretation and does not have to consolidate or disclose information about variable interest entities when the Interpretation becomes applicable to existing entities from July 1, 2003.

*Reclassifications*

Certain prior-years' amounts have been reclassified to conform to the current year's presentation.

**4. Business acquisition**

*Kheladi.com*

On October 12, 2000, Sify entered into an agreement (the "Agreement") to acquire a 100% equity stake in Kheladi.com (India) Private Limited (Kheladi), a sports portal promoted by sports personalities in India. Sify's intention is to assimilate the strengths of Kheladi, including the network of sports personalities, into its sports portal, Khel.com. Sify issued an aggregate of 19,073 equity shares to the shareholders of Kheladi on July 20, 2001 of which 5,019 shares and 10,039 shares were subject to lock-in until September 14, 2001 and September 14, 2002, respectively. Sify paid Rs 52,291 as consideration for the above acquisition and the acquisition has been accounted for using purchase method.

The acquisition was consummated on July 20, 2001 upon completion of regulatory formalities. The cost of acquisition has been allocated primarily to employment contract-based intangible assets and the excess of cost over fair value of assets acquired has been recognized as goodwill. In accordance with the provisions of SFAS No. 142, the goodwill has not been amortized post acquisition. The allocation of purchase price was as follows:

<i>Estimated fair values</i>	Rs.
Assets acquired	196
Intangible assets	37,500
Goodwill	14,595
Total consideration	<u>52,291</u>

The intangible assets relate to employment contracts with sports personalities which are being amortised over the contract period of 60 months. The terms of the purchase also provide for contingent consideration of 3,089 equity shares based on the achievement of certain specified profitability and revenue targets. As at March 31, 2003 the contingency no longer exists due to the expiry of the period to achieve the targets and hence no contingent consideration is due to the erstwhile shareholder of Kheladi.

The following unaudited consolidated results of operations are presented as if the acquisition of Kheladi was made at the beginning of the periods presented. The proforma-consolidated results of operations reflect the amortization of intangibles acquired in this transaction.

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	<b>Year ended March 31,</b>	
	<b>2001</b>	<b>2002</b>
	Rs.	Rs.
Revenues	1,225,601	1,577,488
Net loss	(2,516,530)	(7,204,443)
Loss per equity share	(110.03)	(310.51)
Weighted average equity share used in computing the loss per equity share	22,871,673	23,202,176

**5. Discontinued operations**

On October 24, 2001, Sify announced its proposal to divest its software services (e-business services) division to its parent company, Satyam Computer Services. The software services division provided business-to-business e-commerce and web site development that covered information technology services in India, Australia and the U.S. Revenues from this segment represented approximately 22% of Sify's total revenue for the year ended March 31, 2002. The objective of the divestment is to permit Satyam Computer Services to concentrate on its core business of software services and to permit Sify to concentrate on Internet services. Sale of this division to Satyam Computer Services was completed for an aggregate consideration of Rs. 332.5 million on February 28, 2002, the date on which requisite shareholders approval was obtained. The results of operations of the discontinued e-business division for all periods have been reported separately as "Income / (loss) from discontinued operations." The gain on disposal of the e-business division amounting to Rs. 81,121 net of consultancy and other expenses incurred in relation to the disposal of Rs 37,510 has been reported separately in the statements of operations.

The summarized information on the results of discontinued operations for the years ended March 31, 2001 and 2002 is set forth below:

	<b>Year ended March 31,</b>	
	<b>2001</b>	<b>2002</b>
	Rs.	Rs.
Revenues	561,595	340,718
Operating expenses net of other income	287,260	466,091
Net income / (loss) from discontinued operations	172,581	(125,373)

**6. Cash and cash equivalents**

Cash and cash equivalents as on March 31, 2003 amounted to Rs. 897,596 (Rs.658,111 as on March 31, 2002). This excludes cash-restricted included in current assets of Rs. 74,612 (Rs.52,389 as on March 31, 2002) and cash-restricted included in non-current assets of Rs. 100,010 (Rs.100,000 as on March 31, 2002), 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.

*Cash Restricted – Current*

	<b>Year ended March 31,</b>	
	<b>2002</b>	<b>2003</b>
	Rs.	Rs.
Letter of Credit	30,034	40,444
Against future performance obligation	22,355	34,168
	52,389	74,612

*Cash Restricted – Non current*

	<b>Year ended March 31,</b>	
	<b>2002</b>	<b>2003</b>
	Rs.	Rs.
Against future performance obligation	100,000	100,010
	100,000	100,010

The fair values of cash and cash equivalents approximate their carrying values.

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**7. Accounts receivable**

Accounts receivable as of March 31, 2002 and 2003 are stated net of allowance for doubtful accounts. The Company maintains an allowance for doubtful accounts based on age of the accounts. Accounts receivable are not collateralised.

Accounts receivables consist of :

	Year ended March 31,	
	2002	2003
	Rs.	Rs.
Customers	581,492	512,149
Less : allowance for doubtful accounts	161,531	165,879
<b>Balance at the end of the year</b>	<b>419,961</b>	<b>346,270</b>

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

	Year ended March 31,	
	2002	2003
	Rs.	Rs.
Balance at the beginning of the year	34,231	161,531
Add : Additional provision	127,300	139,484
Less : Bad debts written off	-	135,136
<b>Balance at the end of the year</b>	<b>161,531</b>	<b>165,879</b>

In addition to the above, the provision for receivables and advances include a provision of Rs. 16,749 for advances

**8. Investment securities**

Investment securities consist of:

	As at March 31, 2003			
	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
	Rs.	Rs.	Rs.	Rs.
Available for sale:				
Equity securities	3,245	-	2,130	1,115
Mutual fund units	25	-	-	25
	<b>3,270</b>	<b>-</b>	<b>2,130</b>	<b>1,140</b>

	As at March 31, 2002			
	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
	Rs.	Rs.	Rs.	Rs.
Available for sale:				
Equity securities	5,354	151	655	4,850
Mutual fund units	5,000	-	373	4,627
	<b>10,354</b>	<b>151</b>	<b>1,028</b>	<b>9,477</b>

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**9. Inventories**

Inventories consist of:

	<b>As at March 31,</b>	
	<b>2002</b>	<b>2003</b>
	Rs.	Rs.
CDs	3,987	88
Communication hardware	22,490	26,460
Application software	4,680	9,931
Others	4,269	3,492
	<b>35,426</b>	<b>39,971</b>

**10. Other current assets**

Other current assets consist of:

	<b>As at March 31,</b>	
	<b>2002</b>	<b>2003</b>
	Rs.	Rs.
Vendor advances and deposits	36,978	26,044
Advances for expenses	13,544	13,386
Accrued income	6,978	2,375
Interest earned but not due	3,227	12,887
Others	16,164	18,256
	<b>76,891</b>	<b>72,948</b>

Vendor advances and deposits is net of a provision of Rs. 16,749 for non-recoverability. This provision is included in provision for doubtful receivables and advances in the statement of operation.

**11. Investments in affiliates**

*Refco-Sify Securities India Private Limited*

The Company holds 40% interest in Refco-Sify Securities India Private Limited (Refco). Refco is engaged in Internet based trading and research services. Sify has accounted for its 40% interest in Refco by the equity method. The carrying value of the investment in Refco as of March 31, 2002 and 2003 was Rs. 120,882 and Rs. 101,792 respectively. Sify's equity in the losses of Refco-Sify for the years ended March 31, 2002 and 2003 was Rs. 27,105 and Rs. 18,137 respectively.

*Placements.com Limited*

The Company held a 27% interest in Placements.com Limited (Placements) which was sold on July 29, 2002 for a gain of Rs. 2,000. The Company had accounted for its 27% interest in Placements by the equity method. The carrying value of the investment in Placements as at March 31, 2002 was Rs. 628. Sify's equity in the losses of Placements for the years ended March 31, 2001, 2002 and period ended July 29, 2002 was Rs. 16,307, Rs. 8,565 and Rs. 628 respectively.

*CricInfo Limited*

On July 29, 2000, Sify acquired 25% of the outstanding shares of Cricinfo Limited ("Cricinfo"), a private company incorporated in the United Kingdom and the Company accounted for its interest in Cricinfo by the equity method. On October 5, 2001, the Company entered into an agreement to subscribe for unsecured convertible loan notes ("loan notes") to be issued by Cricinfo in an aggregate amount of up to GBP 1.6 million to meet Cricinfo's short-medium term working capital requirements over the next year. These loan notes were redeemable on October 5, 2004 and the terms of

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the loan note instrument provided for the payment of interest on the principal amount at the rate of 8% per annum. The Company had also entered into a Term Loan Agreement with Cricinfo for granting a term loan facility of GBP 0.1 million. The Loan would carry an interest rate of 4 % per annum and was repayable on 31<sup>st</sup> December 2004. This term loan and the convertible loan had been secured by a Debenture document executed by Cricinfo.

In February 2003, Cricinfo transferred its net assets other than the loan payable to Sify and miscellaneous current assets and liabilities to a newly formed company incorporated in the United Kingdom, Wisden Cricinfo Limited. In consideration of its net assets, Cricinfo Limited received 33% equity stake in Wisden Cricinfo Limited and GBP 1.8 million. Cricinfo Limited repaid Sify's loan including accrued interest of Rs.107 million and transferred its 33% stake in Wisden Cricinfo Limited to Sify for a consideration of Rs.22,646 (GBP 0.3 million).

Contemporaneously Sify advanced Rs.22,951 (GBP 0.3 million) to Wisden Cricinfo Limited. As a result of the foregoing transactions including the loan to Wisden Cricinfo, Sify recognized a gain of Rs.22,628 being the difference between proceeds received Rs.126,948 and the net carrying value of the notes (including accrued interest) of Rs.81,369 and a deferred gain of Rs.22,951.

The carrying value of the investment in Cricinfo as of March 31, 2002 and 2003 was Rs. 186,695 and nil respectively. Sify's equity in the losses of Cricinfo for the year ended March 31, 2002 and 2003 was Rs. 142,548 and Rs. 15,104 respectively.

The summarized financial information as to assets, liabilities and result of operations of Cricinfo is presented below:

<b>Balance Sheet</b>	<b>As at March 31,</b>	
	<b>2002</b>	<b>2003</b>
	<b>Rs.</b>	<b>Rs.</b>
Current assets	21,431	16,690
Current liabilities	(127,749)	(17,538)
Net liability	(106,318)	(848)
Non-current assets	1,113	–
Net liability	(105,205)	(848)
Stockholders' deficit	(105,205)	(848)
<b>Statement of Operations</b>	<b>For the year ended March 31,</b>	
	<b>2002</b>	<b>2003</b>
	<b>Rs.</b>	<b>Rs.</b>
Revenues	70,609	96,281
Gross profit	65,410	89,553
Net (loss) / profit	(419,495)	114,876

The net profit for fiscal 2003 includes gain of Rs. 153,180 on sale of its net assets to Wisden Cricinfo.

*Wisden CricInfo Limited*

On February 24, 2003, the company had purchased 33% stake in Wisden Cricinfo Limited from Cricinfo Limited for a consideration of Rs.22,646 (GBP 0.3 million). Wisden Cricinfo Limited is a private company incorporated in the United Kingdom and was formed by the transfer of assets by Cricinfo Limited and John Wisden & Co. Limited. In consideration for the transfer of its assets, Cricinfo Limited received a 33% stake in Wisden Cricinfo Limited and Rs.138 million (GBP 1.8 million).

Sify has entered into a loan agreement with Wisdom Cricinfo Limited granting a term loan facility of Rs.22,628 (GBP 0.3 million). The loan will carry an interest rate of LIBOR plus 3% per annum.

The carrying value of the investment in Wisden Cricinfo including loan notes as of March 31, 2003 was Rs. 38,261. Sify's equity in the losses of Wisden Cricinfo Limited for the period ended March 31, 2003 was Rs. 4,027.

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**12. Property, plant and equipment**

Property, plant and equipment consist of:

	<b>As at March 31,</b>	
	<b>2002</b>	<b>2003</b>
	Rs.	Rs.
Land	187,701	188,600
Building	480,272	485,156
Leasehold improvements	109,139	111,806
Plant and machinery	1,778,468	1,842,829
Computer equipment	102,634	95,309
Office equipment	51,475	54,384
Furniture and fixtures	95,840	115,922
Vehicles	17,254	16,237
System software	99,991	143,524
Construction-in-progress	138,847	94,371
	<b>3,061,621</b>	<b>3,148,138</b>
Accumulated depreciation	(1,129,575)	(1,605,309)
	<b>1,932,046</b>	<b>1,542,829</b>

Depreciation expense amounted to Rs. 429,672, Rs. 574,867 and Rs. 474,261 for the year ended March 31, 2001, 2002 and 2003 respectively.

During the year, the Company identified certain assets whose carrying amounts are not recoverable. The Company assessed recoverability under SFAS No. 144 and recorded asset impairment charges totaling to Rs.125,818. These charges include the write-off of assets under development of Rs. 87,500 and write-off of computer software costs of Rs. 29,178 and other assets of Rs. 8,836.

**13. Goodwill and other intangible assets, net**

Goodwill and other intangible assets consist of:

	<b>As at March 31,</b>	
	<b>2002</b>	<b>2003</b>
	Rs.	Rs.
Goodwill		
Acquisition of IndiaWorld	5,005,107	5,005,107
Acquisition of India Plaza	444,585	444,585
Acquisition of Kheladi	27,983	14,595
Other	2,775	2,775
Technical know-how	87,433	90,313
Portals and web content	97,630	98,030
Employment contracts	37,500	37,500
Customer contract	137,873	164,873
Total	<b>5,840,886</b>	<b>5,857,778</b>
Less: Accumulated amortization and impairment	5,499,707	5,690,795
	<b>341,179</b>	<b>166,983</b>

Amortization/Impairment of goodwill during the years ended March 31, 2001 and 2002 was Rs 931,967 and Rs 4,420,644. The Company has stopped amortising goodwill pursuant to SFAS No. 142 and has not recognised any impairment of goodwill during the year.

Amortization of other intangible assets during the years ended March 31, 2001, 2002 and 2003 is Rs. 5,889, Rs. 29,337 and Rs. 69,907 respectively. During the year the Company assessed the carrying value of intangible assets in the books and recorded an impairment charge of Rs. 121,181.

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The Company has adopted the provisions of SFAS No. 141 and 142, and has accordingly assessed the remaining useful lives of identified intangibles with definite useful lives and provides for amortization over the determined useful life of the asset. The Company does not have any intangible assets with indefinite useful life.

At March 31, 2003, the Company's goodwill and other intangible assets amounted to Rs. 27,983 and Rs. 152,562 respectively.

Acquired and amortized intangible assets	As at Mar 31, 2003		
	Weighted average life	Gross carrying amount	Accumulated amortization/ Impairment
Technical know how fees	4.89	90,313	34,494
Portals and web content	5.00	98,030	46,138
Employment contracts	5.00	37,500	12,900
Customer contracts and others	3.00	164,874	144,623
<b>Total</b>		<b>390,717</b>	<b>238,155</b>
<b>Estimated amortization expense</b>			
For the year ended March 31,			
		2004	54,963
		2005	52,830
		2006	36,381
		2007	8,020
		2008	20

As required by SFAS No. 142, the Company identified its reporting units and assigned assets and liabilities, including goodwill to the reporting units on the date of adoption. Subsequently, the Company compared the fair value of the reporting unit to its carrying value, to determine whether goodwill is impaired at the date of adoption. Subsequent to the adoption of SFAS No. 142, the Company does not amortize goodwill, but will instead test for impairment at least annually. The following table discloses what reported net loss from operations and loss per share would have been in all prior periods presented excluding amortization of goodwill.

	2001 Rs.	2002 Rs.
Reported net loss	(2,509,030)	(7,202,517)
Add: Goodwill amortization	931,967	292,964
Add: APB 18 Goodwill	201,332	75,210
Adjusted net loss	(1,375,731)	(6,834,343)
Reported net loss per share	(109.79)	(310.50)
Add: Goodwill amortization	40.78	12.63
Add: APB 18 Goodwill	8.81	3.24
Adjusted net loss per share	(60.20)	(294.63)

There is no goodwill associated with discontinued operations and no extraordinary items.

**14. Other assets**

Other assets consist of:

	As at March 31,	
	2002 Rs.	2003 Rs.
Deposits	109,582	96,138
Staff advances recoverable after one year	29,570	4,711
Tax deposits	49,743	75,343
<b>Other Assets</b>	<b>188,895</b>	<b>176,192</b>

Tax deposits represents taxes deducted at source by the customer and paid to the Government.

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**15. Deferred revenue:**

Deferred revenue includes the amount of unearned income which were invoiced as at the end of the period for the following segments :

*Corporate network / Data services* relates to the connectivity / hosting charges which were invoiced and unearned as at the end of the period;

*Internet access services and online portal services* relates to the Internet access charges and the advertisement charges which were invoiced and unearned as at the end of the period;

*Other services* relates to the educational charges and digital certification charges which were invoiced for which the term was not completed and remain unearned as at the end of the period.

The breakups of deferred revenue for these segments are :

	<b>As at March 31,</b>	
	<b>2002</b>	<b>2003</b>
	Rs.	Rs.
Corporate network / Data services	52,303	107,598
Internet access services	81,408	168,359
Online portal services	2,997	927
Other services	7,811	12,413
	<b>144,519</b>	<b>289,297</b>

**16. Leases**

The gross amounts and related accumulated depreciation recorded for assets acquired under capital leases are as follows:

	<b>As at March 31,</b>	
	<b>2002</b>	<b>2003</b>
	Rs.	Rs.
Vehicles	14,484	16,689
Less: Accumulated depreciation	(4,659)	(7,263)
	<b>9,825</b>	<b>9,426</b>

The following is a schedule of future minimum capital lease commitments as at March 31, 2003:

	<b>2003</b>
	Rs.
Due for the year ended March 31,	
2004	3,795
2005	2,605
2006	653
<b>Total minimum lease payments</b>	<b>7,053</b>
Less: Interest	804
<b>Present value of net minimum capital leases payments</b>	<b>6,249</b>
Less: Current installments of obligations under capital leases	2,482
<b>Obligations under capital leases, excluding current installments</b>	<b>3,767</b>

**17. Accrued Liabilities**

Accrued Liabilities consists predominantly of provisions for expenses amounting to Rs. 198,035 and Rs. 194,861 as at March 31, 2002 and 2003 respectively.

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**18 Other liabilities**

Other Liabilities consists predominantly of deposits from sales partners amounting to Rs. 38,667 and Rs. 42,663 as at March 31, 2002 and 2003 respectively.

**19 Income tax**

The provision for income taxes consists of:

	Year ended March 31,		
	2001 Rs.	2002 Rs.	2003 Rs.
Current	(1,827)	–	(2,856)
Deferred	120	–	–
	<b>(1,707)</b>	<b>–</b>	<b>(2,856)</b>

The reported income tax expense differed from amounts computed by applying the enacted tax rates to income from continuing operations before income taxes as set out below:

	Year ended March 31,		
	2001 Rs.	2002 Rs.	2003 Rs.
Net loss from continuing operations before taxes	(2,691,041)	(7,158,265)	(1,329,388)
Enacted tax rates in India	39.55%	35.70%	36.75%
Computed expected tax expense / (benefit)	(1,064,307)	(2,555,501)	(488,550)
Permanent differences	402,921	1,609,811	81,596
Change in valuation allowance	665,523	860,921	405,079
Other	3,039	6,599	54,462
Effect of tax rate change	(5,469)	78,170	(49,731)
<b>Total income tax (benefit)/expense</b>	<b>1,707</b>	<b>–</b>	<b>2,856</b>

The reported income tax expense differed from amounts computed by applying the enacted tax rates to income from discontinued operations before income taxes as set out below:

	Year ended March 31,		
	2001 Rs.	2002 Rs.	2003 Rs.
Net gain/(loss) from discontinued operations before taxes	172,581	(44,252)	–
Enacted tax rates in India	39.55%	35.7%	–
Computed expected tax expense	68,256	(15,798)	–
Valuation allowance	(68,256)	15,798	–
<b>Total income tax (benefit)/expense</b>	<b>–</b>	<b>–</b>	<b>–</b>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes that it is more likely, than not,

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the Company will not realize the benefit of these deductible differences. Under Indian Law, loss carry-forwards from a particular year may be used to offset taxable income over the next eight years.

Significant components of deferred tax assets and liabilities included in the balance sheet are as follows:

	As at March 31,	
	2002 Rs.	2003 Rs.
<b>Deferred tax assets:</b>		
Operating loss carry forwards	989,192	1,440,918
Provision for accounts receivable and advances	115,665	60,960
Property, plant and equipment and intangibles	777	800
Accrual and expenses currently not allowed for tax purposes	50,079	42,487
Provision for valuation of closing stock	7,457	–
Investments in affiliates	528,001	554,074
<b>Total gross deferred tax assets</b>	<b>1,691,171</b>	<b>2,099,239</b>
Less: valuation allowance	(1,679,730)	(2,084,809)
<b>Total deferred tax assets</b>	<b>11,441</b>	<b>14,430</b>
<b>Deferred tax liabilities:</b>		
Property, plant and equipment	13,658	4,425
Investments	736	1,028
Intangibles acquired	13,388	8,977
Other	(2,953)	–
<b>Total deferred tax liabilities</b>	<b>24,829</b>	<b>14,430</b>
<b>Net deferred tax liability</b>	<b>13,388</b>	<b>–</b>

**20. Stockholders' equity**

The Company has only one class of capital stock referred to as equity shares. All references in these financial statement to the number of shares, per share amounts and market prices of the company's equity shares have been retroactively restated to reflect stock splits made by the company.

Effective September 24, 2002, one ADS represented one equity share. The Company's 1-for-4 ADS reverse ratio change on September 24, 2002 does not have any effect on our equity shares or per equity share amounts, as the underlying shares representing ADSs were unchanged.

**21. Common Stock**

Effective October 7, 2002, Sify entered into definitive agreements with two investors in connection with a \$20 million equity investment in Sify. Under the agreements, (1) Softbank Asia Infrastructure Fund ("SAIF") will purchase approximately 7.56 million newly issued ADSs for \$13.0 million, or \$1.72 per ADS, (2) VentureTech Solutions Private Ltd. ("VentureTech") has purchased approximately 2.03 million newly issued equity shares for the Indian Rupee equivalent of \$3.5 million, or \$1.72 per equity share, and (3) VentureTech will be obligated to purchase an additional approximately 2.03 million newly issued

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equity shares for the Indian Rupee equivalent of \$3.5 million, or \$1.72 per equity share, prior to May 1, 2003. The parties entered into a Shareholders Agreement dated October 7, 2002 (effective on closure of the transaction namely, December 17, 2002) providing for, among other things two nominees each on a Board of Directors comprising nine directors and consent rights with respect to specified corporate transactions.

On December 16, 2002, the US\$ 13.0 million investment by SAIF and the first tranche investment of US\$3.5 million by VentureTech were completed. The transactions was approved by Sify's stockholders at the Extraordinary General Meeting on 9<sup>th</sup> December 2002. An aggregate of 7,558,140 ADS were issued to SAIF and an aggregate of 2,034,884 equity shares were issued to VentureTech. The securities issued to SAIF have been registered under the Securities Act of 1933 as securities sold to non-U.S. persons in a private placement. The common stock was issued on December 16, 2002.

Upon completion of these transactions, the number of Sify's outstanding equity shares has increased from 23.3 million to 32.8 million and the interest of Satyam Computer Services in our company has reduced to approximately 37%.

On completion of the additional investment by VentureTech and pursuant to the purchase of shares from Sterling Commerce by VentureTech, interest of SAIF, VentureTech and Satyam Computer Services will be 21.7%, 13.1% and 35.0% respectively.

#### *Voting*

Each holder of equity shares is entitled to one vote per share. The equity shares represented by American Depositary Shares ("ADS") carry similar rights to voting and dividends as the other equity shares. One ADS represents one underlying equity share.

#### *Share holding agreement*

The Company, Satyam Computers Services Limited and South Asia Regional Fund entered into an agreement ceding certain rights of consultation / ascent to South Asia Regional Fund on February 5, 1999 as amended on September 14, 1999. Most of these rights ceased consequent to the amendment to the Articles of Association in December 2002.

The Company, Satyam Computers Services Limited, SAIF Investment Company Limited and Venture Tech entered into a subscription agreement dated October 7, 2002 and entered into a investor rights agreement dated October 7, 2002 reserving certain rights of consultation and veto for SAIF Investment Company Limited and Venture Tech.

#### *Dividends*

Should the Company declare and pay dividends, such dividends will be paid in Indian Rupees. Indian law mandates that any dividend be declared out of distributable profits only after the transfer of a specified percentage of net income computed in accordance with current regulations to a general reserve. Moreover, the remittance of dividends outside India is governed by Indian law on foreign exchange and is subject to applicable taxes.

#### *Liquidation*

In the event of a liquidation of the company, the holders of common stock shall be entitled to receive any of the remaining assets of the company, after distribution of all preferential amounts. The amounts will be in proportion to the number of equity shares held by the stockholders.

#### *Stock Options*

There are no voting, dividend or liquidation rights to the holders of warrants issued under the company's stock option plan.

## 22. Other income, net

Other income consists of:

	<b>For the year ended March 31,</b>		
	<b>2001</b>	<b>2002</b>	<b>2003</b>
	Rs.	Rs.	Rs.
Interest expense	(11,766)	(4,780)	(1,240)
Other finance charges	(4,707)	(14,506)	(8,519)
Interest income	246,179	49,540	31,999
Others	12,662	2,457	30,708
<b>Other (expense)/income, net</b>	<b>242,368</b>	<b>32,711</b>	<b>52,948</b>

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**23. Executive employment arrangements**

Sify has entered into Executive Employment Agreements ('the agreements') with certain senior executive employees on February 20, 2002.

Under these agreements, in the event of termination of employment under certain circumstances (all within the control of the Company), severance benefits are payable to these senior executives. The maximum severance benefit so payable in the event of all such senior executives leaving under the specified circumstances is Rs. 16,237. This contractual obligation would expire on 17th December 2003 (one year after change of control).

These senior executives were provided loans totaling Rs. 61,500 repayable with interest after two years in fiscal 2001 and 2002. In certain circumstances (including change of control, death, specified terminations, or after the expiry of a two year period) the Company agreed to pay an incentive to these executives equal to the amount of the loan less the value of in the money stock options granted to them earlier. This would enable the executive to repay the loan and interest. The Company was providing for the incentive obligation in its accounts over the period from the date of disbursement to the contracted date of repayment. However, in the quarter ended 31st December 2002, consequent to a change of control event, the entire unamortized portion of the loan was amortized.

As of 31st March 2002, these incentive obligations of Rs. 61,500 have been fully provided for.

Due to the modification in the terms of the stock options, these options are accounted in accordance with EITF Issue 00-23 as a variable plan. The Company has not incurred any additional compensation charge under variable accounting, as the exercise price has been higher than the market price.

**24. Employee Benefit Plan**

The following table sets out the funded status of the Gratuity Plan and the amounts recognized in Sify's balance sheet.

	<b>As of March 31,</b>	
	<b>2002</b>	<b>2003</b>
	Rs.	Rs.
<b>Change in projected benefit obligation</b>		
Projected benefit obligation at the beginning of the year	5,898	<b>8,782</b>
Service cost	5,545	3,876
Interest cost	531	789
Divestiture	(2,508)	-
Actuarial (gain)/loss	(607)	(1,606)
Benefits paid	(77)	(182)
<b>Projected benefit obligation at the end of the year</b>	<b>8,782</b>	<b>11,659</b>
<b>Change in plan assets</b>		
Fair value of plan assets at the beginning of the year	1,729	3,309
Actual return on plan assets	296	66
Employer contributions	1,361	527
Benefits paid from plan assets	(77)	(182)
<b>Fair value of plan assets at the end of the year</b>	<b>3,309</b>	<b>3,720</b>
<b>Funded status of the plans</b>	<b>5,474</b>	<b>7,939</b>
Unrecognized transition obligation (asset)	-	-
Unrecognized prior service cost (benefit)	-	-
Unrecognized net actuarial gain/(loss)	560	1912
<b>Accrued benefit cost</b>	<b>6,034</b>	<b>9,851</b>

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	<b>For the year ended March 31,</b>		
	<b>2001</b>	<b>2002</b>	<b>2003</b>
	Rs.	Rs.	Rs.
<b>The components of net gratuity costs are reflected below:</b>			
Service cost	3,844	5,545	3,876
Interest cost	182	531	789
Expected returns on plan assets	(140)	(227)	(320)
Amortization	–	–	–
<b>Net gratuity costs</b>	<b>3,886</b>	<b>5,849</b>	<b>4,345</b>

**Principal actuarial assumptions:**

Discount rate	11%	9%	8%
Long-term rate of compensation increase	10%	8%	7%
Rate of return on plan assets	11%	9%	7.5%

**Provident fund**

Sify contributed Rs. 11,675, Rs.19,797 and Rs.17,902 towards the Provident fund during the year ended March 31, 2001, 2002 and 2003 respectively.

**25. Related Party Transactions**

The company has entered into transactions with the following related parties:

- Satyam Computer Services Ltd. (formerly the parent company) where Sify provides connectivity services and software development services for certain e-learning projects.
- Affiliated companies
- Employees of the Company

Given below is an analysis of transactions with Satyam Computer Services Ltd. :

	<b>As at March 31,</b>		
	<b>2001</b>	<b>2002</b>	<b>2003</b>
	Rs.	Rs.	Rs.
Due (to)/from Satyam Computer Services Limited at beginning of the year	(17,115)	12,926	8,137
Allocation of facilities costs	(17,954)	(485)	–
Sale of e-business division	–	332,500	–
Expenses incurred on behalf of the Company	(47,019)	(136,230)	(2,897)
Capital expenses incurred on behalf of the Company	(27,541)	(4,015)	(9,713)
Purchases from Satyam Computer Services Limited	(2,381)	(19,061)	–
Sales to Satyam Computer Services Limited	83,550	302,521	34,345
Collections from Satyam Computer Services Limited		(480,019)	(13,856)
Payment to Satyam Computer Services Limited	41,386	–	–
<b>Due (to) / from Satyam Computer Services Limited</b>	<b>12,926</b>	<b>8,137</b>	<b>16,016</b>

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

	<b>Year ended March 31,</b>		
	<b>2001</b>	<b>2002</b>	<b>2003</b>
	Rs.	Rs.	Rs.
Sales to affiliates	22,405	52,847	4,,194
Interest on convertible notes	–	2,245	1,066

The Company has the following amounts due from related parties:

	<b>Year ended March 31,</b>	
	<b>2002</b>	<b>2003</b>
	Rs.	Rs.
Affiliates		
Against loans	74,561	22,951
Others	5,684	–
Employee loans	68,245	5,692

The estimated fair value amounts of other employee loans were Rs 66,908 and Rs. 4,217 as on March 31, 2002 and March 31, 2003 respectively. These amounts are determined using available market information and appropriate valuation methodologies. Considerable judgement is required to develop the estimates of fair value. Thus, the estimates provided herein are not necessarily indicative of the amounts the Company could realise in the market.

*Repayable in the year ending March 31:*

2004	982
2005	726
2006	550
2007	544
2008	544
Thereafter	2,346

**26. Stock-based compensation plans**

In fiscal 1999, the Company established the Employee Stock Offer Plan ('ESOP'), which provides for the issuance of 825,000 warrants to eligible employees. The warrants were issued to an employee welfare trust (the 'Trust') at Re. 1 each on September 28, 1999. The Trust holds the warrants and transfers them to eligible employees over a period of three years. The warrants, which are to be transferred to eligible employees at Re. 1 each, entitles the holder to purchase one equity share at an exercise price determined by the Compensation Committee. The warrants and the equity shares received upon the exercise of warrants are subject to progressive vesting over a three-year period from the date of issue of warrants to employees. Deferred compensation is recorded in the event that the exercise price of the warrant is determined to be less than the fair market value of the underlying shares on the date of the grant. Deferred compensation is amortized over the vesting period of the warrants. The warrants allotted and the underlying equity shares are not subject to any repurchase obligations by the Company. As discussed in Note 23 the terms of certain stock options have been modified; these options are accounted in accordance with EITF Issue 00-23, as a variable plan. The Company has not incurred any additional compensation charge under variable accounting, as the exercise price has been higher than the market price.

The following table summarizes the stock option plan activity:

	<b>Number of shares</b>	<b>Weighted average exercise price</b>
		Rs.
<b><i>For the year ended March 31, 2001</i></b>		
Balance at the beginning of the year	312,460	2,338
Granted	342,800	2,821
Exercised	200	350
Forfeited / Expired	90,040	2,409
Balance at the end of the year	565,020	2,621
Exercisable at the end of the year	43,073	2,338
Weighted average fair value on grant date	–	<b>511.22</b>

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	Number of shares	Weighted average exercise price Rs.
<b><i>For the year ended March 31, 2002</i></b>		
Balance at the beginning of the year	565,020	2,621
Granted	276,360	174
Exercised	–	–
Forfeited / Expired	257,540	2,504
Balance at the end of the year	583,840	1,515
Exercisable at the end of the year	102,633	2,385
Weighted average fair value on grant date		<b>343.27</b>

	Number of shares	Weighted average Exercise price Rs.
<b><i>For the year ended March 31, 2003</i></b>		
Balance at the beginning of the year	583,840	1,515
Granted	15,480	50
Exercised	–	–
Forfeited / Expired	208,760	1,671
Balance at the end of the year	390,560	1,359
Exercisable at the end of the year	177,393	2,002
Weighted average fair value on grant date		<b>34.41</b>

The following table summarizes information about fixed price options outstanding at March 31, 2003:

Range of exercise price	Number outstanding at March 31, 2003	Weighted average exercise price Rs.	Weighted average remaining contractual life	Number exercisable at March 31, 2003	Weighted average exercise price Rs.
Rs. 49 – Rs. 50	15,000	50	2.53	–	–
Rs. 169 – Rs. 376	224,040	172	1.57	74,680	172
Rs. 724 – Rs. 973	17,100	882	0.74	11,400	882
Rs. 1,879 – Rs. 3,809	129,320	3,345	0.24	86,213	3,345
Rs. 5,892 – Rs. 8,603	5,100	8,603	–	5,100	8,603
Rs. 49 – Rs. 8,603	390,560	1,359	–	177,393	2,002

**27. Commitments and contingencies**

The company has outstanding performance guarantees for various statutory purposes totaling Rs. 135,855 and Rs. 174,622 as of March 31, 2002 and 2003, respectively. These guarantees are generally provided to governmental agencies.

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**28. Products and services**

Breakup of revenues and cost of revenues against products and services are as follows :

	<b>Year ended March 31,</b>		
	<b>2001</b>	<b>2002</b>	<b>2003</b>
	Rs.	Rs.	Rs.
<i>Revenue</i>			
Products	204,995	204,472	215,559
Services	1,020,486	1,370,016	1,778,641
	<b>1,225,481</b>	<b>1,577,488</b>	<b>1,994,200</b>
<i>Cost of revenues (excluding depreciation and amortization)</i>			
Products	174,346	172,870	193,711
Services	1,002,760	1,019,801	1,070,390
	<b>1,177,106</b>	<b>1,192,671</b>	<b>1,264,101</b>

**29. 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 a portal, "Sify.com", that provides a variety of India-related content to audiences both in India and abroad, which generates revenue from advertisements and other value added services. The Company also has subsidiaries to exploit other opportunities provided by the Internet in e-learning, business to business marketplaces, digital signatures and Internet security.

The primary operating segments of the Company include:

- Corporate network/data services, which provides private network services, messaging services and web hosting to businesses;
- Internet access services; and
- Online portals services and content offerings.
- 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 catered to. The measure of loss reviewed by the CODM during fiscal 2002 and 2001 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 follows:

Bandwidth costs in Sify are of three kinds: Last mile, Inter city and International. Last mile is directly identifiable to the segment. Inter city bandwidth is allocated based on the number of subscribers or iway cafes at "non gate way" points and the bandwidth sold to and used by business enterprises (determined using packet shapers). International bandwidth is allocated amongst user population based on ports used and estimates of bandwidth per port for retail consumers and bandwidth sold and peak bandwidth used for corporate consumers. The Company believes that the resulting allocations are reasonable.

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Certain expenses, such as depreciation and technology costs, which form a significant component of total expenses, are not specifically allocable to specific segments as the underlying services are used interchangeably. Management believes that it is not 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 year ended March 31, 2003, 2002 and 2001 are presented below:

	Year ended March 31, 2003					(all in Rupees)
	Corporate Network / Data Services	Internet Access Services	Online Portal Services	Other Services	Continuing operations	
Revenues	997,976	674,370	164,867	156,987	1,994,200	
Operating expenses	(677,108)	(933,751)	(211,732)	(106,079)	(1,928,670)	
Equity in loss of affiliates			(35,884)		(35,884)	
Minority interest		1,967	272		2,239	
Segment operating income / (loss)	320,868	(257,414)	(82,477)	50,908	31,885	
Corporate expenses					(573,918)	
Foreign exchange gain					(18)	
Other income / (expense), net					22,190	
Impairment of investments in affiliates					(14,805)	
Impairment of assets					(246,999)	
Profit from sale of business					24,628	
Depreciation and amortization					(600,256)	
Interest income net					30,758	
Income taxes					(2,856)	
Net (loss)/ profit					(1,329,388)	

	Year ended March 31, 2002					(all in Rupees)
	Corporate Network / Data Services	Internet Access Services	Online Portal Services	Other Services	Continuing operations	Discontinued operations
Revenues	782,749	515,960	207,105	71,674	1,577,488	340,718
Operating expenses	(558,538)	(1,067,927)	(279,817)	(125,213)	(2,031,495)	(384,365)
Equity in loss of affiliates	–	–	(81,867)	–	(81,867)	–
Minority interest	–	16,650	411	867	17,928	–
Segment operating income / (loss)	224,211	(535,317)	(154,168)	(52,672)	(517,946)	(43,647)
Corporate expenses					(538,360)	–
Foreign exchange gain					44,520	–
Other income / (expense), net					2,457	(16)
Impairment of goodwill					(4,127,680)	–
Impairment of investments in affiliates					(1,089,871)	–
Depreciation and amortization					(961,639)	(81,710)
Interest income					30,254	–
Profit on sale of discontinued operation					–	81,121
Net (loss)/ profit					(7,158,265)	(44,252)

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	Year ended March 31, 2001					Discontinued operations in Rs.
	Corporate Network / Data Services	Internet Access Services	Online Portal Services	Other Services	Continuing operations	
Revenues	593,310	469,705	144,417	18,049	1,225,481	561,595
Operating expenses	(503,364)	(1,009,793)	(470,621)	(173,427)	(2,157,205)	(334,788)
Equity in loss of affiliates	-	-	(93,208)	-	(93,208)	-
Minority interest	-	8,519	2,618	-	11,137	-
Segment operating income / (loss)	89,946	(531,569)	(416,794)	(155,378)	(1,013,795)	226,807
Corporate expenses					(486,956)	-
Foreign exchange gain					162,136	-
Other income / (expense), net					7,955	-
Depreciation and amortization					(1,583,657)	(54,226)
Interest income					234,413	-
Income taxes					(1,707)	-
Net loss					(2,681,611)	172,581

**30. Legal proceedings**

Sify 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 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 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. There have been discussions from time to time regarding a possible settlement among the plaintiffs, the non-underwriters defendants (including the Company and its affiliated parties) and the insurance carriers providing insurance coverage to the defendants; to date no settlement has been reached. Although Sify does not know when the Court will decide the motion or what that decision will be and is unable to estimate the range of loss that is reasonably possible, Sify believes that it has meritorious defenses and intends to defend this action vigorously. However, Sify could be forced to incur material expenses in the litigation, and in the event there is an adverse outcome, Sify's business could be harmed.

Sify's subsidiary IndiaWorld Communications was involved in litigation in the United States relating to the IndiaWorld trademark which was settled during the quarter ended December 31, 2002 without any liability to Sify or IndiaWorld Communications.

**SIFY LIMITED (formerly known as Satyam Infoway Limited) and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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The charges for international gateways and other services presently being provided by VSNL were the subject of a dispute pending before the Telecom Regulatory Authority of India (“TRAI”) and the Telecom Disputes Settlement and Appellate Tribunal between VSNL and private Internet service providers, including Sify, represented by the Internet Service Providers Association of India (“ISPAI”). VSNL has priced these services at levels which Sify believes are inconsistent with the terms and conditions on which VSNL has secured the bandwidth for its international gateways. The Telecom Disputes Settlement and Appellate Tribunal remanded the matter back to the TRAI which decided against the ISPAI. The ISPAI has not yet decided on a further course of action. Sify is currently paying for bandwidth from VSNL at the higher rates.

Sify is party to additional legal actions arising in the ordinary course of business. Based on information available as of March 31, 2003 Sify believes that it has adequate legal defenses or insurance coverage for these actions and that the ultimate outcome of these actions will not have a material adverse effect on Sify.

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