

SIFY TECHNOLOGIES LTD  
Form 20-F  
July 31, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 20-F

(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

Or

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

**For the fiscal year ended March 31, 2013.**

Or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**SHELL COMPANY PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

**Date of event requiring this shell Company report \_\_\_\_\_**

**Commission file number 000-27663**

**Sify Technologies Limited**

*(Exact name of Registrant as specified in its charter)*

Not Applicable

*(Translation at Registrant's name into English)*

Chennai, Tamil Nadu, India

*(Jurisdiction of incorporation or organization)*

Tidel Park, 2nd Floor

4, Rajiv Gandhi Salai

Taramani, Chennai 600 113 India

(91) 44-2254-0770, Fax (91) 44 -2254 0771

*(Address of principal executive office)*

M.P.Vijay Kumar, Chief Financial Officer, (91) 44-2254-0770; vijaykumar.mp@sifycorp.com

Tidel Park, 2nd Floor, 4, Rajiv Gandhi Salai, Taramani, Chennai 600113 India

*(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)*

**Securities registered or to be registered pursuant to Section 12(b) of the Act**

Title of each class	Name of each Exchange on which registered
American Depository Shares, each represented by One Equity Share, par value Rs.10 per share	NASDAQ Global Select Market

**Securities registered or to be registered pursuant to Section 12(g) of the Act**

Title of each class	Name of each Exchange on which registered
None	Not Applicable

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act**

Not Applicable

*(Title of class)*

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

178,513,589 Equity Shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  **No**

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  **No**

Note - Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

**Yes**  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  **No**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  **Accelerated filer**  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

US GAAP  **International Financial Reporting Standards as issued by the International Accounting Standard Board**  Other

If this is an annual report, indicate by check mark whether the registrant is a shell Company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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

Unless the context otherwise requires, references in this annual report to “we,” “us,” the “Company,” “Sify” or “Satyam Infoway” are to Sify Technologies Limited, a limited liability Company organized under the laws of the Republic of India. References to “U.S.” or the “United States” are to the United States of America, its territories and its possessions. References to “India” are to the Republic of India. In January 2003, we changed the name of our Company from Satyam Infoway Limited to Sify Limited. In October 2007, we again changed our name from Sify Limited to Sify Technologies Limited. “Sify”, “SifyMax.in,” “Sify e-ports” and “Sify online” are trademarks used by us for which we have already obtained registration certificates in India. All other trademarks or trade names used in this Annual Report on Form 20-F for the year ended March 31, 2013 (the “Annual Report”) are the property of their respective owners. In this Annual Report, references to “\$,” “Dollars” or “U.S. dollars” are to the legal currency of the United States, and references to “Rs.,” “rupees” or “Indian rupees” are to the legal currency of India . References to a particular “fiscal” year are to our fiscal year ended March 31 of such year. References to the “Group” mean Sify Technologies Limited and its subsidiaries. References to “equity shares” refer to our Indian Equity Shares, which are not traded on an exchange in India or the United States. References to “ADS’s” refer to our American Depositary Shares, which are traded on the NASDAQ Global Select Market under the symbol “SIFY.”

For your convenience, this Annual Report contains translations of some Indian rupee amounts into U.S. dollars which should not be construed as a representation that those Indian rupee or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Indian rupees, as the case may be, at any particular rate, the rate stated below, or at all. Except as otherwise stated in this Annual Report, all translations from Indian rupees to U.S. dollars contained in this Annual Report have been based on the reference rate in the City of Mumbai on March 31, 2013 for cable transfers in Indian rupees as published by the Reserve Bank of India (RBI), which was Rs.54.39 per \$1.00.

Our financial statements are presented in Indian rupees and prepared in accordance with English version of International Financial Reporting Standards as issued by the International Accounts Standards Board, or IFRS. In this Annual Report, any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

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

## Forward-Looking Statements

This Annual Report contains “forward-looking statements”, as defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on our current expectations, assumptions, estimates and projections about our Company, our industry, economic conditions in the markets in which we operate, and certain other matters. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as 'anticipate', 'believe', 'estimate', 'expect', 'may', 'intend', 'will', 'project', 'seek', 'should' and similar expressions. Those statements include, among other things, the discussions of our business strategy and expectations concerning our market position, future operations, margins, profitability, liquidity and capital resources. These statements are subject to known and unknown risks, uncertainties and other factors, which may cause actual results or outcomes to differ materially from those implied by the forward-looking statements. Important factors that may cause actual results or outcomes to differ from those implied by the forward-looking statements include, but are not limited to, those discussed in the “Risk Factors” section in this Annual Report. In light of these and other uncertainties, you should not conclude that the results or outcomes referred to in any of the forward-looking statements will be achieved.

We operate in rapidly changing businesses, and new risk factors emerge from time to time. We cannot predict every risk factor, nor can we assess the impact, if any, of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those projected in any forward-looking statements. All forward-looking statements included in this Annual Report are based on information available to us, and reflect management’s beliefs, on the date hereof, and we do not undertake to update these forward-looking statements to reflect future events or circumstances. In addition, readers should carefully review the other information in this Annual Report and in our periodic reports and other documents filed with the United States Securities and Exchange Commission (“SEC”) from time to time.

**PART I**

**Item 1. Identity of Directors, Senior Management and Advisers.**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information**

**Selected Financial Data**

**Summary of Consolidated Financial Data**

You should read the summary consolidated financial data below in conjunction with the Company's consolidated financial statements and the related notes, as well as the section entitled "Operating and Financial Review and Prospects," all of which are included elsewhere in this Annual Report. The summary consolidated statements of income data for the five years ended March 31, 2013, 2012, 2011, 2010 and 2009 and the summary consolidated Statement of Financial Position as of March 31, 2013, 2012, 2011, 2010 and 2009, have been derived from our audited consolidated financial statements and related notes to the consolidated financial statements which were prepared and presented in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB). Historical results are not necessarily indicative of future results.

**Sify Technologies Limited**  
**Consolidated Statement of Income**  
(In thousands of Rupees, except share data and as otherwise stated)

	Year ended March 31,					2013
	2013	2012	2011 Rs	2010 Rs	2009 Rs	Convenience translation into US\$ in thousands, except share and per share data (See Note1)
Revenue	8,570,316	7,698,949	6,886,629	6,710,188	6,162,161	157,572
Cost of goods sold and services rendered	(4,750,879)	(4,660,773)	(4,209,430)	(4,096,538)	(3,613,349)	(87,348)
Other income	50,858	37,377	72,693	131,789	89,105	935
Selling, general and administrative expenses	(3,041,505)	(2,547,209)	(2,441,799)	(2,482,415)	(2,813,425)	(55,920)
Depreciation and amortization	(848,210)	(691,560)	(685,836)	(656,797)	(498,872)	(15,595)
Impairment loss on intangibles including goodwill	-	-	(1,857)	(47,269)	(15,200)	-
Income from legal settlement	-	-	-	561,120	-	-
<b>Profit / (loss) from operating activities</b>	<b>(19,420)</b>	<b>(163,216)</b>	<b>(379,600)</b>	<b>120,078</b>	<b>(689,580)</b>	<b>(356)</b>
Finance income	73,853	59,313	45,698	27,994	122,565	1,358
Finance expenses	(260,441)	(306,732)	(258,622)	(293,873)	(251,660)	(4,788)
<b>Net finance income / (expense)</b>	<b>(186,588)</b>	<b>(247,419)</b>	<b>(212,924)</b>	<b>(265,879)</b>	<b>(129,095)</b>	<b>(3,430)</b>
Profit from sale of equity accounted investee and	657,577					12,090



rights therein						
Share of profit of equity accounted investee (net of income tax)		27,298	73,032	91,135	64,091	-
<b>Profit / (loss) before tax</b>	<b>451,569</b>	<b>(383,337)</b>	<b>(519,492)</b>	<b>(54,666)</b>	<b>(754,584)</b>	<b>8,300</b>
Income tax (expense) / benefit	-	-	-	81,479	(97,049)	-
<b>Profit / (loss) for the year</b>	<b>451,569</b>	<b>(383,337)</b>	<b>(519,492)</b>	<b>26,813</b>	<b>(851,633)</b>	<b>8,300</b>
<b>Attributable to:</b>						
Equity holders of the Company	451,569	(383,337)	(519,492)	17,027	(900,574)	8,300
Non-controlling interest		-	-	9,786	48,941	-
	<b>451,569</b>	<b>(383,337)</b>	<b>(519,492)</b>	<b>26,813</b>	<b>(851,633)</b>	<b>8,300</b>
<b>Earnings / (loss) per share</b>						
Basic earnings / (loss) per share	3.43	(3.71)	(8.20)	0.33	(20.77)	0.06
Diluted earnings / (loss) per share	3.43	(3.71)	(8.20)	0.33	(20.77)	0.06

**Particulars****(Rupees in thousands, except share and per share data)****Balance Sheet data**

	<b>March 31,</b>					<b>Convenience translation into US\$ in thousands, except share and per share data (see note 2)</b>
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2013</b>
	<b>Rs</b>	<b>Rs</b>	<b>Rs</b>	<b>Rs</b>	<b>Rs</b>	<b>\$</b>
Cash and cash equivalents including restricted cash	1,001,052	892,768	543,097	878,698	1,710,798	18,409
Net current assets	755,219	995,834	(36,354)	(46,814)	(175,993)	13,885
Total assets	11,799,408	10,582,818	9,238,371	9,345,824	9,145,555	216,944
Total equity attributable to equity shareholders of the Company	6,311,422	5,850,654	4,665,792	4,171,092	3,851,693	116,040
<b>Cash Flow Data</b>						
<b>Net cash provided by (used in):</b>						
Operating activities	463,407	600,214	225,359	759,802	(371,556)	8,520
Investing activities	(212,748)	(901,971)	(730,650)	(896,683)	(1,174,156)	3,911
Financing activities	11,232	536,407	551,700	(354,486)	968,797	207

**Notes**

- The convenience translation to U.S. Dollars was performed at the reference rate in the City of Mumbai for cable transfers as published by Reserve Bank of India on March 31, 2013 of Rs.54.39 per \$1.00, which should not be construed as a representation that those Indian rupee or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Indian rupees, as the case may be, at this rate or at all.

2. Reference to shares and per share amounts refer to our equity shares. Our outstanding equity shares include equity shares held by a depository underlying our ADSs. Effective September 24, 2002, one ADS represented one equity share.

**Exchange Rates**

Our functional currency is the Indian rupee. The exchange rate between the rupee and the U.S. dollar has changed substantially in recent years and may fluctuate substantially in the future. Our exchange rate risk primarily arises from our foreign currency revenues, receivables and payables.

The following table sets forth the high and low exchange rates for the previous six months and is based on the reference rate in the City of Mumbai on business days during the period for cable transfers in Indian rupees as published by the Reserve Bank of India (RBI).

<b>Month</b>	<b>High Rs.</b>	<b>Low Rs.</b>
June 2013	60.59	56.42
May 2013	56.50	53.74
April 2013	54.88	53.94
March 2013	55.05	54.09
February 2013	54.48	52.97
January 2013	55.33	53.29

The following table sets forth, for the fiscal years indicated, information concerning the number of Indian rupees for which one U.S. dollar could be exchanged based on the reference rate in the City of Mumbai on business days during the period for cable transfers in Indian rupees as published by the Reserve Bank of India (RBI). The column titled 'Average' in the table below is the average of the last business day of each month during the year.

<b>Fiscal Year Ended March 31</b>	<b>Period end Rs.</b>	<b>Average Rs.</b>	<b>High Rs.</b>	<b>Low Rs.</b>
2013	54.39	54.53	57.22	50.56
2012	51.16	47.94	54.23	43.94
2011	44.65	45.58	47.57	44.03
2010	45.14	47.36	50.53	44.94
2009	50.95	45.91	52.06	39.89

On March 31, 2013, the reference rate in the City of Mumbai for cable transfers in Indian rupees as published by RBI was Rs.54.39.

On July 30, 2013, the reference rate in the City of Mumbai for cable transfers in Indian rupees as published by RBI was Rs. 59.83

**Capitalization and indebtedness**

Not applicable.

**Reasons for the offer and use of proceeds**

Not applicable.

**Risk Factors**

This Annual Report contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth in the following risk factors and elsewhere in this Annual Report.

## **Risks Related to our Company and Industry**

### ***We may incur losses in the future and we may not achieve or maintain profitability.***

We have a net profit of Rs. 452 million (\$ 8.30 million) for the year ended March 31, 2013 with an accumulated deficit of Rs. 13,539 million (\$249 million) as at March 31, 2013, Net profits for the year ended March 31, 2013 included an exceptional profit of Rs. 658 million (\$12 million) on account of sale of our entire stake in MF Global Sify Securities India Private Ltd. We may in the future incur net losses and suffer negative operating cash flows. We expect to increase our expenditures as we continue to expand our services, promote our brand, and invest in the expansion of our infrastructure. We have and in the future may incur expenses in connection with investments in data centers and infrastructure. Accordingly, we will need to generate significant additional revenues in order to become profitable. Our business model is not yet proven in the Indian ITES space, and we cannot assure you that we will improve our profitability or that we will not incur operating losses in the future. If we are unable to become profitable and continue to sustain losses, we will be unable to build a sustainable business and our results of operations will be adversely affected. In this event, the price of our ADSs and the value of your investment may decline.

### ***Our profits may be impacted consequent to the withdrawal of incentive for exports availed under the “Served from India” Scheme on account of changes in Indian Government policy.***

The Government of India had introduced the “Served from India” Scheme (the “Scheme”) in order “to accelerate growth in export of services so as to create a powerful and unique Served from India brand, instantly recognized and respected world over.”

Under the Scheme, all service providers (the exporter of various services) are entitled to a customs duty credit called ‘Duty credit scrip’ at 10% of the foreign exchange earned during the financial year. A service provider will be eligible for such duty credit scrip only on satisfaction of two conditions: (a) the service provider should export services; and (b) the service provider should earn foreign exchange. This duty credit may be used for settling the customs duty payable to the Government of India on the import of any capital goods including spares, office equipment and professional equipment, office furniture and consumables, provided it is part of their main line of business.

The new Foreign Trade (2009-2014) policy announced by The Commerce Ministry of Government of India, on August 27, 2009 has explicitly excluded the telecom Sector, which is the sector in which we operate, from the purview of Served from India Scheme (SFIS). As a result of this new policy document, we are not eligible for the export incentive on Foreign Exchange earnings from all existing business streams other than e-learning and Infrastructure management services prospectively.

The loss of credits from the above scheme may adversely impact the financial condition and operating results. Effective August 2009 and subsequent notification in 2011, this benefit was withdrawn for our exports, which has adversely affected our results of operations.

### ***We may fail to meet our obligations of export under Export Promotion Capital Goods Scheme (EPCG) and be subjected to penalties***

During the year 2012-13, we have started availing the duty benefit for our import of capital goods under EPCG scheme available for export of services. Under such scheme, we are eligible to import capital goods without import duty with an obligation to generate export revenues to the extent of 8 times of value of such duty benefit availed. Though there are export revenues at present, we may fail to fulfill such obligation in the future. In case of shortfall in fulfillment of export obligation, we may be subjected to repay the duty benefit availed along with penal interest.

***The global economic environment increased pricing pressure and decreased utilization rates could negatively impact our revenues and operating results.***

Spending on technology products and services in most parts of the world has been rising for the past several years. However, there was a decline in the growth rate of global IT purchases due to the economic slowdown and we believe the market may not recover in near term.

With regard to the domestic Indian economy, pricing and competition continue to be under pressure. Lead times for orders or contracts have become much longer, as we have longer credit periods. These factors have affected and would affect the growth in demand for our corporate business.

Overseas economic performance also has a bearing on our Infrastructure and e-Learning businesses. Currency fluctuations will also lead to variations in revenue. The Infrastructure Managed Services, National Long Distance ('NLD') / International Long Distance ('ILD') business and eLearning may be affected in terms of prices and growth.

Reduction in IT spending and extended credit terms arising from or related to the economic slowdown, and any resulting pricing pressures, reduction in billing rates, increased credit risk may adversely impact our revenues, gross profits, operating margins and results of operations.

***Currency fluctuations may affect the results of our operations or the value of our ADSs.***

The exchange rate between the Indian rupee and the U.S. dollar has changed significantly in recent years and may continue to fluctuate substantially in the future.

We use derivative financial instruments, such as foreign exchange forward and option contracts, to mitigate the risk of changes in foreign exchange rates on accounts receivable and payable and forecast cash flows denominated in US dollar. We may not purchase derivative instruments for a sufficient amount to adequately insulate ourselves from foreign currency exchange risks.

For the year ended March 31, 2013, we have recognized a gain of Rs. 18.88 million (\$0.35 million) on foreign exchange translations. If foreign exchange currency markets continue to be volatile, such fluctuations in foreign currency exchange rates could materially and adversely affect our results of operations in future periods. Also, the volatility in the foreign currency markets may make it difficult to hedge our foreign currency exposures effectively and make them expensive.

Further, the policies of the Reserve Bank of India (RBI) may change from time to time which may limit our ability to hedge our foreign currency exposures adequately. On August 2, 2011, the RBI issued Comprehensive Guideline on Derivatives to the banks/dealers with regard to suitability and appropriateness policy for offering derivative products to users. In addition, a high-level committee appointed by the Reserve Bank of India had recommended that India move to increased capital account convertibility, and proposed a framework for such increased convertibility. Full or increased capital account convertibility, if introduced, could result in increased volatility in the fluctuations of exchange rates between the Indian rupee and US dollar. Our US customers may leave us exposed to fluctuation in revenues based on currency fluctuations.

In July 2012, RBI has mandated conversion of Foreign currency balances lying in Export Earners Foreign Currency (EEFC) Account, before the end of subsequent month of the transaction. This may force us to convert foreign currency balances to INR at an unfavorable exchange rate, which will result in loss.

***We may encounter legal confrontations as the Information Technology Act 2000 lacks specificity as to issues on online processes and/or Internet.***

We believe that the Information Technology Act of 2000, (As amended by IT (Amendment) Act 2008 (the "ITA"), an Indian regulation, does not address all areas of online processes or the Internet. In exercise of the powers conferred by ITA 2000, the Government of India issued rules in April 2011 called Information Technology rules with stringent privacy norms for Internet Service Providers and the intermediary who is handling sensitive personal information. The ITA has mandated the service providers to maintain transactions, receipts, vouchers in specific formats. The records should be produced for inspection and audit by a government nominated agency or person. The Government of India is authorized to audit security and privacy protection measures. We are exposed to risks relating to unauthorized access, non-compliance of regulations by our franchisees for the cybercafés. Such events may negatively affect our reputation, and violations of the Information Act may result in fines, litigation or cause us to incur legal costs, which may adversely affect our business and results of operations.

***Intense competition in our businesses could prevent us from improving our profitability and we may be required to further modify the rates we charge for our services in response to new pricing models introduced by new and existing competition which would significantly affect our revenues.***

Our corporate network services compete with well-established companies, including Bharti Airtel, Tata Communications Limited or TCL, Reliance Infocomm, Tata Teleservices, and the Government-owned telecom companies, Bharat Sanchar Nigam Limited or BSNL and Mahanagar Telephone Nigam Limited or MTNL.

A significant number of competitors have entered India's Internet service provider industry. The large players, especially the state run telecommunication companies, may enjoy significant competitive advantages over us, including greater financial resources, which could allow them to charge prices that are lower than ours in order to attract subscribers. These factors have resulted in periods of significant reduction in actual average selling prices for



consumer Internet Service Provider (ISP) services. We expect the market for Internet access and other connectivity services to remain extremely price competitive. Increased competition may result in operating losses, loss of market share and diminished value in our services, as well as different pricing, service or marketing decisions. In addition, competition may generally cause us to incur unanticipated costs associated with research and product development. Additionally, we believe that our ability to compete also depends in part on factors outside our control, such as the availability of skilled employees in India, the price at which our competitors offer comparable services, and the extent of our competitors' responsiveness to their clients' needs. We cannot assure you that we will be able to successfully compete against current and future competitors, or that we will not lose key employees or customers to such competitors, which may adversely affect our business and results of operations.

***Margin squeeze may affect the results of our operations.***

Our margins have been stagnant recently due to competitive pricing pressure. Competition will continue to increase with the entry of new competitors into the enterprise service category. However, these competitors generally would prefer to operate with a few global customers who have business interest in India. They may attract customers for managed hosting services with their capability of superior network and competitive pricing. We expect the market for such services to remain extremely price competitive. Increased competition may result in the reduction in profit margin which would impact the results of our operations.

***Procuring power at lower costs for data centers by the competitors may put us at a disadvantage in terms of pricing for our data center operations.***

The single largest operating cost in data centers is power. Currently all data centers are now located in proximity to, or at the edge of major urban centers such as Mumbai, Chennai and Bengaluru. Inexpensive land and labor allow companies to locate new data centers in remote locations. We may neither be in a position to develop data centers at remote locations where power is cheap nor procure power at cheaper rates for our data centers. If our competitors procure power at lower cost, they may have an advantage over us with respect to pricing. Our inability to offer competitive pricing may result in loss of customers and will impact our business and result of operations.

***We have added a number of new lines of business over the years, internet, MPLS VPN services, including the operation and licensing of public Internet cafés, as well as the provision of broadband services, security services, e-Learning software development services, managed network services, infrastructure management services and cloud offerings .***

The risks we face in developing Internet service market include our inability to:

- continuously develop and upgrade our technology;
- maintain and develop strategic relationships with business partners;
- offer compelling online services and content;

We cannot assure you that we will successfully address the risks or difficulties described above. Failure to do so could lead to an inability to attract and retain corporate customers for our network/data services and subscribers for our Internet access services as well as the loss of advertising revenues.

***Despite our best efforts to optimize costs, our future operating results could fluctuate in part because our expenses are relatively fixed in the short term while future revenues are uncertain, and any adverse fluctuations could negatively impact the price of our ADSs.***

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

- the range of corporate network services provided by us and the usage thereof by our customers;
- the number of subscribers for our ISP services and the prevailing prices charged.
- the timing and nature of any agreements we enter into with strategic partners of our corporate network services division;
- the services, products or pricing policies introduced by our competitors;
- capital expenditure and other costs relating to our operations;
- the timing and nature of our marketing efforts;
-

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

- the introduction of alternative technologies;
- technical difficulties or system failures affecting the telecommunication infrastructure in India, the Internet generally or the operation of our websites; and
- the range of web hosting services provided by us and its subscription thereof by our customers.

We plan to continue to expand and invest in network infrastructure. Many of our expenses are relatively fixed in the short-term. We cannot assure you that our revenues will increase in proportion to the increase in our expenses. We may be unable to adjust spending quickly enough to offset any unexpected revenues shortfall. This could lead to a shortfall in revenues in relation to our expenses and adversely affect our revenue and operating results.

You should not rely on yearly comparisons of our results of operations as indicators of future performance and operating results may be below the expectations of public market analysts and investors. In this event, the price of our ADSs may decline.

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

Our businesses depend on the reliability and security of our information technology systems and infrastructure. They must remain secure, and be perceived by our corporate and consumer customers to be secure as we retain confidential customer information in our database. Despite the implementation of security measures, our infrastructure may be vulnerable to physical break-ins, computer hacking, computer viruses, or cyber-attacks beyond our control. If our security measures are circumvented, it would jeopardize the security of confidential information stored on our systems, proprietary information could be misappropriated or cause interruptions to our operations. We may be required to make significant additional investments and efforts to protect against or remedy security breaches. Unauthorized disclosure of sensitive or confidential client and customer data, whether through breach of our computer systems, systems failure or otherwise, could damage our reputation and adversely affect our business and results of operations

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

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

Our success depends upon the continued service of our key personnel including our senior management team, including our Chairman, Mr. Raju Vegesna. Each of our employees may voluntarily terminate his or her employment with us. Our success also depends on our ability to attract and retain additional highly qualified technical, marketing and sales personnel. The labor market for skilled employees in India is extremely competitive, and the process of hiring employees with the necessary skills is time consuming and requires the diversion of significant resources. We may not be able to continue to retain or integrate existing personnel or identify and hire additional personnel in the future. The loss of the services of key personnel or the inability to attract additional qualified personnel could disrupt the implementation of our business strategy, upon which the success of our business depends.

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

Our technical know-how is not protected by intellectual property rights such as patents, and is principally protected by maintaining its confidentiality. We rely on trade secrets, confidentiality agreements and other contractual arrangements. As a result, we cannot be certain that our know-how will remain confidential in the long run. Employment contracts with certain of our employees who have special technical knowledge about our products or our business contain a general obligation to keep all such knowledge confidential. In addition to the confidentiality provisions, these employment agreements typically contain non-competition clauses.

If either the confidentiality provisions or the non-competition clauses are unenforceable, we may not be able to maintain the confidentiality of our know-how. In the event that confidential technical information or know-how about our products or business becomes available to third parties or to the public, our competitive advantage over other companies in the wireless based IP/VPN industry could be harmed which could have a material adverse effect on our current business, future prospects, financial condition and results of operations.

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

Changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, including the Dodd Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”), Sarbanes-Oxley Act of 2002 (“SOX”), new SEC regulations and NASDAQ Stock Market rules are creating uncertainty for companies like ours. These new or changed laws, regulations and standards may lack specificity and are subject to varying interpretations. Their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such governance standards.

Further, from the year 2011, there has been an increased focus on corporate governance by the U.S. Congress and by the SEC in response to the credit and financial crisis in the United States. As a result of this increased focus, additional corporate governance standards have been promulgated with respect to companies whose securities are listed in the United States, including by way of the enactment of the Dodd-Frank, and more governance standards are expected to be imposed in the near future on companies whose securities are listed in the United States.

Indian regulatory authorities are increasingly focused on standards of accounting, auditing, public disclosure and corporate governance and may impose new regulations that can lead to increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

In addition, it may become more expensive and/or more difficult for us to obtain director and officer liability insurance due to increase in premium rates. Further, our board members, Chief Executive Officer, and our Chief Financial Officer could face an increased risk of personal liability in connection with their performance of duties and our SEC reporting obligations. As a result, we may face difficulties attracting and retaining qualified board members and executive officers, which could harm our business. If we fail to comply with new or changed laws or regulations, our business and reputation may be harmed.

***We may inadvertently fail to comply with local laws of other countries in connection with the negotiation and execution of operational agreements.***

As part of our international business, we may negotiate with and enter into contracts with strategic partners, clients, suppliers, employees and other third parties in various countries. We may inadvertently fail to comply with their laws may result in lawsuits or penalties, which could adversely affect our business or results of operations.

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

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

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

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

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

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

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

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

***Our increasing work with Governmental agencies may expose us to additional risks.***

We are increasingly bidding for work with Governments and Governmental agencies for data centers and other projects. Projects involving Governments or Governmental agencies carry various risks inherent in the Government contracting process, including the following:

Such projects may be subject to a higher risk of reduction in scope or termination than other contracts due to political and economic factors such as changes in Government, pending elections or the reduction in, or absence of, adequate funding;

Terms and conditions of Government contracts tend to be more onerous than other contracts and may include, among other things, extensive rights of audit, more punitive service level penalties and other restrictive covenants. Also, the terms of such contracts are often subject to change due to political and economic factors;

All Government bids are subject to Bank Guarantee depending upon the size of the tender. Any shortfall in service, inability to deliver committed SLA during the project may force the Government to invoke the bank guarantee leading to huge cash losses;

Government contracts are often subject to more extensive scrutiny and publicity than other contracts. Any negative publicity related to such contracts, regardless of the accuracy of such publicity, may adversely affect our business or reputation;

Participation in Government contracts could subject us to stricter regulatory requirements, which may increase our cost of compliance; and

Such projects may involve multiple parties in the delivery of services and require greater project management efforts on our part. Any failure in this regard may adversely impact our performance.

In addition, we operate in jurisdictions in which local business practices may be inconsistent with international regulatory requirements, including anti-corruption and anti-bribery regulations prescribed under the U.S. Foreign Corrupt Practices Act ("FCPA"), which, among other things, prohibits giving or offering to give anything of value with the intent to influence the awarding of Government contracts. Although we believe that we have adequate policies and enforcement mechanisms to ensure legal and regulatory compliance with the FCPA, and other similar regulations, it is possible that some of our employees, subcontractors, agents or partners may violate any such legal and regulatory requirements, which may expose us to criminal or civil enforcement actions, including penalties. If we fail to comply with legal and regulatory requirements, our business and reputation may be harmed.



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

We have not paid cash dividends to date because of the accumulated losses in the previous years. We may not pay a cash dividend in the near future in anticipation of meeting the fund requirements for facilitating future expansion plans of the Company. Investors who purchase our ADS may not see immediate returns.

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

*The interests of our significant shareholder, Mr Raju Vegesna, our Chairman and Managing Director may differ from your interests.*

Effective as of October 30, 2010, upon the consummation of the private placement to an entity controlled by Mr Raju Vegesna, our Managing Director and Chairman of the Board of Directors of the company, Mr Raju Vegesna beneficially owns approximately 86.27% of our outstanding equity shares. Mr P.S.Raju serves on our Board of Directors as a nominee of Infinity Capital Ventures, LP, an entity controlled by Mr Raju Vegesna. As a result, Mr Raju Vegesna will be able to exercise control over many matters requiring approval by our Board of Directors and / or shareholders, including the election of directors and approval of significant corporate transactions, such as a sale of our company. Under Indian law, a simple majority is sufficient to control all shareholder action except for those items, which require approval by a special resolution. If a special resolution is required, the number of votes cast in favour of the resolution must not be less than three times the number of votes cast against it. Examples of actions that require a special resolution include:

- altering our Articles of Association;
- issuing additional shares of capital stock, except for pro rata issuances to existing shareholders;
- commencing any new line of business; and
- commencing a liquidation.

Circumstances may arise in which the interests of Mr Raju Vegesna could conflict with the interests of our other shareholders or holders of our ADSs. Mr. Vegesna, or the entities that he controls, could delay or prevent a change of control of our Company even if a transaction of that sort would be beneficial to our other shareholders, including the holders of our ADSs. This concentrated control will limit your ability to influence corporate matters and, as a result, we may take actions that our ADS holders do not view as beneficial. As a result, the market price of our ADS could be adversely affected.

*An investor in our ADSs may not be able to exercise preemptive rights for additional shares and may thereby suffer dilution of such investor's equity interest in us.*

Under the Companies Act, 1956, or the Indian Companies Act, a Company incorporated in India must offer its holders of equity shares preemptive rights to subscribe and pay for a proportionate number of shares to maintain their existing ownership percentages prior to the issuance of any new equity shares, unless such preemptive rights have been waived by three-fourths of the shares voting on the resolution to waive such rights.

Holders of ADSs may be unable to exercise preemptive rights for equity shares underlying ADSs unless a registration statement under the Securities Act of 1933, as amended, or the Securities Act, is effective with respect to such rights or an exemption from the registration requirements of the Securities Act is available. To the extent that holders of ADSs are unable to exercise preemptive rights granted in respect of the equity shares represented by their ADSs, their proportional interests in us would be reduced.

*ADS holders may be restricted in their ability to exercise voting rights.*

At our request, Citibank N.A, (the “*Depository*”) will mail to holders of our ADSs any notice of shareholders’ meeting received from us together with information explaining how to instruct the Depository to exercise the voting rights of the securities represented by ADSs. If the Depository receives voting instructions from a holder of our ADSs in time,

relating to matters that have been forwarded to such holder, it will endeavor to vote the securities represented by such holder's ADSs in accordance with such voting instructions. However, the ability of the Depository to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities on deposit. We cannot assure that the holders of our ADSs will receive voting materials in time to enable such holders to return voting instructions to the Depository. Securities for which no voting instructions have been received will not be eligible to vote.

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

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

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

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

- perception of the level of political and economic stability in India;
- actual or anticipated variations in our quarterly operating results;
- announcement of technological innovations;
- conditions or trends in the corporate network/data services, Internet and electronic commerce industries;
- the competitive and pricing environment for corporate network/data services and Internet access services in India and the related cost and availability of bandwidth;
- the perceived attractiveness of investment in Indian companies;
- acquisitions and alliances by us or others in the industry;
- changes in estimates of our performance or recommendations by financial analysts;
- market conditions in the industry and the economy as a whole;
- introduction of new services by us or our competitors;
- changes in the market valuations of other Internet service companies;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- our failure to integrate successfully our operations with those of any acquired companies;
- additions or departures of key personnel; and
- other events or factors, many of which are beyond our control.

The financial markets in the United States and other countries have experienced significant price and volume fluctuations, and the market prices of technology companies, particularly Internet-related companies, have been and continue to be extremely volatile with negative sentiment prevailing. Volatility in the price of our ADSs may be caused by factors outside of our control and may be unrelated or disproportionate to our operating results, which may adversely affect the value of your investment and the price of our ADS's.

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

We cannot predict that an active, liquid public trading market for our ADSs will continue to exist. Although ADS holders are entitled to withdraw the equity shares underlying the ADSs from the Depository at any time, there is no public market for our equity shares in India or the United States. The loss of liquidity could increase the price volatility of our ADSs.

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

Any significant sales of our equity shares or ADSs or a perception that such sales may occur might reduce the price of our ADSs and make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. We may issue additional equity shares to raise capital and to fund acquisitions and investments, and the parties to any such future transactions could also decide to sell them.

***Capital and credit market conditions may adversely affect our access to capital, the cost of capital, and ability to execute our business plan.***

Access to capital markets is critical to our ability to operate. We may require additional financing in the future for the development of our business. Declines and uncertainties in the global capital markets over the years have severely restricted raising new capital and have affected companies' ability to continue to expand or fund new projects. If these economic conditions continue or become worse, our future cost of equity or debt capital and access to the capital markets could be adversely affected. Our ability to obtain future financing will depend on, among other things, our financial condition and results of operations as well as the condition of the capital markets or other credit markets at the time we seek financing. In addition, an inability to access the capital markets on favorable terms due to our low stock price, or upon our delisting from the NASDAQ Global Select Market if we fail to satisfy a listing requirement, could affect our ability to execute our business plan as scheduled.

We can give no assurance as to the availability of such additional capital or, if available, whether it would be on terms acceptable to us. In addition, we may continue to seek capital through the public or private sale of securities, if market conditions are favorable for doing so. If we are successful in raising additional funds through the issuance of equity securities, stockholders will likely experience substantial dilution. If we are unable to enter into the necessary financing arrangements or sufficient funds are not available on acceptable terms when required, either due to market fluctuations or regulations imposed by the Indian Governmental authorities, we may not have sufficient liquidity and our business may be adversely affected.

***We may be required to list our Equity Shares on an Indian stock exchange. If we were to list our Equity Shares on an Indian stock exchange, conditions in the Indian securities market may require compliance with new and changing regulations framed by Securities Exchange Board of India, listing requirements of stock exchange, corporate governance, accounting and public disclosure requirements which might add uncertainty to our compliance policies and increases our costs of compliance.***

The Ministry of Finance of the Government of India ('MoF') issued a press release dated March 31, 2006, making amendments to the 'Issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depository Receipt Mechanism) Scheme 1993' ('the Scheme'). The amendments included a statement that unlisted Companies which had accessed FCCBs, ADR/GDRs in terms of guidelines of May 22, 1998 and are not making profit, be permitted to comply with listing condition on the domestic stock exchanges within three years of having started making profit. Further, the press release states that no fresh issues of FCCBs, ADR/GDRs by such companies will be permitted without listing first in the domestic exchanges. These regulatory requirements may adversely affect our ability to raise further capital for funding the ongoing and future expansion plans of the company. Securities and Exchange Board of India (SEBI) has amended the (Issue of Capital and Disclosure Requirements) (Fourth Amendment) Regulations, 2012 on 12.10.2012. In terms of the amended Clause 26 (1) (b), in order to be eligible to go for the Initial Public Offer, the Company should have a minimum average pre-tax operating profit of Rs.150 million, calculated on a restated and consolidated basis, during the three most profitable years out of the immediately 5 preceding years.

This is in addition to the other clauses viz. it has a track record of distributable profits in terms of Section 205 of the Companies Act, 1956, for at least three out of the immediately preceding five years; provided that extraordinary items shall not be considered for calculating distributable profits, for being eligible to go for the IPO.

As the Company is not in a position to satisfy the amended condition, it may not be required to comply with the Press Release of the Ministry of Finance in completing the IPO in the near future

We may be required by the Government of India to list on Indian stock exchange. We may not be able to comply with any timeline for listing and other standards imposed on us, and we are uncertain as to the consequences to us of any non-compliance. If we were to list our equity shares on an Indian stock exchange, we have to comply with changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, including the SEBI rules and regulations and stock exchange listing requirements which may create uncertainty for companies like ours. These new or changed laws, regulations and standards may lack specificity and are subject to varying interpretations. Their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such governance standards.

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

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

***Changes in the policies of the Government of India could delay the further liberalization of the Indian economy and adversely affect economic conditions in India generally, which could impact our business and prospects.***

Since 1991, successive Indian Governments have pursued policies of economic liberalization, including significantly relaxing restrictions on the private sector. Nevertheless, the role of the central and state Governments in the Indian economy as producers, consumers and regulators has remained significant. The rate of economic liberalization could change, and specific laws and policies affecting technology and telecom companies, foreign investment, exchange rate regime and other matters affecting investment in our securities could change as well. A significant change in India's economic liberalization and deregulation policies could adversely affect business and economic conditions in India generally, and our business in particular.

***Regional conflicts in South Asia could adversely affect the Indian economy, disrupt our operations and cause our business to suffer.***

South Asia has, from time to time, experienced instances of civil unrest and hostilities among neighboring countries, including between India and Pakistan. Recently, Pakistan has been experiencing significant instability and this has heightened the risks of conflict in South Asia. Military activity or terrorist attacks in the future could influence the Indian economy by disrupting communications and making travel more difficult and such political tensions could create a greater perception that investments in Indian companies involve higher degrees of risk. This, in turn, could have a material adverse effect on the market for securities of Indian companies, including our equity shares and our ADSs, and the market for our services.

***Terrorist attacks or a war could adversely affect our business, results of operations and financial condition.***

Terrorist attacks, such as the attacks of July 25, 2008 in Bangalore, the attacks of November 26 to 29, 2008 in Mumbai, the attack at New Delhi High Court on September 7, 2011 and other acts of violence have the potential to affect us or our clients. In addition, such attacks may destabilize the economic and political situation in India. Furthermore, such attacks could cause a disruption in the delivery of our services to our clients, and could have a negative impact on our business, personnel, assets and results of operations, and could cause our clients or potential clients to choose other vendors for the services we provide. Terrorist threats, attacks or war could make travel more difficult, may disrupt our ability to provide services to our clients and could delay, postpone or cancel our clients' decisions to use our services.

***The markets in which we operate are subject to the risk of earthquakes, floods and other natural disasters.***

Some of the regions that we operate in are prone to earthquakes, flooding and other natural disasters. In the event that any of our business centers are affected by any such disasters, we may sustain damage to our operations and properties, suffer significant financial losses and be unable to complete our client engagements in a timely manner, if at all. Further, in the event of a natural disaster, we may also incur costs in redeploying personnel and property. In addition, if there is a major earthquake, flood or other natural disaster in any of the locations in which a significant number of our customers are located, we face the risk that our customers may incur losses, or sustained business interruption and/or loss which may materially impair their ability to continue their purchase of products or services from us. A major earthquake, flood or other natural disaster in the markets in which we operate could have a material



adverse effect on our business, financial condition, results of operations and cash flows.

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

Currently, there is no public trading market for our equity shares in India or elsewhere nor can we assure you that we will take steps to develop one. Our equity securities are only traded on NASDAQ through the ADSs. Under prior Indian laws and regulations, our Depository could not accept deposits of outstanding equity shares and issue ADRs evidencing ADSs representing such equity shares without prior approval of the Government of India. The Reserve Bank of India has announced fungibility regulations permitting, under limited circumstances, the conversion of ADSs to equity shares and the reconversion of equity shares to ADSs provided that the actual number of ADSs outstanding after such reconversion is not greater than the original number of ADSs outstanding. If you elect to surrender your ADSs and receive equity shares, you will not be able to trade those equity shares on any securities market and, under present law, likely will not be permitted to reconvert those equity shares to ADSs.

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

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

Our business is highly regulated as per extant telecom policy of the Government of India (the "GOI"). Our ISP license issued in the year 1998 runs for a term of 15 years. If we are unable to renew the ISP license for any reason, we will not be able to carry on the said business beyond license term, which may adversely affect our business or results of operations.

The GOI has right to revoke, terminate or suspend or take over entire operations for reasons such as national security or similar reasons without compensation to us. In view of increasing cyber threats and attacks, the GOI may require telecom licensees (including ISPs) at their costs to provide monitoring facility across its network, and facilities for capture and retention of data in terms of traffic flow, usage details, etc. This would result in significant increase in costs and possible lesser usage due to perceived invasion of privacy by customers.

Certain government departments have been making queries whether use of Session Initiation Protocol, or SIP, terminal to make calls to phones abroad is permissible within ISP license. We believe that such overseas phone calls are permitted, since, SIP terminal is a "computer" as defined in Information Technology Act, 2000. We may have to make a significant investment as capital outlay in SIP terminals to make it a PC-equivalent, if the government authorities issue regulations governing SIP usage contrary to our beliefs, which would have a material effect on our results of operations.

***Our profits may be impacted due to the increase in license fee on the NLD/ILD license and inclusion of pure internet service under such license fee by the Department of Telecommunications, Government of India.***

Effective July 2012, the Government of India amended the NLD/ILD/ISP license agreements with respect to Annual License Fee.

Under such amendment, all services under the NLD/ILD license shall be subject to an increased license fee from the existing 6% to 7% from July 2012 to March 2013 and 8% from April 2013 onwards. In addition, the Government has also amended the ISP license and brought the same under such license fee of 7% from July 2012 till March 2013 and 8% from April 2013 onwards. Amendment to include ISP is still under review and not yet implemented.

Such amendments to the NLD / ILD license agreements will significantly impact the financials of the Company by way of additional expense due to increased license fees.

***Increase in License fees paid for licensed spectrum to Department of Telecommunications ('DoT') may adversely affect our cost and in turn our cash flow and profitability***

DoT may increase significantly the license fees to be paid for using the licensed spectrum. This will adversely affect our profitability. We cannot assure you that there would not be any increases of license fees in the future.

***In the event that the Government of India or the Government of another country changes its tax policies in a manner that is adverse to us, our tax expense may materially increase, reducing our profitability.***

The statutory corporate income tax rate in India was 30% during fiscal year 2012 and 2013 and was subject to a 5% surcharge, 2% education tax and 1% secondary and higher education tax, resulting in an effective tax rate of 32.45%. We cannot assure you that the surcharge will be in effect for a limited period of time or that additional surcharges will not be implemented by the Government of India. We may be subject to tax claims by the Government of India against us in the future. Defending these claims would be expensive, time consuming and may divert our management's attention and resources from our operations.

***Our working capital position may be impacted negatively consequent to the recent amendment to the Finance act levying Service tax based on negative list of services.***

In the Finance Bill, 2012, the Government of India has levied service taxes based on a negative list of services. Consequently, all services are likely to become taxable, except exempted services. This may increase the outflow of funds by way of service tax which will impact the working capital funds of the Company.

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

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

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

Bandwidth, the measurement of the volume of data capable of being transported in a communications system in a given amount of time, remains expensive in India, especially when compared to many countries where bandwidth penetration is quite high. Although prices for international and domestic leased lines were substantially reduced recently, they are still high due to, among other things, capacity constraints and lack of competition. If the cost of bandwidth is not further reduced, or increases significantly, our business and results of operations will be adversely affected.

***We may fail to exploit the market for WiMax services because of lack of access to spectrum.***

The ability to provide fast and easy connectivity across cities will be a competitive advantage in future as more companies look to provide connectivity to their offices. WiMax, or wireless digital communications, gains significance for ubiquitous connectivity in cities, which will enable faster connectivity in the last mile to the service provider's network. We have not participated in the spectrum auction for WiMax, given the high prices.

The Department of Telecommunications, or DoT, has auctioned and allocated Broadband Wireless Access ("BWA") spectrum to three operators per circle, which may limit the competition and competitive advantage for the consumer. Our inability to secure BWA at cost-effective prices may adversely affect our business and results of operations, as our competitors with greater financial resources obtain spectrum for BWA services.

***We may be compelled to surrender the spectrum that was allotted to us earlier.***

The Government of India has asked us to surrender certain range of spectrum allotted to us and the same was auctioned as BWA spectrum. The Government also has asked the company to make payment for certain spectrum from the date of allotment or to surrender the same. The other range of spectrum that we have been allotted, 5.7 GHz, is also close to capacity utilization and will need to be augmented in the near future. Enterprise connectivity will need licensed bands of spectrum for assured quality and security, so the non-availability of spectrum would materially adversely affect our business and results of operations. In the event of the surrender of the spectrum certain frequencies, it may hamper our future plans for expansion of services, and there are no assurances that we will be able to obtain additional replacement spectrum.

***We may lose our broadband services to retail segment to competitors, and we do not control the delivery of broadband services to the homes of our customers.***

Our broadband business depends upon Cable Television Operators (CTOs) for delivery of services. This has proved difficult, leaving large areas uncovered and open to the competition representing a significant opportunity loss. In future, as competitors launch WiMax services, they will have extensive connectivity and will be able to offer broadband services everywhere without constraints. This will severely curb our ability to compete and may adversely affect our business and results of operations.

The future of broadband services to home may revolve around WiMax wireless capability. Since WiMax capability is to be brought under the 3G spectrum in the near future, we may not be able to compete with our larger, well-financed competitors, and such competitors may gain market share and our customers may terminate their engagements with us. Our brand's perception therefore, is directly impacted by an external party over whom we have little or no control in the matter of service delivery, and our customers may attribute usage problems to us rather than their CTOs.

***Our connectivity business may stagnate with a declining contribution.***

In the connectivity business, realization will be lower year on year based on the market conditions. Every year when annual contracts come up for review, customers contract for more bandwidth or more links at a lower overall unit price. This is offset somewhat by lower bandwidth costs, which we negotiate with our service providers. This impacts us in two ways: first, despite an increase in sales volume, we may not see a commensurate rise in revenues; and secondly, margins in our business are continually shrinking. Therefore, our revenue from our connectivity business may stagnate with declining bandwidth costs.

***We may not be able to retain and acquire customers for our data centers.***

In the field of Internet data center services, competition from data center operators may attract customers away from us or make it more difficult for us to attract new customers. If competitors are successful in the market, it could be difficult for us to retain and/or acquire customers. Furthermore, once customers cease using our services and choose another service provider, it may require substantial efforts in costs and time to reacquire such customers, and despite spending on such customer acquisition or retention, we may be unsuccessful in retaining such customers.

In order to improve our competitiveness, we are constructing data centers at NOIDA in UP, India and Rabale in Mumbai, India. If we are unable to attract adequate customers to these centers, we will not be able to achieve the revenues initially anticipated, which could have an adverse effect on our future results of operations and financial condition.

***Our datacenters may not be competitive enough in terms of green features.***

We may fail to convert our existing Datacenters and/or build new Datacenters under the LEED (Leadership in Energy and Environmental Design) Commercial Interior (CI) programme of United States Green Building Council (USGBC). LEED certification is an internationally recognized programme and is considered one of the highest standards for energy efficient constructions. The datacenter uses several green features such as site ecology, water conservation, smart energy meters and equipments, reduction of CO2 emissions, high recycle content, effective waste management and eco-friendly interiors. Increased demand for green datacenter may hamper the marketing of our existing datacenters that are not LEED certified.

***We may lose relevance and revenues if we do not position our business models in line with current and future technology trends.***

Technology trends, such as cloud computing and software-as-a-service, allow new business models that could replace current lines of business unless we are aware of them and positioning ourselves to take advantage of the transition... The markets for our service are characterized by rapidly changing technology, evolving industry standards, emerging competition and frequent introduction of new services. We may not successfully identify new opportunities, develop and bring new services to market in a timely manner. Unless we are able to adopt and deploy these advances in technology and infrastructure, we may lose our competitive position in the marketplace, which would adversely affect our revenues and may lead to increased customer attrition, as our customers switch to providers that utilize such information technology infrastructure.

***We may fail to augment our skills and capability to best manage our services over Internet Protocol and data networks.***

We have been able to build a reputation and maintain our lead because of our expertise and capability with the delivery and management of services over Internet Protocol and data networks. As the competition builds up the capability and experience of our competitors, we are at the risk of losing market share, if we do not augment our skills

and capabilities to keep our qualitative lead over them. Infrastructure such as networks are considered by customers as a commodity, and the only differential that we offer is our ability to manage and monitor services over them in a superior manner.

***It may not be possible for us to retain our brand equity if we do not resort to huge investments for brand development.***

Our competitors offering similar services are all large telecom companies who make substantial investments in building their brand image across their services. Conversely, we are focused on IT infrastructure services over data telecom networks and we believe that we enjoy the reputation of a specialist in these services. However, if we do not build up awareness as well as our brand and reputation over time, the sheer weight of investments in brand development by the larger telecommunication providers will dilute our brand recognitions and competitive advantages.

***We may not meet the selection criteria set for high value contracts by the Governments.***

As we participate in bidding for large Government of India contracts, as well as business from large corporations, we increasingly come under scrutiny for the net assets value of our balance sheet as well as lack of profitability. Unless we increase capacity quickly and become profitable, we could be excluded from major government projects because we fail to meet their selection criteria, which would adversely affect our business and results of operations.

***The success of our business depends on our software development capability.***

As we offer our enterprise application services to an increasing base of large corporations, we run the risk of not being able to meet their needs for scaling and sophistication in future if we do not build the capacity to develop applications software to meet with future needs. We may not have adequate resources to develop our capability as a result of emerging sophistication required for such services. The failure to develop such resources may adversely affect our business and results of operations.

***We may fail to offer end-to-end managed services to sustain our position.***

The telecommunications market is evolving towards service providers who offer end-to-end managed services that include managing everything down to desktops. If we are to continue to lead the market, we need to extend our bouquet of services to ensure that our portfolio helps graduate the market to managed services where we can maintain leadership. It may be difficult for us to offer end-to-end managed services to sustain our leadership in managed services without significant capital expenditures which would adversely affect our cash position and results of operations.

***We may not get repeat corporate orders to optimize the capacity utilization.***

As we expand the network to small cities and towns, there is an operational cost involved in both the establishment and operation of these nodes. While the expansion is facilitated by a corporate order, we have to subsequently get additional business for capacity utilization in these nodes to make them profitable. If we are not able to do this rapidly by scaling up the business through these towns, we run the risk of overcapacity on the network in new areas, which results in a higher cost structure and lower margins.

***Absence of policy support will hamper Internet and Data Services.***

We have, and continue to be, subject to Indian regulations regarding the VPN license requirements, including the percentage of foreign holdings to offer VPN services as well the need for NLD/ILD licenses to offer VPN services and carrier voice services. The growth and development data and internet sector is dependent on a policy support of Department of Telecommunications Regulatory changes, as well the as continuing lack of policy initiatives to vitalize the data and Internet sector continue to be a risk.

We cannot influence enabling policies that facilitate the growth and development of data and Internet connectivity in India. The absence of policy support for internet and data services may hamper the growth of such services in future, which would adversely affect our business and results of operations.

***Constant improvement of technology standards/ skills and evolving tools and applications are essential to sustain our position in remote management of IT infrastructure.***

We are relatively unknown outside India, and in comparison to other established IT players which have a large base of customers. If we are not able to constantly upgrade our technology standards and skills, and if we are unable to scale for critical mass in the near term, our competitive position would be adversely affected.



Management of IT infrastructure is dependent on sophisticated tools and applications to remotely monitor the IT infrastructure and assets of customers. If we are unable to retain our competitive advantages in terms of the evolving tools & applications, or the maturity of our processes, we may lose customers and be at a competitive disadvantage compared with our larger competitors.

***The slower pace of recovery of the United States economy, affects sales of our e-Learning and IMS services.***

The rate of recovery of the United States may cause reduced demand for our eLearning products, as our customers may reduce their training budgets and programming. Additionally, we may not be able to acquire new customers due to the economic situation prevailing in United States. A prolonged period of reduced customer demand for our eLearning services may adversely affect our business and results of operations.

***Emergence of Enterprise Software Suites may hamper the growth of our e-Learning stream.***

The emergence of competitors such as Oracle, IBM, SAP, SumTotal and SABA offering enterprise software suites for eLearning for large organizations to develop their own learning programs could be a threat to our business in future. We may lose our business to our competitors, and if we are unable to acquire new customers or retain our existing customers, our revenues and results of operations may suffer.

***If we do not continue to develop and offer compelling content, products and services, our ability to attract new customers or maintain the engagement of our existing consumers could be adversely affected.***

In order to increase advertising revenues, we need to continue to increase the number of users of our sports, recipes and entertainment video contents through our websites. In order to attract consumers and generate increased engagement on our website portals, we believe we must offer compelling content, products and services. If we are not able to attract and keep new users in a constantly evolving user base, we are likely to lose page views, and advertisers may reduce or cease publishing advertisements in our websites. It is important for us to provide necessary contents through our websites to attract more users. However, acquiring, developing and offering new content, products and services, as well as new functionality, features and enhanced performance of our existing content, products and services, may require significant costs and time to develop. In addition, consumer tastes are difficult to predict and subject to rapid change.

As a result of increased competition, it will be difficult for us to attract new users if we do not provide dynamic content to attract website visitors and attract new advertisers. If we are unable to increase our website views and advertising revenues, our results of operations will be affected. Even if we successfully develop and offer compelling content, products and services, we may not be able to attract new consumers and maintain or increase our existing customers' use of our products and services.

***Our pricing for broadband services to retail segment may not be competitive.***

Service providers such as BSNL are frequently reducing rates so the Average Revenue Per User (ARPU) is constantly falling. We have to continually respond with promotions and value added services to compete with such service providers. If we are unable to compete on pricing terms with our competitors, we may lose customers and fail to attract new customers, which may adversely impact our revenue and results of operations.

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

The growth of our consumer services is limited by the cost to Indian consumers of obtaining the hardware, software and communications links necessary to connect to the Internet in India. If the costs required to access the Internet do not significantly decrease, most of India's population will not be able to afford to use our services. Any long term absence of affordability to access internet at reasonable cost may adversely affect our business and results of operations.

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

Many of our existing and proposed services are designed to facilitate electronic commerce in India. The e-commerce in India is at a very early stage as compared to western world. The market potential for e-commerce is yet to be exploited. Demand and market acceptance for these services by businesses and consumers, therefore, still remain uncertain. Many Indian businesses have deferred purchasing Internet access and deploying electronic commerce initiatives for the following reasons:

inconsistent quality of service;

inadequate legal infrastructure relating to electronic commerce in India; and

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

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

## **Risks Related to the Internet**

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

We face the risk that fundamental changes may occur in the delivery of Internet access services in India. Currently, Internet services are accessed primarily by computers and are delivered by modems using telephone lines. As the Internet is becoming accessible by cellular telephones, personal data assistants, television set-top boxes and other consumer electronic devices, and becomes deliverable through other means involving digital subscriber lines, coaxial cable or wireless transmission mediums, we will have to develop new technology or modify our existing technology to accommodate these developments. Our pursuit of these technological advances, whether directly through internal development or by third-party license, may require substantial time and expense. We may be unable to adapt our Internet service business to alternate delivery means and new technologies may not be available to us at all. We provide wireless connectivity on the 5.7 GHz spectrum allotted to us by the Wireless Planning Commission. The spectrum allocation may be inconsistent with industry standards. The current capacity may be insufficient to offer a breadth of services. The Government may issue instructions to release the spectrum that we hold. High cost of spectrum acquisition may be inconsistent with our revenue and cost models. We may not keep up with the pace of change that takes place in wireless technologies. The launch of DTH (Direct to Home) relay by service providers such as Tata Teleservices, Reliance, Dishnet and Sun TV may weaken the presence of Cable TV Operators (CTOs) in providing connectivity to homes through cables. Due to such competition, we may lose business from the CTOs for providing internet services through cables.

*We are subject to quality of service (QOS) guidelines issued by TRAI. Failure to comply with one or more guidelines may expose us to fines/penalties.*

TRAI has issued the following guidelines to the ISPs for improving the quality of service:

All Internet service providers shall provide adequate information to subscribers regarding Internet/broadband services being offered and marketed by them.

All Internet service providers shall provide information regarding contention ratios or the number of users competing for the same bandwidth, adopted by them to provide Internet/broadband service in their tariff plans submitted to TRAI, manual of practice, call centers and on their websites

All Internet service providers shall publish quarterly contention ratio for different Internet/broadband services on their website to facilitate subscribers to take informed decision.

All Internet service providers must use the contention ratios better than specified ratios for different services to ensure sufficient bandwidth for providing good quality of service to their subscribers.

Fixing up a contention ratio, may put standalone ISPs, like ours, at a disadvantage as cost of delivery of Internet bandwidth may increase. Telecom companies offering similar internet services are tempted to offer significantly lower prices and incentives as they own the last mile. Also by bundling telephony along with Internet, they can enhance their otherwise idle last mile. Under such circumstances, it will be very difficult for us to compete with big Telcos which can offer broadband services by cross subsidizing with voice/other services.

In the event of our failure to comply with one or more of the above guidelines, we may expose ourselves to fines/penalties.

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

We could become liable if confidential information is disclosed inappropriately on or through our websites. Others could also sue us for the content and services that are accessible from our websites through links to other websites or through content and materials that may be posted by our users in chat rooms or bulletin boards. The laws in India relating to the liability of companies which provide Internet services, like ours, for activities of their users, are still relatively unclear. Investigating and defending these claims is expensive, even if they do not result in liability. Allegations of impropriety, even if unfounded, could damage our reputation, disrupt our ongoing business, distract our management and employees, reduce our revenues and increase our expenses.

## Item 4. Information on the Company

### History and Development

We were incorporated on December 12, 1995 in Andhra Pradesh, India as Satyam Infoway Private Limited, a Company under the Indian Companies Act, 1956 to develop and offer connectivity-based corporate services in India. Until December 2002, we were a majority-owned subsidiary of Satyam Computer Services Limited, an Indian information technology Services Company traded on the New York Stock Exchange and the principal Indian Stock Exchanges. We changed our name from Satyam Infoway Limited to Sify Limited in January 2003 and from Sify Limited to Sify Technologies Limited in October 2007. We completed our initial public offering of ADSs in the United States in October 1999. We listed our ADS on the NASDAQ Global Market on October 19, 1999. In February 2000, we completed our secondary offering of ADS in the United States.

Sify Software Limited (Formerly Sify Networks Private Limited), Sify Technologies (Singapore) Pte. Ltd., Hermit Projects Private Limited and Pace Info Com Park Private Limited are our wholly owned and controlled subsidiaries.

The address of our principal executive office is Tidel Park, 2nd Floor, 4, Rajiv Gandhi Salai, Taramani, Chennai 600 113 India, and our telephone number is 91-44-2254-0770. Our agent for Investors Relations in the United States is Grayling Global, phone +1-646-284-9400. Our website address is [www.sifycorp.com](http://www.sifycorp.com) and the information contained in our website does not constitute a part of this Annual Report.

From December 1995 through 1997, we focused on the development and testing of our private data network. In 1997, we began forming strategic partnerships with a number of leading technology and electronic commerce companies, including UUNet Technologies, in order to broaden our service offerings to our corporate customers. In March 1998, we obtained network certification for conformity with Indian and international network operating standards from the Technical Evaluation Committee of India. In April 1998, we began offering private network services to businesses in India. Our initial services included electronic data interchange, e-mail and other messaging services, virtual private networks and related customer support.

We started development of [www.sify.com](http://www.sify.com), our online portal, and other related content sites for news, travel, finance, health and shopping with the goal of offering a comprehensive suite of websites offering content specifically tailored to Indian interests worldwide.

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

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

In April 2002, ISP's were permitted to provide restricted VoIP limited to outbound calls to International destinations and personal computer to personal computer calls in India. We started providing this service through our network of cybercafés, and later on through VoIP booths located in large commercial areas and corporate office complexes across major cities in India.

From the time we launched our corporate services in 1997, we have continually upgraded our technology to provide data services to corporate clients. We were the first Internet service provider in India to make our entire network IP-based and subsequently Multi Protocol Label Switching (MPLS)-enabled, which permitted us to continue to grow our corporate customer base. As of March 31, 2013, we provide data connectivity services to over 3400 corporate clients in industries ranging from information technology, manufacturing, banking and financial services industry, pharmaceuticals, retail distribution and the Government.

*Initial Public Offering and Subsequent Financing Transactions*

In October 1999, we completed our initial public offering on the NASDAQ National Market and issued 4,801,250 ADSs at a price of \$18.00 per ADS. We received proceeds of approximately \$79.2 million, net of underwriting discounts, commissions and other offering costs. In connection with our initial public offering, we received the benefit of exemptions from the NASDAQ corporate governance rules relating to shareholder meeting quorum, solicitation of proxies and shareholder approval for issue of shares other than in a public offering under NASDAQ rules. We will continue to avail of the exemptions from the NASDAQ corporate governance rules.

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

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

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

In a separate transaction, also on November 10, 2005, Infinity Capital entered into a Subscription Agreement with us pursuant to which, upon the terms and subject to the conditions set forth therein, Infinity Capital agreed to purchase from us approximately 6.7 million newly-issued equity shares or ADSs at a purchase price of US \$5.60 per share in cash. The total purchase price for the newly issued shares was approximately US \$37.5 million. This transaction was approved by our shareholders at our Extraordinary General Meeting held on December 23, 2005. In January 2006, we completed the transaction. Also on November 10, 2005, Sify, Infinity Capital and Mr. Raju Vegesna entered into a Standstill Agreement pursuant to which, upon the terms and subject to the conditions set forth therein, Infinity Capital agreed not to purchase more than 45% of our fully diluted equity. The Board of Directors waived the above clause in the standstill agreement passed through a Board resolution dated January 22, 2008.

Following the transactions, Mr. Raju Vegesna of Infinity Capital was appointed as the Chairman of our Board of Directors. Mr. P. S. Raju is the second nominee of Infinity Capital to our Board of Directors.

On March 24, 2008, the Company entered into a Subscription Agreement with Infinity Satcom Universal Private Limited (Infinity Satcom Universal), a private limited Company in India which is controlled by Ananda Raju Vegesna and brother of Raju Vegesna, Chairman and Managing Director, for issuance of 12,817,000 Equity Shares of the Company with face value of Rs.10/- per share at a premium of Rs.165/-. It was approved by the Company’s shareholders at the Extraordinary General Meeting held on March 17, 2008.

On March 24, 2008, we received a sum of Rs 112.14 million (comprising of Rs 12.81 million towards face value and Rs 99.33 million towards securities premium). Subsequently, Infinity Satcom Universal communicated to the Company that they would focus their attention on the business of Sify Communication Limited (erstwhile subsidiary) and hence shall not contribute the balance money towards the subscription of 12,817,000 Equity Shares on call. On August 29, 2008, the Board of Directors, forfeited the shares allotted and the application monies collected (Rs. 112.14 million including sums towards capital and premium).



On October 30, 2010, we consummated the issuance and sale of 125,000,000 of our equity shares in a private placement to Raju Vegesna Infotech & Industries Private Limited, our promoter group, and an entity affiliated with our Managing Director and Chairman, Mr Raju Vegesna. See note 40 in the notes to the financial statements in this Annual Report.

*Acquisition of Minority Interest in Subsidiary*

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

In October 2008, the Company again evaluated the feasibility of a merger between Sify and Sify Comm and the Board of Directors of the Company at their meeting held on November 24, 2008 approved the merger of Sify Comm with retrospective effect from April 1, 2008, subject to approval by the Shareholders, the Honourable High Court and other statutory authorities. The Board considered the deterioration of the Indian and global economy, and its effect on the Company's performance during the first half of fiscal 2009 as well as the impact of a prolonged economic downturn on the Company during the third and fourth 2009 fiscal quarters. The Board evaluated these issues and determined that a combined entity would provide cost savings and increased cash flow, and strengthen the Company's ability to borrow additional funds, if necessary. Accordingly, the Board of Sify determined that the merger should again proceed and sought shareholder approval, and submitted the merger to the High Court of Madras for approval. The Honourable High Court approved the merger on 26th June, 2009. In connection with such merger the Company has issued 10.53 million equity shares to Infinity Satcom Universal Private Limited, a 26% stake holder in the erstwhile Sify Communications Limited prior to merger.

On July 15, 2009, Infinity Satcom Universal Private Limited has acquired 4,000,000 shares of the Company from Infinity Capital LP, USA in a private transaction.

#### *Principal Capital Expenditures*

In fiscal year 2013, 2012 and 2011, we spent Rs.1,661 million (US \$30.54), Rs. 952 million, Rs 395.27 million respectively, on capital expenditures. As of March 31, 2013, we had contractual commitments of approximately Rs.412.70 million (US \$ 7.59 million) for capital expenditure towards the acquisition of property, plant and equipment. These commitments included approximately Rs.394.53 million (US \$ 7.25 million) in domestic purchases and Rs.18.17 million (US \$ 0.33 million) in imports and overseas commitments for products and spares. All our capital expenditures were financed out of cash generated from operations, equity infusion and borrowings from banks.

#### *Investment Strategy*

In evaluating investment opportunities, we consider important factors, such as strategic fit, competitive advantage and financial benefit, through a formal net present value evaluation.

#### *Sify Software Limited (formerly Sify Networks Private Limited)*

In March 2004, we acquired E Alcatraz Consulting Private Limited, a Company engaged in the business of providing security services to corporate customers, for a consideration of Rs.32.7 million.

During October 2009, Sify Technologies transferred eLearning, Software Development and other related businesses, which are non-telecom businesses, to the subsidiary Company for a consideration of Rs.450 million, which was discharged by way of issue of 4.5 million ordinary shares in Sify Software Limited. Consequently, the name of E Alcatraz Consulting Private Limited was changed to Sify Software Limited in order to reflect the activities relating to Software Development business.

Due to continuous losses and the consequent erosion of the networth of Sify Software Limited, it is proposed to merge Sify Software Limited with the Company.

#### *Globe Travels, USA.*

In April 2006, we acquired Globe Travels, USA engaged in the business of selling online airline tickets in the U.S. with a special focus on the U.S.-India sector along with its Indian arm for a consideration of USD \$2.50 million, apart from 125,000 stock options and some conditional earn out payments. On account of continued decline in business, the company has ceased its travel business operations.

Due to the decline in business travels on account of global economic environment, the company tested impairment for goodwill and intangibles, and has recorded Rs.1,857, Rs.47,269 and Rs.15,200 as impairment charge during the years 2010-11, 2009-10 and 2008-09 respectively.

*India World Communication Limited*

India World Communications Limited filed an application with the Registrar of Companies, Tamil Nadu in 2008 for the winding up of its business under section 560 of the Indian Companies Act, 1956. The Registrar had struck off its name from the register. Hence, India World Communications Limited ceased to exist from the date of order of the ROC.

*Sify International Inc*

Sify International Inc incorporated in the United States of America (US) was a wholly owned subsidiary of Sify. On July 18, 2012, the Company filed a Certificate of Dissolution with Secretary of the State, State of California, USA for winding up and dissolving the wholly owned subsidiary in US. The company has since received the dissolution certificate.

*Hermit Projects Private Limited & Pace Info Com Park Private Limited*

In November 2011, we acquired Hermit Projects Private Limited (HERMIT) for the implementation of a state-of-art Data Center Project at Noida, U.P, along with its wholly owned subsidiary Pace Info Com Park Private Limited (PACE), the original allottee of the land at Noida, U.P. for a consideration of Rs.114 crores. As HERMIT was acquired only as a Special Purpose Vehicle for acquiring PACE, it is proposed to merge HERMIT with Sify Technologies Limited, the holding Company

*Sify Empower India Foundation*

Sify Empower India Foundation (SEIF) was incorporated as a non-profit organisation in November 2010 to carry on the activity of promoting employability, education, financial inclusion and healthcare for urban and rural consumers through the innovative use of Information and Communications Technology (ICT) in an integrated and sustainable manner.

Initially, the Company had 10% holding in SEIF and acquired an additional 89.80% in October 2012. Though the Company holds substantial majority of the shares, SEIF is not considered as subsidiary for consolidation purposes as the Company intends to close the company.

Due to change in business model SEIF has not started its commercial activities. Hence it is proposed to close SEIF by filing the necessary application with the statutory authorities.

**Business Overview**

We are one of the largest integrated Internet, network and electronic commerce services companies in India, offering end-to-end solutions with a comprehensive range of services delivered over a common Internet backbone infrastructure. Our services enable our business and consumers to communicate, transmit and share information, access online content and conduct business remotely using our private data network or the Internet. Our Internet and network services include the following:

- *Enterprise Services.* These primarily include our network services and IT services offering, end-to-end network services, hosting and security services that provide our corporate customers with comprehensive Internet and private network access. Our services enable our corporate customers to offer a full range of business-to-business and electronic commerce related services. We provide NLD (National Long Distance) and ILD (International Long Distance) services through our network. We carry voice traffic, both national and international, using the IP back-bone and deliver voice traffic to Direct Inter-connect Operators. We also provide managed infrastructure services and managed security services in all aspects of infrastructure services, network security and hosting, with digital certificates based authentication service and VPN solutions. We have launched system integration service during the year 2009-10. We are the first service provider in India to be ISO 9001:2000 certified in network operations, data center operations and customer relationship management. We offer public Internet access to consumers through a retail chain of e-ports (formerly *iway*) cybercafés. We also have agreements with certain cable television operators through which we offer Internet access through cable.

- *Software Services.* We facilitate web based learning for various organizations by digitizing and uploading content to facilitate the same. We also provide application services such as Mailing, web-application and online assessment. We also operate online portals, such as [www.sify.com](http://www.sify.com), [www.samachar.com](http://www.samachar.com) and [www.sifymax.in](http://www.sifymax.in), that function as principal entry points and gateway for accessing the Internet by providing useful web-related services and links. We also offer related content sites specifically tailored to Indian interests worldwide

We began providing corporate network/data services to businesses in April 1998, and as of March 31, 2013 we had over 3400 corporate customers located principally in India. We launched our Internet service provider business in November 1998, becoming the first private Internet service provider to begin service after the Indian Government opened the market to private competition. We also operate online portals, [www.sify.com](http://www.sify.com), [www.sifymax.in](http://www.sifymax.in), [www.samachar.com](http://www.samachar.com), and related content sites specifically tailored for Indian interests worldwide. *Sify.com* is one of India's leading portals with services in areas such as news, travel, finance, health and shopping in addition to e-mail, chat and search. *SifyMax.in* is a broadband portal offering live streaming and on demand video and audio content, news clips, TV reality shows and highlights of cricket matches.

We are providing NLD (National Long Distance) and ILD (International Long Distance) services through our network from August 2008. We have made tie-ups with international and domestic carriers to carry their traffic into India. We carry voice traffic, both national and international, using the IP back-bone and deliver voice traffic to direct inter-connect operators.

During the year 2009-2010, following the merger of Sify Communications Limited with the Company, we obtained the approval of Department of Telecommunications for the transfer of NLD / ILD licenses from Sify Communications to the Company.

We currently operate a large national private data network in India. Our network utilizes Internet protocol, which is an Internet industry standard for tracking Internet addresses, routing outgoing messages and recognizing incoming messages. In February 2002, we became the first Indian Company to be certified ISO 9001:2000 for network services, data center operations and customer relationship management. The ISO 9001:2000 certification from Det Norske Veritas (DNV), Netherlands under the RvA accreditation scheme provides recognition for self-defined benchmarks against international companies with respect to facilities, metrics, processes and practices. In fiscal year 2003, our Enterprise Solutions division was also certified ISO 9001:2000 for provisioning of corporate VPN's, Internet bandwidth, VoIP, and integrated security solutions including pre-sales, sales, order processing and project management.

As of March 31, 2013, we operated over 1000 points of presence serving more than 1800 locations across India. Points of presence are telecommunications facilities located in a particular market which allow our customers to connect to the Internet through a local telephone call. Although our Internet service provider license permits us to establish and maintain our own direct connection to the international Internet, we no longer maintain satellite gateways. We provide international bandwidth by leasing capacity from large telcos and through our own capacities.

We continue to seek to be the premier integrated Internet, network and electronic commerce solutions provider to businesses and consumers in India. We believe that demand for our services is significant in India and growing rapidly as businesses and consumers seek alternatives to the communications services offered by telecom providers that were formerly controlled by the Government of India. We intend to continue to focus on providing superior network performance and high levels of customer service and technical support to increase our customer base and maximize customer satisfaction.

## **Industry Overview**

*Development of the Internet.* We believe that the large and increasing number of home and office computers linked to the Internet, advances in network design, increased availability of Internet-based software and applications, the emergence of useful content and electronic commerce technologies, and convenient, fast and inexpensive Internet access will continue to drive Internet growth and usage in the near future.

*Special Communications Needs of Businesses.* As the Internet is now easily available and more reliable, businesses are increasingly utilizing the Internet for functions critical to their core business strategies, such as sales and marketing, customer service and project coordination. The Internet presents a compelling profit opportunity for businesses by enabling them to reduce operating costs, access valuable information and reach new markets. To maintain a significant presence on the Internet, businesses typically purchase Internet access services and establish a website. Internet access provides a Company with its basic gateway to the Internet, allowing it to transfer e-mail, access information and connect with employees, customers and suppliers. A website provides a Company with a tangible identity and an interactive presence on the Internet. Many corporations are also converting their legacy information systems and databases to web-enabled systems.

*The Opportunity in India.* The resulting internet service remains inferior to service in developed countries. At the same time, however, the Indian economy continues to modernize and expand, particularly in sectors such as software development that are dependent on a reliable communications network. The growth of these industries is leading to an increasing base of personal computers and wired and wireless homes and businesses in India with a resulting increased demand for Internet services. We believe these trends, which mirror those in more mature economies, will continue to develop in India.

We believe that the ability to exploit the Internet service provider and other data service markets in India is currently inhibited by the government policies and regulatory controls on the provision of Internet based services. Generally, bandwidth remains very expensive in India, despite falling prices for international and domestic leased lines and the recent emergence of private players, and liberalization measures have brought an increase in supply and a consequent downtrend in prices respectively. Ceilings for bandwidth prices are set by the DoT and the Telecom Regulatory Authority of India, or TRAI, plays the advisory role to the DoT.

We expect the growth in personal computers and Internet users to increase the demand for Internet content directed towards domestic Indian consumers as well as the amount of electronic commerce in India.

We believe that private market participants historically have not been able to exploit the market opportunities in India because the regulatory environment in India largely prevented any competition with the national government-controlled telecom providers. Until November 1998, the only Internet service provider permitted in India was Tata Teleservices, which began providing Internet access on August 15, 1995. On November 6, 1998, the Government opened the Indian Internet service provider market to private competition and granted Internet service provider licenses. The licensees include cable television operators and joint ventures between local companies and large international telecom providers. Internet service provider licenses are granted for 15 years, with only nominal license fees. Currently, pricing of Internet service is not regulated by the Government of India, although it has the power to do so through policy directives. However, the interconnection charges between service providers are regulated by the TRAI.

### **Sify Business Model**

We believe that the growth of the Internet and other network services in India has been inhibited by relatively high costs for certain market segments and poor user experiences caused by an inadequate telecommunications infrastructure and slow network connection speeds. We are committed to expanding and enhancing our private network backbone and to providing high quality technical support to attract users to our services. We believe that our services provide our customers with the ability to exchange information, communicate and transact business over the Internet with speed, efficiency, reliability and security superior to other Internet service providers.

Key advantages of the Sify business model include:

- *End-to-end network solutions for business customers.* We provide our business customers with a comprehensive range of Internet, connectivity, security and consulting, hosting and managed service solutions complemented by a broad base of web-based business applications. Our corporate services range from dedicated Internet access, virtual private networks, security, web implementation, electronic commerce solutions and web hosting. Our end-to-end solutions enable our corporate customers to address their networking and data communication needs efficiently without having to assemble products and services from different value-added resellers, Internet service providers and information technology firms.
- *National private Internet protocol network backbone and Wireless delivery on the last mile.* We operate a large national Internet protocol data network in India. As of March 31, 2013, we owned and operated over 1000 points of presence serving more than 1800 locations across India. Our network provides the platform to deliver Internet access and the backbone to provide a full range of corporate network/data services to consumers. A significant portion of our last mile delivery for corporates, and almost the entire e-port cybercafé network and hi speed / broadband delivery to homes, is on the wireless mode, thereby enabling us to implement and deliver superior services compared to the wire line medium.
- *Internet content and electronic commerce websites customized for the Indian market.* We view the Indian market as a series of specific market segments with unique cultural and topical interests, rather than an extension of a homogeneous, worldwide Internet market. We have assembled a team of India-based employees familiar with the local culture, language and business environments in our markets to develop Internet content and electronic commerce websites tailored for the Indian market. We regularly incorporate new and original third-party content suited to our local and regional audiences to enhance our customers' online experience and to attract new users both within India and abroad. As a result of our local market knowledge, we are able to place contents in our websites which will attract



more users to our websites and to create brand awareness for our online access service.

- *Managed Infrastructure services and Managed Security Services.* We have customer engagements in all aspects of infrastructure services, networks security and hosting, with digital certificates based authentication service. We believe that our managed infrastructure and security services utilise our experience and skill sets to provide constant value to our customers, better service levels and reduced costs. We constantly look at ways to efficiently manage customer assets remotely thus providing focused superior service at lower cost.

## Strategy

Our goal is to become the premier IT solutions provider and Services leader offering end to end solutions to businesses in India. Our principal business strategies to accomplish this objective are discussed below:

- *Invest in the continued enhancement and expansion of our network infrastructure to support customer growth, enter into new markets and accommodate increased customer usage.* We intend to continue to increase the capacity and geographic reach of our network in order to support subscriber growth, enter new markets and accommodate increased customer usage. We are committed to using proven technologies and equipment and to providing superior network performance. Our network is based on Internet Protocol, or IP, and we are the first Indian service provider to have made our network Multi Protocol Label Switching (MPLS) compliant. As of March 31, 2013, we have acquired adequate capacity of bandwidth lines, all from major telecommunications companies, which ensures that there is an assured supply of bandwidth service being provided to Sify's customers without any disruptions. To ensure uninterrupted high quality service and to achieve cost efficiencies, we have invested in a under sea cable consortium. The capacity went live during the Q1 of 2012-13. We have also leased intercity links from multiple suppliers including BSNL, Bharti, TATA, Railtel and Power Grid Corporation, such that each one of our nodes is accessible from at least two other nodes, if not by two long distance operators. We believe that as the size and capacity of our network infrastructure grows, its structure and national coverage will create economies of scale. Being vendor neutral, we are able to procure bandwidth in a cost effective manner. Over the years we have designed and built four data centers in Mumbai, Chennai, Bangalore and Airoli. We intend to invest in additional data centers, and are currently building world class data center at Noida near New Delhi and at Rabale in Mumbai.
- *Increase penetration in our existing markets by expanding awareness of the "Sify" brand name to capitalize on our first mover advantage in India.* We intend to capitalize on our first-to-market advantage in India to establish national service and a brand name in advance of other private competitors. We believe that increased focus by GOI on delivery of connectivity services, increasing IT enablement of corporate in India will drive this business forward in the future. We are also continuously working on better alternative technologies to overcome the last mile challenges and to offer superior connectivity. We have also started offering premium broadband connection, branded platinum services to SOHO market segment.
- *Expand our services with new technologies to enable our customers to use the Internet more effectively.* We continually seek to expand the breadth of our service offerings with new technologies. We have previously introduced a number of other services, including VoIP, video conferencing, audio conferencing, e-mail designed for regional Indian dialects, a user customized portal site and micro-payments.
- *Provide more value added services by leveraging on the rapid growth of wireless Internet and mobile services in India and strengthen our Internet portal with more content tailored to Indian interests worldwide.* Our portals [www.sify.com](http://www.sify.com) and [www.samachar.com](http://www.samachar.com), function as initial gateways to the Internet, the user's starting point for web browsing and other Internet services, for our consumer Internet service provider subscribers and cybercafé users. We believe that our portals are media rich and user friendly, and the portals are interactive websites offering hyperlinks to a wide variety of websites and services, including our own websites. Our websites cater to a variety of Indian interests within and outside of India. To achieve our goal of developing the premier Internet portal focused on the Indian market, we intend to continue to expand and improve the quality of [www.sify.com](http://www.sify.com), and are developing additional content oriented towards topical and cultural interests of Indians worldwide.

- *Expand our customer distribution channels through strategic alliances to take advantage of the sales and marketing capabilities of our strategic partners.* We intend to continue to expand our customer acquisition channels, for both our consumer Internet access and corporate network/data services.
- *Pursue selective strategic investments, alliances and acquisitions to expand our customer base, increase utilization of our network and add new technologies to our service mix.* We believe that our growth can be supplemented by selective acquisitions of complementary businesses. We may seek to expand our market presence in our corporate network business through the acquisition of data center, web implementation and/or systems integration companies serving India, the United States or other markets. We will also consider acquisitions of Internet service providers that have a significant or growing customer base in our current or targeted markets.
- *Expand into international markets for providing managed network services.* Our network and application level support can be provided remotely with a minimum of on-site presence. We are seeking to provide these services to international markets. The tools utilized to provide these services were developed in-house on Linux/open source platforms, and we plan to upgrade these tools in the future to meet customer requirements. We expect our expertise in network management, to enable us to perform these services to international customers at lower costs. We also intend to provide managed security solutions, including monitoring and vulnerability assessment, in addition to managed firewall and intrusion detection services.

- *Superior end-user performance and customer support.* We believe that we provide a high level of customer service, network performance and technical support to maximize customer satisfaction. A significant number of our employees are engaged in our customer service or technical support departments, which operate 24 X 7. Our network engineers continually monitor network traffic and congestion points to deliver high quality consistent network performance. Our backend processes are ISO 9001:2000 compliant for network operations, data center operations and customer care. Our strategy of providing superior network performance and customer service is designed to result in significant customer growth from referrals and industry recognition.

## Service Offerings

*Enterprise Services.* These primarily consist network service and IT services which addresses the network, security and application services needs of Indian enterprises by leveraging our national Tier 1 IP network infrastructure. The services include a comprehensive range of Internet protocol based Virtual Private Network, or IPVPN, offerings, including intranets, extranets and remote access applications to both small and large corporate customers. There is a strong focus on industry verticals such as IT/ITES (IT enabled services), banking and financial services industry (BFSI), Government, manufacturing, pharmaceutical and FMCG. We were the one of the first service provider in India to provide MPLS-enabled IPVPN's on its entire network. We have entered into a strategic partnership with leading Telcos for providing last mile connectivity to customers. Our entire network is MPLS enabled with built in redundancy with world class design and service standards.

SecureConnect (™) is our comprehensive offering of secure, reliable and scalable IPVPN solutions that meet both mission- critical data networking and converged voice, video and data connectivity needs. It offers a variety of intranet and extranet configurations for connecting offices, remote sites, traveling employees and business partners, whether in India or abroad. Our platform of services includes:

- SiteConnect (™) which offers site-to-site managed MPLS-enabled IPVPN solutions for securely connecting regional and large branch offices within India to the corporate Intranet.
- GlobalSite Connect, an international site-to-site managed MPLS-enabled IPVPN solution, is used for securely connecting international branch offices to the corporate offices. It provides connectivity anywhere in the world through Sify's alliances and partnerships with global overseas service providers such as Level 3, KDDI, and PCCW Global to name a few.
- ExpressConnect, which offers a premium range of high-performance Internet bandwidth solutions for connecting regional offices, branch offices and remote locations to the corporate network. These solutions complement our SiteConnect range of MPLS enabled IPVPN solutions, provide high-speed bandwidth in those situations where basic connectivity and cost are the top concerns.
- RoamConnect, is our national and international remote access VPN, which is used for securely connecting employees, while they are traveling, to the corporate intranet. Roam Connect features "single number access" to SifyNet from anywhere in the country and provides access from anywhere in the world through Sify's alliances with overseas service providers.
- PartnerConnect is our remote access VPN offering, for providing secure and restricted dial-up access to business partners such as dealers, distributors and suppliers to the corporate extranet.

In February 2002, we became the first Indian Company to be certified ISO 9001:2000 for network services, data center operations and customer relationship management. The ISO 9001:2000 certification from Det Norske Veritas (DNV), Netherlands under the RvA accreditation scheme provides recognition for self-defined benchmarks against

international companies with respect to facilities, metrics, processes and practices. Our corporate network/data services were also certified 9000:2001 compliant for pre-sales, sales, project management and backend operations in September 2003.

We also offer a suite of security solutions, including security design, audit, procurement and integration. Our enterprise solutions portfolio includes a range of application services, such as enterprise class e-mail platforms, audio and video conferencing solutions and business web services. Contracts for these services are negotiated on an individual basis to provide specifically tailored network/data services to each customer.

*Software Services.* We offer value-added services to organizations such as website design, development, content management, Online assessment tools, search engine optimization, , including domain name management, secure socket layer (SSL) certificate for websites, and server space in required operating system and database. We provide state of the art messaging and collaboration services and solutions such as e-mail servers, LAN mail solutions, anti-spam appliances, bulk mail services, instant messaging, and also offer solutions and services to enable data & access security over the Internet. We also offer web-applications such as online merchandising with on-line payment gateways, sales force automation, supply chain management, intranet and extranets, workflow engine and knowledge management systems. We also provide infrastructure-based services on demand, including on-line testing engine and network management. On-line testing services include test management software, required servers and proctored examination facilities at Sify's e-port cybercafés. On-line exam engine offered allows a secure and flexible way of conducting examinations involving a wide range of question patterns.

*System integration, Security and Assurance Services.* During the recent years, we have launched system integration services to offer DC built and infrastructure sizing and supply. We offer a comprehensive suite of security solutions including security design, procurement and integration services for infrastructure security, vulnerability assessment and penetration testing. Implementation services include implementation of security products, such as firewalls, intrusion detection systems, content security, authentication tools and VPN services. We also provide assurance services covering Information systems(IS) Audit, Risk Assessment, and Business Continuity/Disaster Recovery Planning.

*Data Centers.* We operate 4 Tier III Data centers of which two are located in Mumbai (Bombay), one each at Chennai (Madras) and Bengaluru, which are designed to act as reliable, secure and scalable facilities to host mission-critical applications. We offer co-location services which allow customers to bring in their own rack-mountable servers and house them in shared racks, or they could hire complete racks, and even rent 'secure cages' at the hosting facility as per their application requirements. We also offer a wide variety of managed hosting services, such as storage, back-up and restoration, performance monitoring and reporting hardware and software procurement and configuration, network configuration as well as spares and replacement. Our FortKnox platform for security management of hosted servers offers Service Level Agreement (SLA)-based security services to protect servers. Our Infrastructure Data Management Services (IDMS) service provides specific services related to building data centers, leveraging on our proven expertise to build world-class infrastructure.

*Cloud service.* We recently launched on-demand hosting (cloud) services to end-customers with strategic a tie-up with global partner. We have joined the global program, designed for service-providers who offer on-demand cloud services giving them the option to "rent" software licenses on a monthly "pay as you go" basis. This model is aimed at helping Indian companies, both large and small, to safely tap computing capacity inside and outside their firewalls to help ensure quality of service for any application they want to run, internally or as a service.

*On Demand Storage.* We have recently launched innovative SLA driven utility-based On-Demand storage service to manage the complete lifecycle of enterprise information, from its inception to its final disposal. The fully managed, utility based, On-Demand, scalable storage platform is powered by global major in Data Systems. Sify's On-Demand storage service reduces the complexities of deploying and managing multiple storage tiers, and lowers operational costs by automating management with flexible need based pricing.

*Digital Certification.* In technical collaboration with Verisign, a leading provider of Internet trust services, we formed a subsidiary, Sify Communications Limited, to provide managed digital certificate-based authentication services in India. Sify Communications Limited was the principal affiliate of Verisign in India and was a member of Verisign's Global Affiliate Network. Sify Communications Limited was accredited as the first Certifying Authority for issuance of Certificate for Digital Signature by the Ministry of Information Technology, Government of India. Sify Communications Limited merged with Sify Technologies Limited during 2009-2010. Consequent upon the merger, Sify Technologies Limited now provides digital certificate-based authentication services which were provided by its

erstwhile subsidiary, Sify Communications Limited. During the year, 2012-13, we have aligned with one another technological partner to offer Digital certification on account of compelling business propositions.

*Remote Management Services.* This service provides continuous proactive management and support of customer operating systems, applications and database layers through deploying specialized monitoring tools and infrastructure experts to ensure that our customers' infrastructure is performing optimally.

Our Enterprises services division accounted for approximately, 89%, 90% and 92% of our revenues in fiscal years 2011, 2012 and 2013 respectively. We believe that corporate services will continue to be the largest part of our business for the immediate future. Effective April 1, 2012, we have aligned our "Commercial and Consumer Internet access" business to our Enterprise services.

*VOIP Services.* We offer comprehensive VoIP services covering Managed Voice for Enterprises particularly in IT/ITES segment to meet their international business communications. As part of the service, our Hosted dialer platform is also provided to enable BPOs to use this infrastructure as a service.

*ILD Voice & hubbing.* During the year 2008, we have launched Voice NLD/ILD services under the Telecom license. We provide high quality voice origination and termination services with interconnects directly with both mobile and fixed line operators in India. Currently we handle millions of minutes of global voice traffic for our enterprise and retail customers. Our MPLS enabled packet-switched network deploys a carrier class soft switch with redundancy to provide routing, as well as control, in real time. We have established strategic tie up with many global carriers. Our voice services have grown well over the last two years and we have established credibility and repute.

During the year 2009-10, based on the experience of voice services and success in the ILD India termination business, we had launched Hubbing business to leverage the experience.

*Internet Access Services.* We offer public Internet access to consumers through a retail chain of e-ports (formerly *iway*) cybercafés. We also have agreements with certain cable television operators through which we offer Internet access through cable.

Our Internet access services for retail consumers include high-speed/broadband access to homes over cable, public Internet access from our network of e-ports (formerly *iWay* cybercafés) and VoIP. Currently, we have also started offering the premium broadband connection, branded Platinum to the SOHO market segment and wireless service to homes at select cities. The market has shrunk due to the consumer preference, medium of usage and delivery of speeds. This has impacted the profitability of our franchisees influencing them to move out of the business. We have lost a significant number of franchisees and subscribers during the last few years. We have consciously reduced our focus to the retail market, aligning to our core objective of transforming into an Enterprise focused company.

*Public Internet Access.* We provide public Internet access to the large segment of the Indian population that does not own a personal computer through our network of e-ports (formerly *iWay* cybercafés). We operate these cybercafés on a franchisee model on a B2C model and other on a B2B2C model, where Café buys connectivity from Sify and offers the same to the end customer.

In connection with our franchised e-ports (formerly *iWays*), we grant each franchisee a non-exclusive license to operate the cybercafé using our logo, brand and trade names. We enter into an agreement with the franchisee establishing the rights and obligations of each party. In connection with the establishment of a franchised e-port (formerly *iWays*), we receive an initial franchise fee that covers the following upfront services rendered by our Company:

The cybercafés e-ports are owned and operated by the franchisees. The franchisee procures the retail space, invests in furniture, interior decor, personal computers, point of sale signage and employs/trains the staff. The franchisee is responsible for the maintenance of the premises and interface with customers. We provide the complete back-end support, including bandwidth, the authentication/usage engine and the billing/collection system. The prices to be charged to the customers and the services that can be rendered are controlled by Sify. On average, these e-ports (formerly *iWays*) have an average of seven personal computers and operate in an area of about 250 square feet. All e-ports operate on a prepaid subscription model, and the end customer has the ability to browse from any of the e-ports using the roaming facility that we provide. The billing system allows us the option of charging different prices based on the services used, time of usage and the place of use.

*Sify e-port.* The *iWays* cyber café chain was re-branded as “*sify e-port*”. Sify e-port is today the largest chain of branded retail outlets in the country, empowering every user to reap the benefit of internet and its applications. We have launched a model of *e-port Xpress* with a single PC with value added services as a kiosk chain offering services like travel ticket booking, bill payment, mobile recharge and e-commerce transactions in addition to internet browsing,



chat, email and gaming.

The connectivity based model is seated on a cloud platform called '*Sify Mylife*'. *Sify Mylife* supports multiple VAS providers on a plug and play platform. This is also India's first consumer cloud offering. The advantage is that the platform is extendable to any number of VAS providers and is not binding in terms of usage.

*Broadband Internet for SOHO / SMB Category:* We at Sify understand the changes in requirements for different set of customers. The Small Office Home broadband Office (SOHO) segment which is large and continuously growing in India, has requirements which are different from the regular retail customers. our platinum broadband connection included a bundle of services which includes domain names, e mail Ids, static IP and a website builder along with wireless connectivity.

*Voice over Internet Protocol.* VoIP can be used in India for making International calls. We have leveraged on our extensive network of e-ports to offer VoIP. We provide these services through standalone VoIP booths at various strategic locations in major cities. We use MPLS enabled technology that ensures voice clarity.

*Broadband/High Speed Internet to Home:* We believe that our Broadband Business Model, over the past few years, has emerged as the most unique and cost-efficient model for scaling up broadband across the country. It leverages our brand, marketing and technical abilities of Sify as an ISP and the strengths of cable operators in having right of way and the network required to connect customers at a marginal cost. Apart from the innovative “night unlimited” products, we have also launched a set of unique “Double your speeds” in night products. We believe that appealing price points and optimum value has been the key of all our offers.

We believe that the combination of cable to homes through cable operator and wireless services will enable us to successfully operate as a broadband operator. We believe that our primary biggest strength as a broadband operator lies in our marketing. We have built our reputation through our focused and targeted investment and business development strategy. Due to our relations with cable operators, we can utilize our substantial network available to provide our service on cable networks and also offer broadband services to SME and SOHO.

We had also introduced "Direct Renewal Facility", which allows our broadband subscriber to renew his connection at anytime of the day or night from the comfort of his home. Users whose validity has expired or pack amount is not available can login and re-charge their account. The subscriber gets full freedom to recharge according to the needs, convenience and at any time of the day-the recharge amount can be paid conveniently within three days from the time of recharge. Based on Voice over Internet Protocol, this facility will be available to our Broadband subscribers as a Closed User Group service.

Our Commercial and consumer division accounted for approximately 8%, 5% and 4% of our revenues in fiscal years 2011, 2012 and 2013 respectively. Effective April 1, 2012, we have aligned the “Commercial and Consumer Internet Access”, as part of Enterprise Services and “Commercial and Consumer-Online Portals services” as part of Software Services

*Internet Access Services.* BSNL, MTNL the leading PSU Telecom brands together hold large market share of the broadband subscribers in India. We expect the market for broadband Internet services to grow more rapidly in the future due to additional telecom providers emerging as competitors. We expect the market for consumer Internet access to remain extremely price competitive as late market entrants attempt to acquire customers.

Currently, the market is highly fragmented and dominated by individual entrepreneurs who own Internet cafés, with a few personal computers connected to the Internet through a leased line or ISDN line. With considerably lower overheads, these individuals are able to offer Internet access at lower rates. We compete by offering faster browsing speeds, improved overall ambience at our e-ports, convenient billing systems and a host of value added services ranging from entertainment and travel to utility payments. Considering the current retail market conditions, we have migrated our services largely to focus on SOHO and SMB segment.

*Online Portal Services.* We operate online portals, such as [www.sify.com](http://www.sify.com), [www.samachar.com](http://www.samachar.com), that function as principal entry points and gateway for accessing the Internet by providing useful web-related services and links. We also offer related content sites specifically tailored to Indian interests worldwide.

Sify.com provides a gateway to the Internet by offering communication and search tools such as email, chat, travel, online portfolio management and channels for personal finance, astrology, lifestyle, shopping, movies, sports and news.

The finance channel of Sify <http://sify.com/finance/> covers the entire spectrum of equity markets, business news, insurance, mutual funds, loans, SME news and a host of paid and free financial services.

The sports channel <http://sify.com/sports/> covers the entire gamut of Indian and international sports with special focus on cricket..

We also host WWE updates as a standalone service <http://wwe.sify.com/> for users.

The food channel [www.bawarchi.com](http://www.bawarchi.com) focuses on Indian recipes and cooking and is especially popular among non-resident Indians (NRIs) audiences with over 90% of its content being user generated

Our NRI news portal, [www.samachar.com](http://www.samachar.com), focuses on Indian news and allows NRIs to stay connected to India by aggregating news from across all popular newspapers and other news portals. This portal provides a range of news in English and five Indian languages. Apart from Samachar we have another India targeted news channel <http://sify.com/news/> which offers national and international general, political and offbeat news.

The online shopping mall <http://shopping.sify.com/>, stocks products from India's leading brands and products. We believe that it offers competitive prices and a secure and convenient method of payment. Users can buy using their credit or debit card, pay cash on delivery or send a check.

Movies channel on Sify <http://sify.com/movies/> is one of the key channels which offer updates from Bollywood/ Hollywood and all regional film industries. The content includes movie reviews, industry news, video galleries, photo galleries, downloads (photos) etc.

Games channel of Sify <http://games.sify.com/> offers multiple scoring non scoring games. Games include cricketing games, racing games, football specific games etc

### **Corporate Customers**

We have established a diversified base of corporate customers in a variety of data intensive industries, including information technology enabled services (ITES), banking financial services and Insurance (BFSI), publishing, retail, pharmaceuticals and manufacturing. Our corporate customer base has grown to over 3400 customers. The increased scope of the services we offer, particularly the provision of broadband services to our existing customers and International IPVPN services along with the increased reach of our network, has increased our market base.

The Company does not currently anticipate that it will serve markets in, or have any contacts with, Sudan, Iran or Syria, or any other countries which are designated as state sponsors of terrorism by the U.S. Department of State. As of the date of this Annual Report, the Company has not provided into Iran, Sudan, or Syria, or any other countries which are designated as state sponsors of terrorism by the U.S. Department of State directly or indirectly, any products, equipment, software, technology, information or support, and has no agreements, arrangements, or other contacts with the governments of those countries or entities they control.

### **Customer Service and Technical Support**

We believe that excellent customer support is critical to our success in attracting and retaining subscribers. We currently provide customer service and technical support via a local telephone call in most of the cities in which we have a point of presence. Our web-based help desk and MIS system provide online information to our clients. Subscribers can also e-mail their questions directly to a customer service and technical support address at our Company. Our customer service and technical support staff handles all questions regarding a subscriber's account and the provision of our services and is available 24-hours-a-day, seven-days-a-week.

### **Sales and Marketing**

*Enterprise Offerings.* The principal focus of our sales and marketing staff is to acquire new customers and maintain cordial relationship with the existing corporate customers. We seek to penetrate this market through trade publication ads, industry trade shows and seminars for the benefit of industry associations and potential customers. As of March 31, 2013, we had around 333 employees dedicated to sales and marketing exclusively for our corporate offerings.

*Consumer Offerings.* A key element of our business strategy is to increase our brand awareness and market penetration among consumers through a number of means including an expanded advertising campaign focused primarily on print advertising, direct mail and free software to consumers who become subscribers.

Effective April 1, 2012, we have aligned the "Commercial and Consumer Internet Access", as part of Enterprise Services and "Commercial and Consumer-Online Portals services" as part of Software services. Currently "Sales and Marketing" campaigns are under single "umbrella" branding.

## **Technology and Network Infrastructure**

We operate a national IP / MPLS data network with over 1000 points of presence serving more than 1800 locations across India. We operate our network facilities and customer service operations, which gives us greater control over the utilization and quality of our network. We have designed and built our network using advanced technologies and equipment which will enable us to continue to expand the geographic range of our network, integrate improved data processing technologies and enhance speed and capacity with little or no disruption to our customers.

Services Offered: We offer the following services to our Enterprise and consumer customers using our network.

Internet access services,  
IP/ MPLS Virtual private networks,  
Internet based Voice services

*Geographic Coverage.* Through our national network of points of presence, our business and consumer customers are able to access their application through our network in India via our wireless local loop, local leased lines or a local phone call on dial-up or through our cybercafé chain. We have over 1000 points of presence, or POPs. These points of presence, or primary nodes, reside at the core of a larger Internet protocol network with a Star and meshed topology architecture. Each point of presence contains data communications equipment housed in a secure facility owned, leased or operated on an infrastructure co-location basis by our Company. The last mile connecting to the customer can be a leased line, ISDN or point-to-multipoint radio link which we have licensed from the Wireless Planning Commission. We also use certain frequency radios, which do not require an operating license, in some locations. Our larger corporate customers access the point of presence directly through leased lines or wireless links.

*Network Architecture.* We ensure network reliability through several methods and have invested in proven technologies. We use routers to route traffic between nodes interconnected using a high speed interface. Most of our applications and network verification servers are manufactured by IBM, Sun and Hewlett-Packard.

The primary nodes on the backbone network are connected by multiple high-speed fiber optic lines that we lease from long distance operators. The secondary nodes are connected by lower speed leased lines. A number of nodes are accessible from at least two other nodes, if not, by two long distance operators, allowing us to reroute traffic in the event of failure on one route. We reduce our exposure to failures on the local loop by usually locating our points of presence within range of service providers switching equipment and purchasing connectivity from multiple providers. To further maximize our network uptime, we are almost completely connected on fiber optic cables to the switching points of our service providers from our POPs.

In addition to a fundamental emphasis on reliability and security, our network design philosophy has focused on compatibility, interoperability, scalability and quality of service. We use Internet protocol with Multi Protocol Label Switching, or MPLS, to transmit data, thus ensuring that our network is completely interoperable with other networks and systems and that we may port any application onto our network. The modular design of our network is fully scalable, allowing us to expand without changing the network design or architecture, thus ensuring little or no service disruption.

*Network Operations Center.* We maintain a network operation center located in Chennai (Madras) and a backup facility in Mumbai (Bombay). The Chennai facility houses our central network servers as well as our network staff who monitors network traffic, service quality and equipment at all our points of presence to ensure a reliable Internet service. These operation centers are staffed 24-hours-a-day, seven-days-a-week. We have backup power generators and software and hardware systems designed to prevent network downtime in the event of system failures. In the future, we may add additional facilities to supplement or add redundancy to our current network monitoring capability.

*Data Centre Infrastructure.* We operate four tier III Internet Data Centres, two in Mumbai, one each at Chennai and Bangalore. We offer managed hosting, security and infrastructure management services from these facilities. These data centres are completely integrated with our IP / MPLS network which provides seamless connectivity for our customers from their premise to their applications hosted in the data centers. The data centers conform to the tier III standards to cater to the security consideration of our customer servers. We intend to invest in additional data centers, and are currently building world class data center at Noida near New Delhi and at Rabale in Mumbai.

## **Competition**

*General.* We face competition in each of our markets and expect that this competition will intensify as the markets in India for corporate network/data services, Internet access services and online content develop and expand. We compete primarily on the basis of service, reliability and customer support. Price and ease of use are also competitive factors.

*Enterprise services.* Our competitors for many private network services include government services companies that have built and operate their own private data networks. For Internet access, our main competitors are Bharti, Reliance and Tata, and our main competitors for domestic VPN includes terrestrial network providers, such as Bharti and Reliance.

*Online portal services:*

There are several other companies in India that have developed websites, including rediff.com. Our major competitors include In.com, Google, Indiatimes.com and Yahoo.co.in. All the above mentioned portals are competing for a share of the online services market in India, which is dominated by online advertising, mobile telephone short code revenues and e-commerce. We are the leaders in the online market. However, we lag behind our competitors in mobile telephony short code and e-commerce services.

Most of our online portal competitors enjoy the following advantages:

- Larger production and technical staff;
- Greater name recognition and larger marketing budgets and resources; and
- Substantially greater financial, technical and other resources.

To be competitive, we must constantly innovate and introduce new services to the market quickly. We also need to keep pace with rapidly changing technology in this area. Increased competition could result in loss of market share, reduced prices or reduced margins, any of which could adversely affect our business.

### **Intellectual Property**

Our intellectual property rights are important to our business. We rely on a combination of copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect our intellectual property. We have filed trademark and service mark applications in India for registering our product and service offerings.

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

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

We also rely on a variety of technologies that are licensed from third parties. We use software developed by these and other companies to perform key functions. These third-party licenses may not be available to us on commercially reasonable terms in the future. The loss of any of these licenses could delay the introduction of software enhancements, interactive tools and other features until equivalent technology could be licensed or developed. Any such delays could materially adversely affect our business, results of operations and financial condition.

### **Government Regulation**



Our business is subject to comprehensive regulation by the Ministry of Communications through the Telecom Commission and the DoT, pursuant to the provisions of the Indian Telegraph Act of 1885, or Telegraph Act, the India Wireless Telegraphy Act, 1933, or Wireless Act, the Information Technology Act, 2000 or IT Act and the terms of our Internet service provider license issued by the DoT under which we operate. Pursuant to the Telegraph Act, the provision of any telecommunications services in India requires a license from the Government of India, obtained through the DoT. While the Telegraph Act sets the legal framework for regulation of the telecommunications sector and the Wireless Act regulates the possession of wireless telegraphy equipment, much of the supervision and regulation of our Company is implemented more informally through the general administrative powers of the DoT, including those reserved to the DoT and other governmental agencies under our license.

In March 1997, the Government of India established the TRAI, an independent regulatory authority, under the provisions of the Telecom Regulatory Authority of India Act. The TRAI is an autonomous body consisting of a chairperson and at least two and not more than four members.

Under the Telecom Regulatory Authority of India Act, the functions of the TRAI are to:

- make recommendations on (i) the need and timing for the introduction of new service providers, (ii) the terms and conditions of licenses granted to service providers, (iii) the revocation of licenses for non-compliance, (iv) measures to facilitate competition and promote efficiency in the operation of telecommunications services so as to facilitate growth in such services, (v) technological improvements in the services provided by service providers, (vi) the type of equipment to be used by service providers, (vii) measures for the development of telecommunications technology and the telecommunications industry and (viii) the efficient management of the available spectrum;
- discharge the following functions: (i) ensure compliance of the terms and conditions of licenses, (ii) fix the terms and conditions of interconnectivity between service providers, (iii) ensure technical compatibility and effective interconnection between service providers, (iv) regulate revenue sharing arrangements between service providers, (v) establish standards of quality of service, (vi) establish time periods for providing local and long distance telecommunications circuits between service providers, (vii) maintain and keep for public inspection a register of interconnect agreements and (viii) ensure effective compliance of universal service obligations;
- levy fees and other charges at such rates and in respect of such services as may be determined by regulation; and
- perform such other functions as may be entrusted to it by the Government of India or as may be necessary to carry out the provisions of the Telecom Regulatory Authority of India Act.

The TRAI also has the authority to, from time to time, set the rates at which domestic and international telecommunications services are provided in India. The TRAI does not have authority to grant licenses to service providers or renew licenses, functions that remain with the DOT. The TRAI, however, has the following powers:

- to call on service providers to furnish information relating to their operations;
- to appoint persons to make official inquiries;
- to inspect the books of service providers; and
- to issue directives to service providers to ensure their proper functioning.

Failure to follow TRAI directives may lead to the imposition of fines. Decisions of the TRAI may be appealed to the Telecom Disputes Settlement and Appellate Tribunal.

In December 2004, the Government of India through DOT imposed new requirements on Internet Service Providers wishing to offer Internet Protocol - Virtual Private Network (IP-VPN) services. Consequently, we applied for permission to offer IP-VPN services, and the DOT, Government of India issued a letter of intent to us on December 30, 2004 regarding amendment of our existing ISP license to include provision of IP-VPN services. In January 2005, we paid a Rs.100 million onetime entry fee and submitted a financial bank guarantee of Rs.10 million as required by the letter of intent.

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

As the NLD and ILD licenses were under the regime of Department of Telecommunications, the notification of the GOI dated 7 November 2005 was required to be complied with to obtain NLD and ILD licenses. The primary condition set out in the notification among other conditions was that, the total composite foreign holding by the applicant should not exceed 74 %. Given that the foreign shareholding in Sify was higher than the aforesaid threshold limit, Sify Communications Limited (erstwhile subsidiary) decided to obtain the NLD and ILD licenses in its name and made necessary applications in this regard. To facilitate this, Sify divested its stake in Sify Communications Limited (erstwhile subsidiary) to the extent of 26% of its holding in Sify Communications Limited (erstwhile subsidiary), or 4.680 million shares, to Infinity Satcom Universal Private Limited, a related party, for a sale consideration of Rs.139,810 during the quarter ended December 31, 2005. Infinity Satcom Universal, a Company incorporated under the laws of India, was then owned by Ananda Raju Vegesna, who is the brother of Raju Vegesna, Chairman of Sify’s Board of Directors and the principal of Infinity Capital Ventures, LP (“Infinity Capital”). Infinity Satcom is currently controlled by Raju Vegesna, Our Chairman and Managing Director.

On November 21, 2006, Sify Communications Limited (erstwhile subsidiary) executed two License Agreements with GOI, for NLD and ILD services respectively, which enabled Sify Communications Limited (erstwhile subsidiary) to provide IP-VPN services. Accordingly, the Company transferred its IP VPN business to Sify Communications Limited (erstwhile subsidiary) effective November 22, 2006 and the latter commenced the said services on the same day. Sify Communications Limited (erstwhile subsidiary) also furnished bank guarantees for Rs.200,000 each for NLD and ILD licenses to GOI. These licenses are valid for an initial period of 20 years and can be renewed for another 10 years at one time, upon request of the licensee made during the 19th year of license.

Pursuant to the shareholders approval at the meeting held on 12th February, 2009 which was convened as per the Orders of the Honorable High Court of Judicature at Madras (Court) and its Order in Company Petition Nos.30 and 31 of 2009 on 26th June 2009 sanctioning the Amalgamation Scheme, the assets and liabilities of Sify Communications Limited, whose principal business was providing IP-VPN services, corporate / individuals and consultancy services to companies / Firms intending to set-up security systems for e-commerce transactions, were transferred to and vested in the Company with effect from the appointed date viz. 1st April 2008 in accordance with the Amalgamation Scheme so sanctioned. Effective upon the merger, NLD and ILD licenses of Sify Communications Limited (erstwhile subsidiary) have been transferred to the Company to provide IP-VPN services. Immediately following the merger, Infinity Capital and Infinity Satcom Universal Private Limited held 26.06% and 27.24% of our outstanding equity shares, respectively. This has resulted in resident share holding of 27.24% post merger. Currently, Infinity Capital and Infinity Satcom hold approximately 8% of our outstanding shares.

### **Organizational Structure**

We are not part of any group. A list of subsidiaries and relevant information about them is provided in Exhibit 8.1 to this Annual Report.

### **Property, Plant and Equipment**

We own approximately 100,000 square feet corporate headquarters located in Chennai (Madras), India and an approximately 20,000 square feet regional office in Mumbai (Bombay). We have leased approximately 3,500 square feet network operations center in Chennai, a 27,000 square feet data center in Vashi, Mumbai, and 95,250 square feet data center in Airoli and 46,600 square feet in Bangalore Data Centre. In November 2011, we acquired 175,000 square feet of building space for construction of a Data Center space in Noida, UP on acquisition of Pace Info Com Park Private Limited, through Hermit Projects Private Limited, its holding company. We have acquired over 200,000 square feet of building space for construction of a Data Center space in Rabale, Mumbai. Both facilities are under construction.

Our Chennai facility houses our central network servers as well as our network staff who monitors network traffic, service quality and equipment at all our points of presence, or POPs, to ensure a reliable Internet service. We have POPs in over 1000 towns/cities across India. Most of our POPs are staffed 24-hours-a-day, seven-days-a-week. Our POPs average approximately 750 square feet at each location. We have backup power generators and software and hardware systems designed to prevent network downtime in the event of system failures. In the future, we may add additional facilities to supplement or add redundancy to our current network monitoring capability. Our property, plant and equipment are pledged towards obtaining loans / working capital facilities from banks.

The Company had entered into a contract with Emirates Integrated Telecom (“the Emirates”) for the construction and supply of undersea cable capacity from the Europe India Gateway (EIG). This enables significant capacity on ground leading to ability to service larger customers.

### **Item 4A. Unresolved Staff Comments**

None.

**Item 5. Operating and Financial Review and Prospects**

The financial statements of the Company included in this Annual Report on Form 20-F have been prepared in accordance with English version of International Financial Reporting Standards as issued by International Accounting Standards Board. The information set forth in Operating and Financial Review and Prospects is also for the Company's three recent fiscal years. The discussion, analysis and information presented in this section should be read in conjunction with our financial statements included herein and the notes thereto.

## **Operating Results**

This information is set forth under the caption entitled 'Management's Discussion and Analysis of Financial Condition and Results of Operations' below. Further, information relating to any governmental, economic policies or other factors which have materially affected, or could materially affect, directly or indirectly, the company's operations is set forth under the caption entitled 'Risk Factors' above.

## **Liquidity and Capital Resources**

This information is set forth under the caption entitled 'Management's Discussion and Analysis of Financial Condition and Results of Operations' below.

## **Research and Development**

This information is set forth under the caption entitled 'Management's Discussion and Analysis of Financial Condition and Results of Operations' below.

## **Trend Information**

This information is set forth under the caption entitled 'Management's Discussion and Analysis of Financial Condition and Results of Operations' below.

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

### **Overview**

We are one of the leading integrated Managed Network, IT and Software services companies in India, offering end-to-end solutions with a comprehensive range of products delivered over a common telecom data network infrastructure reaching more than 1800 locations in India.

A significant part of our Business is derived from Corporate Enterprise Services, which include Network and IT services, Security, Network management services, Enterprise applications, Hosting and Remote Infrastructure Management Services. A varied product portfolio at multiple price points allows Sify to also cater to the burgeoning demands of the SMB/SOHO community and the retail consumer; much of it on the cloud platform.

Our professionals deliver high quality solutions by leveraging our delivery model through which we divide projects into components that we execute simultaneously at client sites and at our development centers in India. We seek to optimize our cost structure by maintaining the flexibility to execute project components where it is most cost effective. Our sales, marketing and business development teams are organized to focus on specific regions and market segments and this helps us to customize our service offerings to our client's needs. Our primary markets are India and to a limited extent in the US. We serve clients in financial services, manufacturing, telecommunications, retail, utilities, logistics and other industries.

### *Enterprise services: Network/IT services*

Over the years, we have transformed into an Enterprise company from a Consumer company. The demand for services / products of our corporate network/data services division over the years is in the process of recovering from the economic slowdown. We have launched our NLD/ILD voice services in August 2008, which has the potential to provide a sizable momentum to our business. The opening of our new data centre in Mumbai (Airoli) has facilitated us to enhance our position in the market. The bandwidth cost has reduced substantially during the previous years on

account of strategic initiatives and market conditions. The reduction in bandwidth prices in India has led us to revise bandwidth rates to connectivity clients over the last few years and this trend is likely to continue in future. On account of prevailing market conditions, we experienced moderate pressure from our Corporate clients for price reduction in the current fiscal.

Sify over the last couple of years has been offering remote infrastructure management services to global corporate. Sify enjoys higher brand equity in the international markets for consistency and quality of delivery in this market. We wish to capitalize on this trend by evaluating our pricing and engagement models.

*Enterprise Services: Internet access services*

Broadband business has been impacted due to severe competition from the existing operators. The customer base is reducing on account of competition. We have reduced our prices and have also launched flexible products. Considering the current retail market conditions, we have migrated our services largely to focus on SOHO and SMB segment.

There are changes in the regulatory environment. The Indian Government has introduced stringent KYC (Know Your Customer) norms on cybercafé users. The overall number of cybercafé's has declined in India due to regulatory norms, higher rental costs for the cybercafés run by the franchisees and the migration of cybercafe users to Home Broadband.

To overcome this, we have launched connectivity based model which is seated on a cloud platform called 'Sify Mylife'. Sify Mylife supports multiple VAS providers on a plug and play platform. This is also India's first consumer cloud offering. The advantage is that the platform is extendable to any number of VAS providers and is not binding in terms of usage.

*Software services: eLearning Services*

As the business environment continues to be challenging in the international markets, there will be pricing pressures on pricing from customers and increased competition. We have introduced a learning infrastructure proposition on a services model. While the underlying need for eLearning products and services remains strong, there will be cutbacks and pressure on customer learning budgets. Our key customers have experienced contraction in their business due to global economic slowdown and there are positive signs for recovery. To compensate the business loss from such customers, we are adopting a new strategy of expanding our client base through new verticals, segments and geographies such as Europe, China and Japan, while improving cost efficiency with business process knowledge management.

*Software services: Online portal services and content offerings*

Advertising revenues continued to remain at same level despite spending by corporate clients and increased competition and an improvement in general market conditions.

There are numerous risks and challenges affecting the business. These risks and challenges are discussed in detail in the section entitled 'Risk Factors' and elsewhere in this Annual Report.

## **Revenues**

*Enterprise services: Network/IT Services*

These primarily include revenue from connectivity services, NLD/ILD services and to a lesser extent, revenues from the installation of the connectivity link. In certain cases, these elements are sold as a package consisting of all or some of the elements. We sell hardware and software purchased from third party vendors to our high value corporate clients. Our connectivity services include IPVPN services, Internet connectivity, last mile connectivity (predominantly through wireless), messaging services, security services and web hosting for businesses. We provide these services for a fixed period of time at a fixed rate regardless of usage, with the rate for the services determined based on the type of service provided, scope of the engagement and the Service Level Agreement, or SLA. Our web hosting service revenues are primarily generated from co-location services and connectivity services. Our security services revenues include revenue from consulting services, vulnerability assessment and penetration testing. We provide NLD (National Long Distance) and ILD (International Long Distance) services and carry voice traffic for Inter-connect Operators. Revenue is recognized based upon metered call units of voice traffic terminated on our network.



*Enterprise Services: Internet access services*

Internet access services revenues are generated from the Internet connectivity we provide to our retail customers through public access and home access services. Home access services are provided through broadband connectivity, which is provided through arrangements with CTOs. Our public access services are provided through franchised and company-owned cybercafés. Additionally, we generate revenue by providing Internet telephony services, allowing customers to make international telephone calls over the Internet. Our new launches include wireless connectivity to home customers at select cities and to small offices (SOHO).

Effective April 1, 2012, Commercial and consumer services was bifurcated into two segments based on business segment a) Corporate Internet access services Emerging and Established enterprises and b) Online content through Portal services for retail segment. The above segments have been aligned to Enterprise services and Software services respectively.

*Software services: Application services and e-learning*

Software services include revenue from Application services and e-learning. We develop and upload content for e-learning to facilitate web-based learning in various organizations. We provide e-learning services on time-and-materials or on a fixed-price basis. The revenue from Application Services include revenue from online assessment, document management services, web development, mailing solutions and supply chain software.

Effective April 1, 2012, Commercial and consumer services Online Portal services and content offerings, has been aligned to Software Services segment.

*Software services: Online portal services and content offerings*

Online portal services revenues include advertising revenues from the various channels of our Internet portal, www.sify.com. We enter into contracts with customers to serve advertisements in the portal, and we are paid on the basis of impressions, click-throughs or leads. Revenues also accrue from commissions earned on products and services rendered through [www.sifymall.com](http://www.sifymall.com), and also from value-added services that are rendered using our mobile telephone short code, 54545.

In Note 33 to our Consolidated Financial Statements in this Annual Report, we provide supplemental segment data, which provides separate revenue and operating income (loss) information for each of these business segments. This information is available in Item 18 Financial Statements of this Annual Report and is incorporated herein by reference.

**Expenses**

**Cost of goods sold and services rendered**

*Enterprise services: Network/IT Services*

Cost of goods sold and services rendered for the corporate network/data services division consists of telecommunications costs necessary to provide services, customer support costs, and cost of goods in respect of communication hardware and security services sold, commission paid to franchisees and cable television operators, the cost of voice termination for voice and VoIP services and other direct costs. Telecommunications costs include the costs of international bandwidth procured from TELCOs and are required for access to the Internet, providing local telephone lines to our points of presence, the costs of using third-party networks pursuant to service agreements, leased line costs and costs towards spectrum fees payable to the Wireless Planning Commission or WPC for provision of spectrum to enable connectivity to be provided on the wireless mode for the last mile. Other costs include cost incurred towards our Annual Maintenance Contract (AMC), the cost of installation in connectivity business and the costs incurred in providing Hosting services.

In addition, the Government of India levied an annual license fee of 7% of the adjusted gross revenue generated from IP-VPN services and Voice services under the NLD/ILD license. For the year 2013-14, the license fee has been revised upwards to 8%.

*Software Services*

Cost of goods sold and services rendered for the Software services, includes cost of goods of hardware and software, direct costs of online assessment, cost of billable resources, cost of subject matter experts, cost of procuring and managing content for the websites and other direct costs for the revenue streams.

*Selling, general and administrative expenses*

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

*Depreciation and amortization*

We depreciate our tangible assets on a straight-line basis over the useful life of assets, ranging from three to eight years and, in the case of buildings, 28 years. Undersea cable capacity is amortised over a period of 12 years and other intangible assets with finite lives are amortised over three to five years.

### *Impairment*

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

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

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

### *Inventories*

Inventories comprising traded hardware and software are measured at the lower of cost (determined using first-in first-out principle) and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

### *Deferred tax*

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

Deferred taxation arising on investments in subsidiaries and associates is recognized except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred taxation arising on the temporary differences arising out of undistributed earnings of the equity method accounted investee is recorded based on the management's intention. If the intention is to realize the undistributed earnings through sale, deferred tax is measured at the capital gains tax rates that are expected to be applied to temporary differences when they reverse. However, when the intention is to realize the undistributed earnings through dividend, the Group's share of the income and expenses of the equity method accounted investee is

recorded in the statement of income, after considering any taxes on dividend payable by the equity method accounted investee and no deferred tax is set up in the Group's books as the tax liability is not with the group.

*Stock compensation expense*

A total of 5.73 million equity shares are reserved for issuance under our Associate Stock Option Plans (ASOPs). Our ASOP 2007 was adopted at the Eleventh Annual General Meeting held on September 24, 2007. As of March 31, 2013, we had outstanding an aggregate of 54,592, options under our ASOP with a weighted average exercise price equal to approximately Rs.98.85 (\$1.81) per equity share. The unamortized stock compensation expense related to these grants amounted to Rs.0.05 million as of March 31, 2013.

**Results of Operations**

The following table sets forth certain financial information as a percentage of revenues:

	2013	Fiscal	2011
	%	2012	%
		%	
Revenues	100	100	100
Cost of goods sold and services rendered	55.43	60.54	61.12
Other income/(expense)	0.59	0.49	1.06
Selling, general and administrative expenses	35.49	33.09	35.46
Depreciation and amortization expenses	9.87	8.98	9.96
Impairment loss on intangibles including goodwill	-	-	0.03
Income from legal settlement	-	-	-
Profit /(loss) from operating activities	(0.22)	(2.12)	(5.51)
Finance income	0.86	0.77	0.66
Finance expenses	(3.04)	(3.98)	(3.76)
Net finance income/(Loss)	(2.17)	(3.21)	(3.10)
Profit on sale of equity accounted investee	7.67	-	-
Share of profit of equity accounted investee	-	0.35	1.06
Profit before tax	5.26	(4.98)	(7.54)
Income tax (expense)/ benefit	-	-	-
Net profit/(loss) for the year	5.26	(4.98)	(7.54)

**Results of year ended March 31, 2013 compared to year ended March 31, 2012****Revenues**

The growth in our revenues in fiscal 2013 from fiscal 2012 is given below

	Fiscal 2013	Fiscal 2012	Change	% Change
Revenues	8,570	7,699	871	11 %

We have achieved a Revenue of Rs 8570 Million, an increase in revenue of Rs. 871 Million (\$ 16 Million). The increase is primarily contributed by the Network Services, supported by growth in Connectivity and voice line of business.

We have changed the operating segments of the company from (i) Enterprise Services, (ii) Commercial and Consumer Services and (iii) Software Services in to two segments (i) Enterprise Services and (ii) Software Services effective April 1, 2012. Consequently we have done the analysis in this section based on the revised operating segments. (Refer Segment Note 33)

The revenue by operating segments and sub-segments is as follows:

	Revenue		Percentage of revenue		
	2013	2012	2013	2012	Growth %
Enterprise	7,870	6,949	92 %	90 %	13 %

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- Network Services	5,275	4,281	62 %	55 %	23 %
- IT Services	2,595	2,668	30 %	35 %	-3 %
Software	700	750	8 %	10 %	-7 %
	8,570	7,699			

Revenue from Enterprises Services has increased by Rs. 921 Million (\$17 Million) primarily due to increase in revenue of Rs. 993 Million (\$18.3 Million) in Network Services. This increase is partially impacted by decrease in IT Services by Rs. 73 Million (\$1.3 Million).

Revenue from Network Services has increased by Rs. 993 Million and this increase is primarily attributable to increase on account of (i) increase in one time project based and implementation revenues of Rs. 250 Million, (ii) Increase in recurring revenue of Rs.339 Million due to increase in number of customer engagements and links by 7144 and (iii) increase in Voice revenues by Rs. 458 Million, which is on account of increase of Rs. 497 Million from ILD business, contributed by volume increase of 658 million minutes. These increases were partially offset by Rs.39 Million reduction on account of decrease in volumes of VoIP services. There is Rs 18 Million reduction in Hardware and Software services on account of reduced opportunities and reduction in Retail Connectivity services of Rs. 36 Million on account of loss of subscribers and prevailing market condition.

Revenue from IT Services has decreased by Rs. 73 Million due to increase in revenues from Data center services and decrease in revenues from System Integration and Infrastructure Managed Services. The increase in Data center services revenues by Rs 291 Million is on account of higher utilization of Data center capacity at 97% utilization and increase in Cloud based offerings. The decrease in System Integration business by Rs. 309 Million is due to (i) a large one time System Integration opportunity serviced in the last year (ii) decrease of Rs 55 Million in Infrastructure Managed Services on account of loss of existing customers.

Revenue from Software Services has decreased by Rs. 50 Million primarily on account of reduction in revenues from Application services and Portals. The reduction of Rs 32 Million in Application services is on account of (i) reduction in Hardware & Software services of Rs 41 Million and (ii) increase in Online Assessment services by Rs 8 Million. The reduction of Rs 16 Million in portals sub segment is on account of exit of existing customers and related opportunities. The reduction of Rs 2 million in e Learning business is on account of loss of existing customers and related opportunities.

The Company is expected to benefit from the ongoing Data center projects, undersea cable capacity, Cable landing station and the large Government project that is being rolled out. The reduction from retail connectivity such as broadband, e-port would continue, as the company has strategically exited from Commercial and Consumer services.

### Other income

The change in other income is as follows:

	<b>Fiscal 2013</b>	<b>Fiscal 2012</b>	<b>Change</b>	<b>% Change</b>
Other income	50	38	12	32 %

### Cost of goods sold and services rendered (COGS)

Our cost of goods sold and services rendered is set forth in the following table:

	<b>Fiscal 2013</b>	<b>Fiscal 2012</b>	<b>Change</b>	<b>% Change</b>
Network Services	3,309	2,828	481	17 %
IT Services	933	1,298	(365)	-28 %
Enterprise Services	4,242	4,126	116	3 %
Software Services	509	535	(26)	-5 %
<b>Total</b>	<b>4,751</b>	<b>4,661</b>	<b>90</b>	<b>2 %</b>

The cost of goods sold increase by 2% on overall basis, 17% in the Network Services, with a reduction of 28% in IT services. The movement of COGS is explained in detail below:

	<b>2012-13</b>	<b>2011-12</b>	<b>Change</b>	<b>% Change</b>
Network Costs	2,703	2,283	420	18.4 %
Revenue share	179	165	14	8.8 %
Cost of goods sold	787	1,133	(346)	-30.5 %
Direct Resources costs	862	863	(1)	-0.1 %
Others	220	217	3	0.9 %
<b>Total</b>	<b>4,751</b>	<b>4,661</b>	<b>90</b>	<b>2 %</b>



Network cost comprises of cost of Bandwidth leased out from TELCOS, Inter connect charges payable to carriers, IP termination costs payable to carriers. Increase in Network costs is on account of (i) Rs 82 Million increase of Bandwidth costs incurred on account of capacity up gradation and newer links (ii) Rs 379 Million of Inter connect charges due to the increase in the volume of International Long distance and (iii) decrease in IP termination costs by Rs 41 Million on account of reduction in usage of minutes.

Revenue share cost comprises of (i) Revenue share payable to DoT on ISP, ILD & NLD services and (ii) Revenue share payable to retail franchisees. Increase in Revenue share is on account of (i) Increase of Rs 38 Million in the Revenue share payable to DoT on account of increase in Revenues and increase in Revenue Share to 7% from 6% effective 1<sup>st</sup> July 2012 and (ii) reduction of Rs 23.5 Million in the Revenue share payable to Retail franchisees .

Cost of Goods sold comprises of cost of Hardware and Software including adjustment of stock value for Net realizable value. The decrease in Cost of Goods sold is on account of cost involved on a large one time System integration deal in the previous period.

Direct Resources costs comprises of (i) the cost of resources deployed on the Network Infrastructure Delivery (ii) cost of billable resources associated with the e Learning and Infrastructure Managed services. During the year, there was an increase of Rs 9.6 Million on the resources costs of the Network Infrastructure Delivery and a decrease of Rs 10.2 Million on the cost of billable associates associated with the e Learning and Infrastructure Managed services.

Others comprises of Link maintenance charges for the Network services, Direct cost of Application services business, digital certificate platform, content costs, subject matter experts for international business. The increase in other costs is on account of (i) Rs 6 Million on account of content costs for Portal, (ii) Rs 5 Million on account of Digital certificates platform and (iii) Rs 8 Million cost increase on System Integration. These increases were partially offset by (i) Rs 4 Million on account of Application services (ii) Rental charges of Rs.3 Million on servers for Data center business and (iii) Rs 10 Million on account of subject matter experts for international business.

We are continuously in the path of achieving cost efficiencies and process optimization to maximize the return.

### Selling, General and Administrative expenses

Selling, General and Administrative expenses of the Company are set forth as follows:

	<b>Fiscal 2013</b>	<b>Fiscal 2012</b>	<b>Change</b>	<b>Change (%)</b>
Operating Expenses	1,190	916	274	30 %
Selling & Marketing Expenses	115	114	1	1 %
Associate Expenses	763	755	8	1 %
Other Indirect Expenses	781	694	87	13 %
Provision for doubtful debts and advances	211	95	116	121 %
Forex (gain) / loss	(19)	(27)	8	31 %
<b>Total</b>	<b>3,041</b>	<b>2,547</b>	<b>494</b>	

Operating costs have increased by 30%, on account of an increase in Electricity Tariff during the year, increase in volume (Kwh) of Electricity consumed, increase in rental of data center on account of escalation due and increase in implementation of towers on account of geographic expansion .

Selling & Marketing costs consist of, selling commission payable to sales partners, discounts payable to customers, incentive to salesmen and, marketing and promotion costs. Selling & Marketing costs remained flat between the two periods on account of lower marketing spends.

Associate expenses, consists of the annual cost of the employees who are part of the Sales and marketing function, Business development, General management and support services. Associate expenses remained flat between two periods on account of optimization and right sizing of resources during the year, compensated by cost of new senior level recruitments on account across verticals.

Other Indirect expense consist of , cost of Facilities , electricity charges incurred on facilities, travel cost , Legal charges , professional charges, communication and others. Other indirect expenses increased by 13%, primarily on account of provision for export scrips (SFIS) on account of lower import visibility and increase in legal, professional and consultancy charges during the year.

Provision for Doubtful debts consists, of the charge on account of the provisions created during the year against doubtful debtors. Increase in Provision for Doubtful debts is on account provisioning of doubtful debts including certain exposure on large projects.

Forex Gain / (Loss) consists of unrealized gain or (Loss) on account of restatements at the period end. Though there was a net gain on account of foreign exchange differences during the year, it was unfavorable comparing to the previous period

**Depreciation and amortization**

Depreciation and amortization is set forth in the table below:

	<b>Fiscal 2013</b>	<b>Fiscal 2012</b>	<b>Change</b>	<b>% Change</b>
Depreciation and amortization	848	692	156	23 %
As a percentage of carrying value	27 %	24 %		

The increase is due to larger capitalization of assets. The capital work in progress at the end of March 31, 2013 stood at 2,498. The data centres which are under construction are expected to be capitalized in the fiscal year 2014.

**Profit/loss from operating activities**

	<b>Fiscal 2013</b>	<b>Fiscal 2012</b>	<b>Change</b>	<b>% Change</b>
Operating loss	19	163	(144)	-88 %
As a percentage of revenue	0.22 %	2.12 %		

Due to increase in revenues and controlled operating costs, operating loss has come down significantly.

**Finance income/expense**

	<b>Fiscal 2013</b>	<b>Fiscal 2012</b>	<b>Change</b>	<b>% Change</b>
Finance Income	74	59	15	25 %
Finance expense	(260)	(307)	47	-15 %
Net Finance income/(expense)	(186)	(248)	62	-25 %

The increase in finance income is due to interest from deposits and interest income on the income tax refund received. The reduction in finance expense is due to reduction in LC charges during the current fiscal. The finance expense is expected to increase further with the leasing arrangements entered into towards the end of the fiscal year.

**Net Profit**

	<b>Fiscal 2013</b>	<b>Fiscal 2012</b>	<b>Change</b>	<b>% Change</b>
Net Profit/(loss)	452	(383)	835	218 %
As a percentage of revenue	5.27 %	4.98 %		

The increase is attributable to better operational margin and one-time gain of Rs. 658 million on account of sale of equity accounted investee. We expect improvements in operational margins due to change in revenue mix, leading to higher operating margins...

**Results of year ended March 31, 2012 compared to year ended March 31, 2011****Revenues**

	<b>Fiscal 2012</b>	<b>Fiscal 2011</b>	<b>Change</b>	<b>% Change</b>
Revenues	7,699	6,887	812	12 %

Year 2011-12 had a 12% growth with an increase in revenues of Rs 792 Million (\$15 Million) largely from Enterprise Services and Rs 20 Million ( \$0.36 Million) from Software services.

We have changed the operating segments of the company from (i) Enterprise Services, (ii) Commercial and Consumer Services and (iii) Software Services in to two segments (i) Enterprise Services and (ii) Software Services effective April 1, 2012. Consequently we have done the analysis in this section based on the revised operating segments.

The revenue by operating segments and sub-segments is as follows:

	Revenue		Percentage of revenue				Growth %	
	2012	2011	2012	2011				
Enterprise	6,949	6,156	90	89	%	%	13	%
- Network Services	4,281	4,007	56	58	%	%	7	%
- IT Services	2,668	2,149	35	31	%	%	24	%
Software	750	730	10	11	%	%	3	%
	7,699	6,886						

Revenue from Enterprise Services increased by Rs 792 million (\$15.0 million) primarily due to increase of Rs.274 million (\$5 million) in Network services and increase of Rs.518 million (\$ 10 million) in IT services.

The revenue from Network services has increased by Rs. Rs.274 million. This increase is primarily attributable to an (i) increase of Rs.104 million from Connectivity services, which is due to increase in number of customers and links by 5,025 and (ii) increase of Rs 297 million revenue from International Long Distance. The increase in International Long Distance is on account of increase in volume by 449 million minutes. The increase in this segment is off-set by decrease in Revenue of Rs. 130 Million from Retail Connectivity due to exit of franchises in e-Port sub-segment and reduction of connectivity services availed by retail customers and Rs. 3 million on hardware.

Our IT services revenues increased by Rs.518 million. The increase is primarily on account of (i) an increase of Rs.356 in System integration, primarily on account of a one-time large System Integration deal and (ii) increase of Rs.228 million revenue from Datacenter Services on account of higher occupancy of datacenters at an overall utilization ratio of 86% and increase in Cloud Infrastructure offerings. These increases were partially offset by decrease of Rs 66.3 Million in Infrastructure Managed Services, due to lower hardware sales.

Revenue from Software Services increased by Rs.19.7 million (\$0.36 million). The increase is on account of increase of Rs 38.4 million from Application service, which is due to increase in revenue of (i) Rs.34 Million from online assessment (ii) Rs. 28 Million from web application services (iii) increase of 4.6 Million from Document managed services (iv) Increase of Rs. 6 Million from Forum services and it was offset by (i) decrease of revenue from mail management services by Rs. 13 Million and (ii) Rs 21.5 Million from Hardware & Software services. The reduction in e Learning revenue of Rs.12 million due to reduction in engagement from existing customers. The reduction of Rs. 6 million from portal is on account of exit of customers and related opportunities.

#### Other income

	Fiscal 2012	Fiscal 2011	Change	% Change	
Other income	38	73	35	48	%

The decrease is mainly on account of decrease in interest on Income Tax refund and from duty credit entitlements under the "Served from India Scheme" (issued by the Government of India) in respect of the foreign exchange earnings from export of services

#### Cost of goods sold and services rendered

	Fiscal 2012	Fiscal 2011	Change	% Change	
Network Services	2,827	2,665	162	6	%
IT Services	1,298	1,119	179	16	%
Enterprise Services	4,125	3,784	341	9	%

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Software Services	535	425	110	26	%
<b>Total</b>	<b>4,660</b>	<b>4,209</b>	<b>451</b>	<b>11</b>	<b>%</b>

The cost of goods sold increased by 11% on overall basis, with Network services increasing by 6%, IT Services by 16% and Software Services by 26%.

	<b>Fiscal 2012</b>	<b>Fiscal 2011</b>	<b>Change</b>	<b>% Change</b>	
Network Costs	2,282	2,021	261	12.9	%
Revenue share	165	233	(68)	-29.2	%
Cost of goods sold	1,133	957	176	18.3	%
Direct Resources costs	863	779	84	10.8	%
Others	217	219	(2)	-0.8	%
Total	4,660	4,209	451	11	%

Network cost consists of cost of Bandwidth leased out from TELCOS, Inter connect charges payable to carriers, IP termination costs payable to carriers. Increase in Network costs is on account of (i) Rs 51.9 Million increase of Bandwidth costs incurred on account of capacity up gradation and newer links (ii) Rs 182 Million of Inter connect charges due to the increase in the volume of International Long distance and (iii) increase in IP termination costs by Rs 27.8 Million on account of increase in usage of Minutes.

Revenue share cost consists of (i) Revenue share payable to DoT on ISP, ILD & NLD services and (ii) Revenue share payable to retail franchisees. Decrease in Revenue share is on account of (i) Increase of Rs 11.3 Million in the Revenue share payable to DoT on account of increase in Revenues and (ii) reduction of Rs 79.3 Million in the Revenue share payable to Retail franchisees.

Cost of Goods sold consists of cost of Hardware and Software including adjustment of stock value for Net realizable value. The Increase in Cost of Goods sold is on account of hardware cost involved on a large one time System integration deal and partially offset by decrease in hardware costs from other System integration business opportunities.

Direct Resources costs consists of (i) the cost of resources deployed on the Network Infrastructure Delivery (ii) cost of billable resources associated with the e Learning and Infrastructure Managed services. During the year, there was an increase of Rs 84.1 on account (i) increase of Rs 68.2 Million on the resources costs of the Network Infrastructure Delivery and an increase of Rs 15.9 Million on the cost of billable associates associated with the e Learning and Infrastructure Managed services.

Other costs, consists of Link maintenance charges for the Network services, Direct cost of Application services business, digital certificate platform, content costs, subject matter experts for international business. The decrease in Other costs is on account of (i) Rs 11 Million on account of Digital certificates platform changeover to a new platform (ii) Rs 4 Million reduction in the content costs of Portal business (iii) Rs 3 Million reduction in Cost of Server rentals pertaining to Data center service (iv) Rs 3 Million reduction in the costs of Document Management Services part Application services business (v) increase of Rs 16.0 Million in subject matter experts deployed for Voice over for international business and (vi) increase of Rs 3.0 Million in the Link Maintenance costs part of Network Services

#### **Selling, general and administrative expenses**

	<b>Fiscal 2012</b>	<b>Fiscal 2011</b>	<b>Change</b>	<b>Change (%)</b>	
Operating Expenses	916	726	190	26	%
Selling & Marketing Expenses	114	130	(16)	-12	%
Associate Expenses	755	695	60	9	%
Other Indirect Expenses	694	720	(26)	-4	%
Provision for doubtful debts	95	158	(63)	-40	%
Forex Gain / (loss)	(27)	13	(40)	-304	%
<b>Total</b>	<b>2,547</b>	<b>2,442</b>	<b>105</b>		

Operating costs consists of, the electricity charges incurred on the Data center, rental cost of Data center, Rent of base station towers, Repairs and Maintenance costs of the Infrastructure, Annual Maintenance costs of the Infrastructure and insurance cost of the infrastructure.

Operating costs has increased by 26%, on account increase in volume of Electricity consumed, increase in rental of data center on account of escalation due and increase in implementation of towers on account of new locations and increase in Repairs and Maintenance of the infrastructure.



Selling & Marketing costs consists of, selling commission payable to sales partners, discounts payable to customers, incentive to salesmen and marketing and promotion costs. Selling & Marketing costs remained flat between the two periods on account of lower marketing spends.

Associate expenses, consists of the annual cost of the employees who are part of the Sales and marketing function, Business development, General management and support services. Associate expenses have increased by 9% on account of new recruitments on account across verticals and on account of yearly increase to the existing base.

Other Indirect expense consists of, cost of facilities, electricity charges incurred on facilities, travel cost, Legal charges, professional charges, communication and others. Other indirect expenses decreased by 4%, primarily on account of lower travel expenditure compensated by increase in Legal, professional and consultancy charges during the year.

Provision for Doubtful debts consist of the charge on account of the provisions created during the year against doubtful debtors. Reduction in Provision for Doubtful debts is on account of lower exposure on debtors based on the review.

Forex gain/(loss) consists of unrealized gain or (loss) on account of restatements at the period end. The current fiscal had a net forex gain on account of favorable currency fluctuation.

### Depreciation and amortization

Depreciation and amortization is set forth in the table below:

	Fiscal 2012		Fiscal 2011		Change	% Change	
Depreciation and amortization	692		688		4	0.58	%
As a percentage of carrying value	24	%	18	%			

### Finance income/expense

	Fiscal 2012		Fiscal 2011		Change	% Change	
Finance Income	59		46		13	28	%
Finance expense	(307)		(259)		48	19	%
Net Finance income/(expense)	(248)		(213)		35	16	%

This was caused by higher utilization of borrowing limits

### Share of profit in equity accounted investee

	Fiscal 2012		Fiscal 2011		Change	% Change	
Share of profit	27		73		(46)	-63	%

The decrease was due to unfavorable market conditions for MF Global Sify Securities India Private Limited.

### Net Profit

	Fiscal 2012		Fiscal 2011		Change	% Change	
Net Profit/(loss)	(383)		(519)		136	26	%
As a percentage of revenue	4.98	%	7.54	%			

Reduction in losses is on account of higher revenues and incremental operating margins.

### Results of year ended March 31, 2011 compared to year ended March 31, 2010

#### Revenues

	Fiscal 2011		Fiscal 2010		Change	% Change
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Revenues	6,887	6,710	177	3	%
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Year 2010-11 had a 3% growth with an increase in revenues of Rs 177 million (\$3 million) largely from Enterprise Services.

The incremental revenue is primarily on account of (i) an increase in revenues of Rs 174 million (\$3 Million) from our Enterprise Services and Rs. 2 million from Software services.

We have changed the operating segments of the company from (i) Enterprise Services, (ii) Consumer Services and (iii) Software Services in to two segments (i) Enterprise Services and (ii) Software Services effective 1<sup>st</sup> April 2012. Consequently we have done the analysis in this section based on the revised operating segments.

The revenue by operating segments and sub-segments is as follows:

	Revenue		Percentage of revenue				Growth %	
	2011	2010	2011		2010			
Enterprise	6,156	5,983	89	%	89	%	3	%
- Network Services	4,007	3,935	58	%	59	%	2	%
- IT Services	2,149	2,048	31	%	31	%	5	%
Software	730	728	11	%	11	%	0	%
	6,886	6,711						

Revenue from Enterprise Services increased by Rs.174 million primarily due to increase of Rs.72 million in Network services and increase of Rs.102 million in IT services. Revenues from Connectivity services were flat despite increase in number of links by 2330, on account of service mix and price corrections due to market expectation. The Increase in Network services is primarily due to the increase of Rs 429 million from International Long Distance, which is on account of increase in volume by 1,118 million minutes contributing to an increase of Rs.440 million and decrease in revenues from VoIP services by Rs. 11 million. The increase in revenues in network services is offset by (i) a decrease in hardware and software sales by Rs.48 million and (ii) decrease in Retail Connectivity to the tune of Rs. 310 Million on account of fall in subscribers and exit of franchises in e-Port Services.

Revenues from IT services increased by Rs.102 million which is due to (i) the increase of Rs. 113 million revenues from Hosting services on account of higher occupancy of datacenters at an overall utilization ratio of 82% (ii) Launch of cloud services contributing a revenue of Rs. 38 Million and (iii) increase in Infrastructure Managed Services of Rs 122 Million. These increases were partially offset by a decrease of Rs 171 million in System Integration business. The reduction in System Integration is due to lower hardware sales in the current period, while the previous year had revenues from initial hardware sales from State Data Center projects.

Revenue from Software Services has increased by Rs.2 million due to increase of Rs.36 million in e-learning revenues. This Increase was offset by decrease in (i) Application services by Rs 26 Million and (ii) Rs 8 Million from Portals. The reduction in Application services of Rs 26 Million is on account of increase in revenues of (i) Rs 24.5 Million from Web services (ii) 15 Million from online assessment, which was partially offset by decrease in revenues from (i) Rs 7.7 Million from Mail management services (ii) Rs 6.4 Million from DMS (iii) Rs 1.4 Million from Forum and (iv) decrease in hardware and software sales of Rs 50 Million.

#### Other income

	Fiscal 2011	Fiscal 2010	Change	% Change
Other income	73	132	(59)	45 %

The decrease is due to decrease in income derived from duty entitlements under the “Served from India Scheme” (issued by the Government of India) in respect of foreign exchange earnings from export of services

#### Cost of goods sold and services rendered

	Fiscal 2011	Fiscal 2010	Change	% Change
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Network Services	2,665	2,641	24	1	%
IT Services	1,119	1,112	7	1	%
Enterprise Services	3,784	3,753	31	1	%
Software Services	425	345	80	23	%
<b>Total</b>	<b>4,209</b>	<b>4,098</b>	<b>111</b>	<b>3</b>	<b>%</b>

The cost of goods sold increased by 3% on overall basis, with Network services and IT Services, marginally growing at 1% and the Software Services growing at 23%. Growth in Software Services is on account of increase in the Direct resources deployed in the development function.

	<b>Fiscal 2011</b>	<b>Fiscal 2010</b>	<b>Change</b>	<b>% Change</b>	
Network Costs	2,021	1,799	223	12.4	%
Revenue share	233	348	(115)	-33.1	%
Cost of goods sold	957	1,039	(82)	-7.9	%
Direct Resources costs	779	683	96	14.1	%
Others	219	230	(11)	-4.8	%
<b>Total</b>	<b>4,209</b>	<b>4,098</b>	<b>111</b>	<b>3</b>	<b>%</b>