

SIFY LTD  
Form 20-F  
July 03, 2003

**Table of Contents**

---

---

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

---

**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, 2003.

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.  
For the transition period from      to

Commission file number 000-27663

**Sify Limited**

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation at Registrant's name into English)

Republic of India

(Jurisdiction of incorporation or organization)

Tidel Park, 2nd Floor  
No. 4, Canal Bank Road  
Taramani, Chennai 600 113 India  
(91) 44-2254-0770  
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act: None

Edgar Filing: SIFY LTD - Form 20-F

Securities registered or to be registered pursuant to Section 12(g) of the Act: American Depositary Shares, each representing one Equity Share, par value Rs.10 per share

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

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.

33,838,392 Equity Shares were issued and outstanding as of May 31, 2003

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 which financial statement item the registrant has elected to follow

Item 17  Item 18

---

---

---

**TABLE OF CONTENTS**

Currency of Presentation and Certain Defined Terms

Forward-Looking Statements May Prove Inaccurate

**PART I**

Item 1. Identity of Directors, Senior Management and Advisers

Item 2. Offer Statistics and Expected Timetable

Item 3. Key Information

Item 4. Information on the Company

Item 5. Operating and Financial Review and Prospects

Item 6. Directors, Senior Management and Employees

Item 7. Major Stockholders and Related Party Transactions

Item 8. Financial Information

Item 9. The Offer and Listing

Item 10. Additional Information

Item 11. Quantitative and Qualitative Disclosures About Market Risk

Item 12. Description of Securities Other Than Equity Securities

**PART II**

Item 13. Defaults, Dividend Arrearages and Delinquencies

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

Item 15. Controls and procedures

Item 16A. Audit committee financial expert

Item 16B. Code of ethics

Item 16C. Principal Accountant Fees and Services

**PART III**

Item 17. Financial Statements

Item 18. Financial Statements

Item 19. Exhibits

**SIGNATURES**

Exhibit Index

EXHIBIT 8.1

EXHIBIT 23.1

EXHIBIT 99.1

EXHIBIT 99.2

---

**Table of Contents****Table of Contents**

<b>Item</b>	<b>Page</b>
Currency of Presentation and Certain Defined Terms	1
Forward-Looking Statements May Prove Inaccurate	2
<b>PART I</b>	<b>3</b>
Item 1. Identity of Directors, Senior Management and Advisers	3
Item 2. Offer Statistics and Expected Timetable	3
Item 3. Key Information	3
Item 4. Information on the Company	22
Item 5. Operating and Financial Review and Prospects	38
Item 6. Directors, Senior Management and Employees	50
Item 7. Major Stockholders and Related Party Transactions	57
Item 8. Financial Information	59
Item 9. The Offer and Listing	60
Item 10. Additional Information	61
Item 11. Quantitative and Qualitative Disclosures About Market Risk	75
Item 12. Description of Securities Other Than Equity Securities	76
<b>PART II</b>	<b>76</b>
Item 13. Defaults, Dividend Arrearages and Delinquencies	76
Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds	76
Item 15. Controls and Procedures	76
Item 16A. Audit committee financial expert	77
Item 16B. Code of ethics	77
Item 16C. Principal Accountant Fees and Services	77
<b>PART III</b>	<b>77</b>
Item 17. Financial Statements	77
Item 18. Financial Statements	78
Item 19. Exhibits	109

**Table of Contents**

**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 Limited, a limited liability company organized under the laws of the Republic of India. References to U.S. or the United States are to the United States of America, its territories and its possessions. References to India are to the Republic of India. Until December 2002, we were a majority-owned subsidiary of Satyam Computer Services Limited, a leading Indian information technology services company which is traded on the New York Stock Exchange and the major Indian stock exchanges. In January 2003, we changed the name of our company from Satyam Infoway Limited to Sify Limited. Satyam is a trademark owned by Satyam Computer Services, which has licensed the use of the Satyam trademark to us subject to specified conditions. Sify.com, Sify, Sify iway, SifyOnline, SatyamOnline, Satyam.Net, satyamonline.com and Satyam iway are trademarks used by us for which we have registration applications pending in India. All other trademarks or tradenames used in this 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, references to Rs., rupees or Indian rupees are to the legal currency of India and references to GBP are to the legal currency of the United Kingdom. References to a particular fiscal year are to our fiscal year ended March 31 of that year.

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 noon buying rate in the City of New York on March 31, 2003, the last business day of March 2003, for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York. The noon buying rate on March 31, 2003 was Rs. 47.53 per \$1.00.

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

The International Data Corporation market data presented in this annual report shows International Data Corporation's estimates derived from a combination of vendor, user and other market sources and therefore may differ from numbers claimed by specific vendors using different market definitions or methods. There can be no assurance that the projected amounts will be achieved.

Information contained in our websites, including our corporate website, [www.sifycorp.com](http://www.sifycorp.com), is not part of this annual report.

**Table of Contents**

**Forward-Looking Statements May Prove Inaccurate**

IN ADDITION TO HISTORICAL INFORMATION, THIS ANNUAL REPORT CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE SUBJECT TO RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE REFLECTED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN THE SECTION ENTITLED ITEM 3. KEY INFORMATION RISK FACTORS, ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS AND ELSEWHERE IN THIS ANNUAL REPORT. YOU ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH REFLECT MANAGEMENT'S ANALYSIS ONLY AS OF THE DATE OF THIS ANNUAL REPORT. IN ADDITION, YOU SHOULD CAREFULLY REVIEW THE OTHER INFORMATION IN THIS ANNUAL REPORT AND IN OUR QUARTERLY REPORTS AND OTHER DOCUMENTS FILED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, OR SEC, FROM TIME TO TIME. OUR FILINGS WITH THE SEC ARE AVAILABLE ON ITS WEBSITE, [WWW.SEC.GOV](http://WWW.SEC.GOV).

**Table of Contents**

**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**

You should read the following selected consolidated historical financial data in conjunction with our financial statements and the related notes and Item 5. Operating and Financial Review and Prospects, all of which are included elsewhere in this annual report. The statement of operations data for the fiscal years ended March 31, 1999, 2000, 2001, 2002 and 2003 and the balance sheet data as of March 31, 1999, 2000, 2001, 2002 and 2003 are derived from our audited consolidated financial statements which have been audited by KPMG India, independent accountants. Our financial statements are prepared in Indian rupees and presented in accordance with U.S. GAAP for and as of the fiscal years ended March 31, 1999, 2000, 2001, 2002 and 2003. Financial statements for the year ended March 31, 2003 have been translated into U.S. dollars for your convenience. Significant accounting policies used in the preparation of our financial statements are summarized in Note 3 to our consolidated financial statements appearing elsewhere in this annual report. Please see Item 18. Financial Statements.

In addition, the selected consolidated historical financial data presented herein includes transitional disclosures pertaining to adoption of SFAS 142, Goodwill and other Intangible Assets, for the year ended March 31, 2001, 2002 and 2003.

The selected consolidated historical financial data includes a presentation of EBITDA from continuing operations. As we calculate it, EBITDA from continuing operations, represents earnings (loss) from continuing operations before depreciation and amortization, interest income and expense and income tax expense (benefit). EBITDA is neither an Indian GAAP measure nor a U.S. GAAP measure and should not be considered in isolation or as an alternative to net income as an indicator of operating performance or as an alternative to cash flow as a measure of liquidity. Our presentation below also includes a reconciliation of EBITDA from continuing operations to net loss, which we believe to be the most comparable financial measure under U.S. GAAP. EBITDA from continuing operations is presented because it is a basis upon which our management assesses our financial performance and because we believe some investors find it to be a useful tool for measuring a company's ability to fund operating obligations and capital expenditure. Investors evaluating our financial performance or analyzing our discounted cash flows based on EBITDA from continuing operations should consider financing activities and non-recurring charges that are not included in the calculation of EBITDA. Our calculation includes significant charges recorded to reflect the impairment of goodwill. Investors should also review carefully Item 5. Operating and Financial Review and Prospects included elsewhere in this annual report for further information regarding the underlying financial performance of our company. While EBITDA is frequently reported by many companies as a supplemental measure of operations, it is not necessarily comparable to other similarly titled captions of other companies due to potential inconsistencies in the method of calculation.



**Table of Contents**

	1999	2000	Fiscal year ended March 31		2003	2003
			2001	2002		U.S. Dollars <sup>(2)</sup>
			Indian Rupees			
			(In thousands, except share and per share data)			
<b>Statement of Operations</b>						
<b>Data:</b>						
Revenues	103,344	618,467	1,200,833	1,493,636	1,862,585	39,188
Initial services charges			19,691	66,652	97,270	2,046
Satyam Computer Services Limited		4,258	4,957	17,200	34,345	723
Satyam Computer Services Limited						
Total Revenue	103,344	622,725	1,225,481	1,577,488	1,994,200	41,957
Cost of revenues (excluding depreciation and amortization)	(63,651)	(281,431)	(1,177,106)	(1,192,671)	(1,264,101)	(26,596)
Gross profit (excluding depreciation and amortization)	39,693	341,294	48,375	384,817	730,099	15,361
Operating expenses:						
Selling, general and administrative expenses (including provision for doubtful receivables and advances)	200,213	650,222	1,887,324	1,962,467	1,791,336	37,688
Acquisition expenses				20,000		
Amortization of goodwill		115,992	931,967	4,420,644		
Impairment of goodwill					246,999	5,197
Amortization of deferred stock compensation expense	69	20,627	61,451	9,686	57,729	1,215
Foreign exchange (gain)/loss	(615)	(5,414)	(162,136)	(44,520)	18	
Total operating expenses	199,667	781,427	2,718,606	6,368,277	2,096,082	44,100
Operating loss	(159,974)	(440,133)	(2,670,231)	(5,983,460)	(1,365,983)	(28,739)
Other (expense)/income, net	(27,402)	71,852	242,368	32,711	52,948	1,114
Loss before equity in losses of affiliates, income taxes and minority interest	(187,376)	(368,281)	(2,427,863)	(5,950,749)	(1,313,035)	(27,625)
Equity in losses of affiliates			(263,178)	(1,225,444)	(26,061)	(548)
Loss before income taxes and minority interest	(187,376)	(368,281)	(2,691,041)	(7,176,193)	(1,339,096)	(28,173)
Income taxes		1,478	(1,707)		(2,856)	(60)
Minority interest		1,799	11,137	17,928	12,564	264
Loss from continuing operations	(187,376)	(365,004)	(2,681,611)	(7,158,265)	(1,329,388)	(27,969)
Discontinued operations						
Income / (loss) from discontinued operations <sup>(3)</sup>		(16,893)	172,581	(125,373)		
Profit on sale of discontinued operations, net of direct costs				81,121		
Net loss	(187,376)	(381,897)	(2,509,030)	(7,202,517)	(1,329,388)	(27,969)
Net profit/ (loss) per equity share continuing operations	(17.31)	(19.68)	(117.34)	(308.59)	(51.15)	(1.08)
discontinuing operations		(0.91)	7.55	(1.91)		
Net loss per share <sup>(4)</sup>	(17.31)	(20.59)	(109.79)	(310.50)	(51.15)	(1.08)
Weighted average equity shares used in computing net loss per equity share	10,824,826	18,545,399	22,852,600	23,196,428	25,988,095	25,988,095



**Table of Contents**

	1999	2000	Fiscal year ended March 31		2003	2003
			2001	2002		U.S. Dollars
			Indian Rupees			
			(In thousands, except share and per share data)			
<b>Transitional disclosures pertaining to adoption of SFAS 142 Goodwill and other Intangible Assets</b>						
Reported net loss	(187,376)	(381,897)	(2,509,030)	(7,202,517)	(1,329,388)	(27,969)
Less: Goodwill amortization		115,992	931,967	292,964		
Less: Equity goodwill amortization			201,332	75,210		
Adjusted net loss	(187,376)	(265,905)	(1,375,731)	(6,834,343)	(1,329,388)	(27,969)
Reported net loss per share	(17.31)	(20.59)	(109.79)	(310.50)	(51.15)	(1.08)
Less: Goodwill amortization		6.25	40.78	12.63		
Less: Equity goodwill amortization			8.81	3.24		
Adjusted net loss per share	(17.31)	(14.34)	(60.20)	(294.63)	(51.15)	(1.08)
<b>Balance Sheet Data:</b>						
Cash and cash equivalents	103,403	7,284,568	1,414,205	658,111	897,596	18,885
Total assets	454,888	10,634,004	11,501,884	4,146,274	3,700,387	77,854
Long-term debt, including current installments	259,256	215,537				
Total stockholders equity / (deficit)	67,617	9,927,840	10,588,336	3,394,113	2,888,696	60,776
<b>Other Financial Data:</b>						
EBITDA from continuing operations <sup>(5)</sup>	(111,068)	(191,979)	(1,312,887)	(6,221,893)	(741,589)	(15,603)
Add: Depreciation and amortization	49,162	247,190	1,601,430	966,626	607,183	12,774
Add: Interest and income tax	27,146				2,856	60
Income/(loss) from discontinued operations		16,893		125,373		
	76,308	264,083	1,601,430	1,091,999	610,039	12,834
Less: Interest and income tax		74,165	232,706	30,254	22,240	468
Income/(loss) from discontinued operations			172,581			
Profit on sale of discontinued operations				81,121		
		74,165	405,287	111,375	22,240	468
Net (loss)	(187,376)	(381,897)	(2,509,030)	(7,202,517)	(1,329,388)	(27,969)

## Notes

1. Certain prior-year data has been reclassified to conform to the current year presentation.
2. Convenience translation to US Dollars done at the exchange rate on March 31, 2003 of Rs 47.53 / dollar, 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.
3. There is no goodwill associated with discontinued operations and no extraordinary items.
4. Reference to shares and per share amounts refer to our equity shares. Our outstanding shares include shares held by a depository representing equity shares underlying our ADSs. Effective September 24, 2002, one ADS represented one equity share. Our 1-for-4 reverse ratio change on September 24, 2002 did not have any effect on our equity shares or per equity share amounts, as the underlying shares representing ADSs were unchanged.
5. EBITDA from continuing operations represents earnings (loss) from continuing operations before interest, taxes, depreciation and amortization, and gain on sale of discontinued operations.

**Table of Contents****Exchange Rates**

The following table sets forth, for each of the months indicated, information concerning the number of Indian rupees for which one U.S. dollar could be exchanged based on the average of the noon buying rate in the City of New York on the last day of each month during each of such months for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York:

Month	High		Low	
December 2002	Rs.	48.55	Rs.	47.66
January 2003		48.23		47.60
February 2003		48.04		47.49
March 2003		47.91		47.39
April 2003		47.57		47.18
May 2003		47.45		46.68

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 average of the noon buying rate in the City of New York on the last day of each month during the period for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York:

Fiscal Year Ended March 31,	Period End	Average	High	Low
1999	42.44	42.08	43.68	39.25
2000	43.63	43.34	43.82	42.20
2001	46.85	45.70	46.91	43.56
2002	48.83	47.71	48.91	46.58
2003	47.53	48.49	49.14	47.39

**Capitalization and indebtedness**

Not applicable.

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

Not applicable.

**Risk Factors**

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

***Risks Related to Sify Limited***

**Because we commenced operation of our private data network business in April 1998 and launched our Internet portal website in November 1998, it is difficult to evaluate our company based on our historical results of operations.**

**Table of Contents**

We commenced operation of our private data network business in April 1998 and launched our Internet service provider operations and Internet portal website in November 1998. Accordingly, we have a limited operating history to evaluate our business and during this period our business has not been profitable. You must consider the risks and difficulties frequently encountered by companies in the early stages of development, particularly companies in the new and rapidly evolving Internet service markets. These risks and difficulties include our ability to:

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

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

Not only is our operating history short, but we have determined to compete in three businesses that we believe are complementary. These three businesses are corporate network/data services, Internet access services and online portal and content offerings. In February 2002, we divested a fourth business (software services) to our former majority stockholder, Satyam Computer Services. We do not yet know whether our three remaining businesses will prove complementary. 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 services and subscribers for our Internet services as well as the loss of advertising revenues.

**For the year ended March 31, 2003 we incurred a net loss of Rs.1,329.4 million (\$28.0 million). As of March 31, 2003, we had an accumulated deficit of approximately Rs.11,737.8 million (\$247.0 million). We anticipate incurring additional losses in the future because our business plan, which is unproven, calls for additional corporate customers and subscribers to attain profitability.**

Since our founding, we have not been profitable and have incurred significant losses and negative cash flows. For the year ended March 31, 2003 we incurred a net loss of Rs.1,329.4 million (\$28.0 million). As of March 31, 2003, we had an accumulated deficit of approximately Rs.11,737.8 million (\$247.0 million). We expect to continue to incur operating losses as we expand our services and advertise and promote our brand. Our business plan assumes that businesses in India will demand private network and related services. Our business plan also assumes that consumers in India will be attracted to and use Internet access services and content available on the Internet in increasing numbers. This business model is not yet proven in India, and we cannot assure you that we will ever achieve or sustain profitability or that our operating losses will not increase in the future.

During fiscal 2003, our highest operational priority was to reduce cash burn incurred to build our company and infrastructure to support our rapid growth, which has now stabilized. Although we have significantly reduced our cash burn over the last eight quarters and believe that these represent permanent reductions, we do not know whether these measures, or other measures which we may undertake in the future, will be successful in reducing negative cash flow in future periods.

**As a result of its former control by the Government of India, VSNL has established relationships with international bandwidth suppliers and a large customer base, which provide VSNL with a competitive advantage over our company.**

VSNL is a provider of international telecommunications services in India that, until recently, was controlled by the Government of India. While VSNL was controlled by the Government of India, it had a number of significant competitive advantages over our company, including direct access to network infrastructure and greater financial resources. VSNL leveraged these competitive advantages and its longer service history to develop relationships with international bandwidth suppliers to develop a large subscriber base. In February 2002, the Government of India sold a 25% stake in VSNL to the TATA group, reducing the Government of India's ownership of VSNL to 26%. Although it is no longer controlled by the Government of India, the Government of India maintains a substantial equity interest in VSNL and this relationship, combined with VSNL's relationships with

**Table of Contents**

international bandwidth suppliers and large customer base, continues to provide it with competitive advantages over our company. As a result of VSNL's competitive position, we believe that we will continue to face difficult market conditions in the Internet access services business. These competitive issues may prevent us from attracting and retaining subscribers and generating advertising revenue. This could result in loss of market share, price reductions, reduced margins or negative cash flow for our operations.

**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 in the Internet services market which would significantly affect our revenues.**

Our corporate network/data services business faces significant competition from well-established companies, including Bharti Broadband, Global E-Commerce Limited, HCL Infinity and Tata Internet. Reliance Infocom, a member of the Reliance Group, is building a nationwide fiber optic network in India and has announced plans to provide a range of value-added services, including corporate connectivity services.

A significant number of competitors have entered India's liberalized Internet service provider market, and we expect additional competitors to emerge in the near future. As of February 28, 2003, approximately 395 companies had obtained Internet service provider licenses in India, including 65 companies which have obtained licenses to offer Internet service provider services throughout India. New entrants into the national Internet service provider market in India may enjoy significant competitive advantages over our company, including greater financial resources, which could allow them to charge Internet access fees that are lower than ours in order to attract subscribers. Since May 2000, we have offered unlimited Internet access to consumers for a fixed price. A number of our competitors, including VSNL, Dishnet and Mantra, also offer unlimited Internet access for a fixed price. In addition, some competitors offer free Internet service. These factors have resulted in significant reduction in actual average selling prices for consumer ISP services. We expect the market for Internet access to remain extremely price competitive.

Our online portal, *www.sify.com*, faces significant competition from well-established Indian content providers, including rediff.com, which completed its initial public offering in the United States in June 2000. Some of these sites currently have greater traffic than our site and offer some features that we do not. Further, the dominant Internet portals continue to be the online services and search engine companies based in the United States, such as America Online, Yahoo!, Microsoft Network and Lycos. These companies have been developing specially branded or co-branded products designed for audiences in specific markets. We expect that these companies will deploy services that are targeted at the Indian market. For example, Yahoo! launched an Indian service in June 2000.

Increased competition may result in reduced operating margins or operating losses, loss of market share and diminished value in our services, as well as different pricing, service or marketing decisions. We cannot assure you that we will be able to successfully compete against current and future competitors.

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

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

Satyam is a trademark owned by Satyam Computer Services. The interest of Satyam Computer Services in our company was reduced to approximately 36.0% in connection with the private placement financing transaction with SAIF Investment Company Limited, or SAIF, and Venture Tech Solutions Pvt. Limited, or VentureTech. VentureTech is obligated to purchase additional shares from us pursuant to the provisions of a Subscription

**Table of Contents**

Agreement, and Satyam Computer Services' interest in our company will be further reduced in connection therewith. In anticipation of the need to cease using the Satyam brand name, we changed the name of our company from Satyam Infoway Limited to Sify Limited in January 2003. In connection with our name change, our company will be promoted exclusively under the *Sify* brand name. Our results of operations may be adversely affected by decreased brand recognition and decreased customer loyalty resulting from this name change.

**A number of large stockholders of our company and us are party to an Investor Rights Agreement which governs the composition of our Board of Directors and other important corporate matters.**

As of the date of this annual report and based on reports filed with the Securities Exchange Commission, we believe that Satyam Computer Services beneficially owns approximately 36.0% of our equity shares, SAIF owns approximately 16.4% of our equity shares and VentureTech beneficially owns approximately 13.1% of our equity shares (including 1,017,441 ADSs that VentureTech or an affiliate is obligated to purchase from us on or prior to July 31, 2003). As a result, these stockholders, if they elect to act together, are presently able to exercise significant influence over many matters requiring approval by our stockholders, including the election of directors and approval of significant corporate transactions, such as a sale of our company. These stockholders are also party to an agreement with us relating to the composition of our Board of Directors and other important corporate matters, such as a right of first refusal with respect to the transfer of shares by certain stockholders and the issuance by our company of additional shares, tag along rights with respect to the transfer of shares by certain stockholders and drag along rights. Under Indian law, a simple majority is sufficient to control all stockholder action except for those items, which require approval by a special resolution. If a special resolution is required, the number of votes cast in favor of the resolution must not be less than three times the number of votes cast against it. Examples of actions that require a special resolution include:

altering our Articles of Association;

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

commencing any new line of business; and

commencing a liquidation.

Circumstances may arise in which the interests of Satyam Computer Services, SAIF, VentureTech or a subsequent purchaser of the shares currently owned by any such holder, could conflict with the interests of our other stockholders or holders of our ADSs. One or more of such stockholders could delay or prevent a change of control of our company even if a transaction of that sort would be beneficial to our other stockholders, including the holders of our ADSs.

**Our largest stockholder, Satyam Computer Services, has stated its intention not to invest any further funds in our company and to explore opportunities to divest its stake in our company.**

In October 2001, our largest stockholder, Satyam Computer Services, publicly announced that it had determined that it would not invest any further funds in our company and that it had decided to explore opportunities to divest its stake in our company. Although no longer our majority stockholder, Satyam Computer Services continued to beneficially own approximately 36.0% of our outstanding equity shares as of the date of this annual report. Any significant sale of our equity shares might hurt the price of our ADSs and make it more difficult for us to sell equity securities or ADSs in the future at a time and at a price that we deem appropriate. Although Mr. Ramalinga Raju, the Chairman of Satyam Computer Services, has resigned as our Chairman, Satyam Computer Services continues to be entitled to nominate two members of our Board of Directors. As of the date of this report, Messrs. K. Thiagarajan and V. Srinivas served on our Board of Directors as the nominees of Satyam Computer Services. Mr. S. Srinivasan is serving in the role of our Chairman pending the formal selection of a Chairman by our Board of Directors. Through its stock ownership and representation on our Board of Directors, Satyam Computer Services is able to influence our business. If Satyam Computer Services divests its interest in our company, the purchaser of that interest could also influence our business significantly.

**Table of Contents**

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

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

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

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

the range of services provided by us and our strategic partners and the usage thereof by our customers determines the amount of revenues generated by our corporate network/data services division;

the number of subscribers to our Internet service provider service and the prevailing prices charged determine the amount of revenues generated by our Internet access services division; and

advertising and electronic commerce activity on *www.sify.com* and its related sites determines the amount of revenues generated by our online portal and content offerings division.

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

the timing and nature of any agreements we enter into with strategic partners will determine the amount of revenues generated by our corporate network/data services division;

new Internet sites, services, products or pricing policies introduced by our competitors may require us to introduce new offerings or reduce the prices we charge our customers for Internet access;

our capital expenditures and other costs relating to our operations could require us to generate additional revenue in order to be profitable;

the timing and nature of our marketing efforts could affect the number of our subscribers and the level of electronic commerce activity on our websites;

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

the introduction of alternative technologies may require us to re-evaluate our business strategy and/or to adapt our services to be compatible with such technologies; and

technical difficulties or system failures affecting the telecommunication infrastructure in India, the Internet



## **Table of Contents**

generally or the operation of our websites.

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

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

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

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

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

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

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

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

**Table of Contents**

**If we are unable to manage our rapid growth over the past several years, our results of operations will be adversely affected.**

Over the last several years, we have experienced a period of significant growth. This growth has placed, and will continue to place, a significant strain on our managerial, operational, financial and information systems resources. We will have to implement new operational and financial systems and procedures and controls, expand our office facilities, train and manage our employee base and maintain close coordination among our technical, accounting, finance, marketing, sales and editorial staffs. If we are unable to manage our growth effectively, we will be unable to implement our strategy, upon which the success of our business depends.

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

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

In February 2002, we entered into Executive Employment Agreements with each of Messrs. Ramaraj, Zacharias and Santhanakrishnan. These agreements provide for base and bonus compensation and additional benefits and require that we indemnify these officers for specified expenses incurred by them in connection with their employment by our company. These agreements also contain confidentiality and invention assignment provisions. In addition, these agreements provide for specified payments in connection with a termination of employment after a change of control of our company or in certain other circumstances. Our agreement with Mr. Ramaraj had a term of approximately 13 months, and our agreements with Messrs. Zacharias and Santhanakrishnan have a term of three years. Our stockholders approved an extension of Mr. Ramaraj's tenure as Managing Director for an additional five years, effective April 1, 2003.

**We are highly dependent on our relationships with strategic partners to provide key services to our customers.**

We rely on our arrangements with strategic partners to provide key network services to our business clients. Some of these relationships can be terminated by our partners in some circumstances. We also rely on some of our strategic partners to provide us with access to their customer base. We are a strategic partner of UUNet Technologies in India and provide dial-up access to UUNet Technologies roaming international clients in India. UUNet Technologies is a unit of WorldCom, Inc., which in July 2002 filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. We do not know whether we will be able to maintain our strategic partnership with UUNet Technologies, which accounted for approximately 6.7% of our revenues in fiscal 2003. If our relationships with our strategic partners do not continue, the ability of our corporate network/data services division to generate revenues will be decreased significantly.

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

Our company and certain of our officers and directors are named as defendants in a securities class action lawsuit filed in the United States District Court for the Southern District of New York. This action, which is captioned *In re Satyam Infoway Ltd.* Initial Public Offering Securities Litigation, also names several of the underwriters involved in our initial public offering of American Depositary Shares as defendants. This class action is brought on behalf of a purported class of purchasers of our ADSs from the time of our IPO in October 1999 through December 2000. The central allegation in this action is that the underwriters in our IPO solicited and received undisclosed commissions from, and entered into undisclosed arrangements with, certain investors who purchased our ADSs in the IPO and the aftermarket. The complaint also alleges that we violated the United States federal securities laws by failing to disclose in the IPO prospectus that the underwriters had engaged in these allegedly undisclosed arrangements. More than 300 issuers have been named in similar lawsuits. In July 2002, an omnibus motion to dismiss all complaints against issuers and individual defendants affiliated with issuers was filed by the entire group of issuer defendants in these similar actions. In October 2002, our executive officers who were named as defendants in this action were dismissed from the action without prejudice. In February 2003, the Court in this action issued its decision on defendants' omnibus motion to dismiss. This decision denied the motion to dismiss the Section 11 claim as to Sify and virtually all of the other issuer defendants. The decision also denied the motion to dismiss the Section 10(b) claim as to numerous issuer defendants, including Sify. Although we are unable to estimate the range of loss that is reasonably possible, we believe that we have meritorious defenses and intend to defend this action vigorously. However, we could be forced to incur material expenses in the litigation and, in the event there is an adverse outcome, our business could be harmed.

**We face risks associated with our joint venture with Refco Sify Securities India Private Limited, our strategic partnership with VeriSign, our investment in Wisden Cricinfo Limited and with other potential acquisitions, investments, strategic partnerships or other ventures, including whether any such transactions can be identified, completed and the other party integrated with our business on favorable terms.**

In November 1999, we acquired 24.5% of the outstanding shares of IndiaWorld Communications, together with an option to acquire IndiaWorld Communications' remaining outstanding shares. In May 2000, we entered into a strategic partnership with VeriSign to provide managed digital certificate-based authentication services in India. In June 2000, we acquired a 25% stake in CricInfo Limited and made an investment in Refco Sify Securities India Private Limited. In July 2000, we completed our investment in CricInfo Limited. These alliances may not provide all or any portion of the anticipated benefits. Due to a general decline in market valuations for technology companies during fiscal 2002, we reassessed, in accordance with our accounting policy, the goodwill to be carried forward relating to these acquisitions. As a result, we recorded a Rs.4,127.7 million charge in fiscal 2002 relating to the impairment of goodwill. In February 2003, CricInfo Limited sold its business to Wisden Cricinfo Limited and, in connection with that transaction, our loan to CricInfo was fully repaid and we acquired 33% of the equity in Wisden Cricinfo Limited.

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

## **Table of Contents**

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

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

### **A significant majority of the iway cybercafés are franchised operations that we do not operate or control.**

As of March 31, 2003, 817 cybercafés were franchised and 27 cybercafés were owned and operated by our company. Franchise relationships are subject to a number of special risks. For example, we do not operate or control our franchisees, and they may not meet their obligations under our franchise agreements with them. The failure of a franchisee to provide quality services to its customers could result in end user dissatisfaction with our company. We may become involved in disputes with our franchisees, which may result in litigation or the termination of one or more of our franchise agreements. Our franchisees could attempt to organize themselves into unions in order to negotiate more favorable terms in our franchise agreements. Any failure to continue our relationships with our franchisees on favorable terms could reduce the size of our market share for Internet access in India and decrease the revenues generated by our Internet access services division.

### **The legal system in India does not protect intellectual property rights to the same extent as those 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. Defending against these claims, even if not meritorious, could be expensive and divert management's attention from operating our company. If we become liable to third parties for infringing their intellectual property rights, we could be required to pay a substantial damage award and forced to develop non-infringing technology, obtain a license or cease selling the applications that contain the infringing technology. We may be unable to develop non-infringing technology or obtain a license on commercially reasonable terms, or at all.

### **Our platform infrastructure and its scalability are not proven, and our current systems may not accommodate increased use while maintaining acceptable overall performance.**

Currently, only a relatively limited number of customers use our corporate network, our Internet service provider services and our Internet portal. We must continue to adapt our network infrastructure to accommodate additional users, increasing transaction volumes and changing customer requirements. We may not be able to project

## **Table of Contents**

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.

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

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

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

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

Under the Companies Act, 1956 of India, or Companies Act, a public company incorporated in India must offer its holders of equity shares preemptive rights to subscribe and pay for a proportionate number of shares to maintain their existing ownership percentages prior to the issuance of any new equity shares, unless the preemptive rights have been waived by adopting a special resolution by holders, whether on a show of hands or on a poll, holding not less than three times the number of votes, if any, cast against the resolution. At our 2000 Annual General Meeting, our stockholders approved a special resolution permitting us to issue up to one million equity shares (currently equivalent to one million ADSs) in connection with acquisitions. We issued virtually all of these equity shares in connection with our acquisitions of IndiaWorld Communications, Indiaplaza.com and Kheladi.com and our investment in CricInfo Limited. At our 2001 Annual General Meeting, our stockholders approved a special resolution permitting us to issue up to four million additional equity shares in connection with acquisitions or capital raising transactions, and our ADS holders are deemed to have waived their preemptive rights with respect to these shares. At our December 2002 Extraordinary General Meeting, our stockholders approved a special resolution permitting us to issue up to 12.5 million additional equity shares (equivalent to 12.5 million ADSs) in connection with the sale of equity shares to SAIF and VentureTech, and our ADS holders are deemed to have waived their preemptive rights with respect to these shares and our Board of Directors may approve the issuance of these shares without further action of our stockholders.

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

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

As a holder of ADSs, you generally have the right under the deposit agreement to instruct the depository bank to exercise the voting rights for the equity shares represented by your ADSs. At our request, the depository bank will mail to you any notice of stockholders' meeting received from us together with information explaining how to instruct the depository bank to exercise the voting rights of the securities represented by ADSs. If the depository bank timely receives voting instructions from a holder of ADSs, it will endeavor to vote the securities represented by the holder's ADSs in accordance with such voting instructions. However, the ability of the depository bank to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities.

**Table of Contents**

on deposit. We cannot assure you that you will receive voting materials in time to enable you to return voting instructions to the depositary bank in a timely manner.

Under Indian law, subject to the presence in person at a stockholder 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 stockholder 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 depositary bank, are not counted in a vote by show of hands. As a result, only in the event that a stockholder present at the meeting demands that a poll be taken will the votes of ADS holders be counted. Securities for which no voting instructions have been received will not be voted on a poll.

As a foreign private issuer, we are not subject to the SEC's proxy rules, which regulate the form and content of solicitations by United States-based issuers of proxies from their stockholders. To date, our practice has been to provide advance notice to our ADS holders of all stockholder meetings and to solicit their vote on such matters through the depositary, 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. For example, since our initial public offering in October 1999 through May 31, 2003, the trading price of our ADSs has ranged from a high of \$452 per ADS to a low of \$0.88 per ADS. Many factors could cause the market price of our ADSs to rise and fall. Some of these factors include:

- our failure to integrate successfully our operations with those of acquired companies;
- actual or anticipated variations in our quarterly operating results, including charges to write-off goodwill and other acquisition costs;
- 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;
- additions or departures of key personnel; and
- other events or factors, many of which are beyond our control.

**Table of Contents**

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

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

In order to maintain the listing of our ADSs on the Nasdaq National Market, we are required to comply with the continuing listing requirements of Nasdaq, including the \$1.00 minimum bid price requirement. In fiscal 2003, the price of our ADSs on the Nasdaq National Market closed below \$1.00 for more than 30 consecutive days. Effective September 24, 2002, our equity share-to-ADS exchange ratio was adjusted to one-to-one in order to re-establish compliance with Nasdaq's minimum bid price requirement. There are also pending or expected material changes to the listing requirements of the Nasdaq National Market relating to implementation of the Sarbanes-Oxley Act of 2002 and other reforms that will impose significant additional substantive and administrative requirements on all public companies listed on the Nasdaq National Market, including foreign private issuers. We do not know whether we will be able to maintain our Nasdaq National Market listing in the future.

**An active or liquid market for the ADSs is not assured, particularly in light of Indian legal restrictions on equity share conversion and foreign ownership of an Internet service provider.**

We cannot predict the extent to which an active, liquid public trading market for our ADSs will exist. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. Liquidity of a securities market is often a function of the volume of the underlying shares that are publicly held by unrelated parties. Although ADS holders are entitled to withdraw the equity shares underlying the ADSs from the depository at any time, there is no public market for our equity shares in India or the United States. Furthermore, foreign ownership in our company, which includes all ADSs, is limited to 74% under present Indian law. The previous policy limit was 49%. This limitation means that, unless Indian law changes, at least 26% of our equity shares will never be available to trade in the United States market.

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

The market price of our ADSs could decline as a result of sales of a large number of equity shares or ADSs or the perception that such sales could occur. In October 2001 our former parent company, Satyam Computer Services, announced its intention to divest its investment in our company. In December 2002, we sold 7,558,140 ADSs to SAIF and 2,034,884 equity shares to VentureTech. In April 2003, we sold an additional 1,017,442 equity shares to VentureTech pursuant to the provisions of the December 2002 subscription agreement. We have also agreed to sell an additional 1,017,441 ADSs to VentureTech or an affiliate no later than July 31, 2003. The resale of the ADSs sold to SAIF is covered by a registration statement on Form F-3. Based on documents filed with the Securities and Exchange Commission, we believe that SAIF sold 2,000,000 ADSs to Acqua Wellington North American Equities Fund, Ltd. in May 2003. Further, we have agreed to sponsor an offering of ADSs against existing equity shares of the Company deposited by a stockholder of our company under Indian law. The size of sponsored ADS offering shall not be the lesser of 3,600,000 equity shares and the greater of 4,605,000 equity shares. We will not receive any proceeds in connection with this offering. Any significant sales of our equity shares or ADSs might hurt 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 and ADSs to raise capital and to fund acquisitions and investments, and the parties to any such future transactions could also decide to sell them.

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

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 the risks faced by us described above and elsewhere in this annual report. We do not intend to update any of the forward-looking statements after the date of this annual report to conform such statements to actual results.

**Table of Contents**

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

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

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

During the past decade, the Government of India has pursued policies of economic liberalization, including significantly relaxing restrictions on the private sector. Nevertheless, the role of the Indian central and state governments in the Indian economy as producers, consumers and regulators has remained significant. The Government of India has changed five times since 1996. The rate of economic liberalization could change, and specific laws and policies affecting technology companies, foreign investment, currency exchange rates 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.

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

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

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

Currently, there is no public trading market for our equity shares in India or elsewhere nor can we assure you that we will take steps to develop one. Our equity securities are only traded on Nasdaq through the ADSs as described in this annual report. 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 in part because of restrictions on foreign ownership of the underlying shares. Under current Indian regulations and practice, the approval of the Reserve Bank of India is required for the sale of equity shares underlying ADSs by a non-resident of India to a resident of India as well as for renunciation of rights to a resident of India, unless the sale of equity shares underlying the ADSs is



**Table of Contents**

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.

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

The exchange rate between the rupee and the U.S. dollar has changed substantially in recent years and may fluctuate substantially in the future. During the three-year period from June 1, 2000 through March 31, 2003, the value of the rupee against the U.S. dollar declined by approximately 9.3%, although the rupee appreciated against the dollar in late 2002 and early 2003. Devaluations of the rupee will result in higher expenses to our company for the purchase of capital equipment, such as servers, routers, modems and other telecommunications and computer equipment, which is generally manufactured in the U.S. In addition, our market valuation could be materially adversely affected by the devaluation of the rupee if U.S. investors analyze our value based on the U.S. dollar equivalent of our financial condition and results of operations. Appreciation of the rupee against the dollar will result in foreign exchange losses to the extent we hold excess cash in dollar-denominated investments. For additional information, please see Exchange Rates.

**The Government of India may change its regulation of our business or the terms of our license to provide Internet access 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 subject to government regulation under Indian law and to significant restrictions under our Internet service provider license issued by the Government of India. These regulations and restrictions include the following:

Our Internet service provider license has a term of 15 years and was originally issued in 1998. Our Internet service provider license was reissued in 2002 enabling us to offer telephony services over the Internet and increasing our maximum permitted level of foreign equity investment to 74%. We have no assurance that the license will be renewed in the future. If we are unable to renew our Internet service provider license for any reason, we will be unable to operate as an Internet service provider in India and will lose one of our primary sources of revenue.

The Telecom Regulatory Authority of India, or TRAI, a statutory authority constituted under the Telecom Regulatory Authority of India Act, 1997, maintains the right to regulate the prices we charge our subscribers. The success of our business model depends on our ability to price our services at levels we believe are appropriate. If the TRAI sets a floor price, we may not be able to attract and retain subscribers. Likewise, if the TRAI sets a ceiling price, we may not be able to generate sufficient revenues to fund our operations. Similarly, an action of the Indian Parliament may impact our ability to set the prices for our services.

The Government of India maintains the right to take over our entire operations or revoke, terminate or suspend our license for national security and similar reasons without compensation to us. If the Government of India were to take any of these actions, we would be prevented from conducting all or part of our business.

The charges for international gateways and other services presently being provided by VSNL are the subject of a dispute before the Telecom Regulatory Authority of India, or TRAI, and the Telecom Disputes Settlement and Appellate Tribunal between VSNL and private Internet service providers, including our company, represented by the Internet Service Providers Association of India, or ISPAI. VSNL has priced these services at levels which we believe are inconsistent with the terms and conditions on which VSNL has secured the bandwidth for its international gateways. The Telecom Disputes Settlement and Appellate Tribunal remanded the matter back to the TRAI, which decided against the ISPAI. The ISPAI has not yet decided on a further course of action. We are currently paying for bandwidth from VSNL at the higher rates. We presently do not believe that the outcome of this

**Table of Contents**

dispute will be material to our business provided that the international gateway services market continues to be opened to competition.

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

The statutory corporate income tax rate in India is currently 35.0%. For fiscal 2003, this tax rate was subject to a 5.0% surcharge resulting in an effective tax rate of 36.8%. The tax surcharge for fiscal 2004 has been decreased to 2.5%, resulting in an effective tax rate of 35.9%. We cannot assure you that the surcharge will be in effect only for a limited period of time or that additional surcharges will not be implemented by the Government of India.

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

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

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

Bandwidth, the measurement of the volume of data capable of being transported in a communications system in a given amount of time, remains very expensive in India, especially when compared to bandwidth costs in the United States. Bandwidth rates are commonly expressed in terms of Kbps (kilobits per second, or thousands of bits of data per second) or Mbps (megabits per second, or millions of bits of data per second). Although prices for bandwidth in India have declined recently, they are high due to, among other things, capacity constraints.

**The limited installed personal computer base in India limits our pool of potential customers and restricts the amount of revenues that our Internet access services division may generate.**

The market penetration rates of personal computers and online access in India are far lower than such rates in the United States. Alternate methods of obtaining access to the Internet, such as through set-top boxes for televisions, are currently not popular in India. There can be no assurance that the number or penetration rate of personal computers in India will increase rapidly or at all or that alternate means of accessing the Internet will develop and become widely available in India. While the personal computer penetration level in India is relatively low, we are addressing the demand for public Internet access through the establishment of a retail chain of public Internet access centers, which we refer to as cybercafés, under the *iway* brand name. As of March 31, 2003, 817 *iway* cybercafés were franchised and 27 *iway* cybercafés were owned and operated by our company. Although this service creates a larger market, it also imposes on the operator of the cybercafé the considerable costs of providing the consumer access to a personal computer and related hardware and software.

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

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

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

Many of our existing and proposed services are designed to facilitate electronic commerce in India, although there is relatively little electronic commerce currently being conducted in India. Demand and market acceptance for these services by businesses and consumers, therefore, are highly uncertain. Many Indian businesses have deferred

**Table of Contents**

purchasing Internet access and deploying electronic commerce initiatives for a number of reasons, including the existence or perception of, among other things:

- inconsistent quality of service;
- the need to deal with multiple and frequently incompatible vendors;
- inadequate legal infrastructure relating to electronic commerce in India;
- a lack of security of commercial data, such as credit card numbers; and
- low number of Indian companies accepting credit card numbers over the Internet.

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

***Risks Related to the Internet***

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

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

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

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

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

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

## **Table of Contents**

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

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

## **Item 4. Information on the Company**

### **History and Development**

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

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

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

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

#### *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 (representing 4,801,250 equity shares) at a price of \$18.00 per ADS. We received approximately \$79.2 million, net of underwriting discounts, commissions and other offering costs.

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

In October 2002, we agreed to sell an aggregate of 7,558,140 ADSs to SAIF for consideration of \$13.0 million and to sell an aggregate of 2,034,884 equity shares to VentureTech for consideration of \$3.5 million. This transaction was approved by our stockholders 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 connection with this transaction, Mr. Ramalinga Raju resigned as the Chairman of our Board of

## **Table of Contents**

Directors. In April 2003, we sold an additional 1,017,442 equity shares to VentureTech. An affiliate of VentureTech is obligated to purchase an additional 1,017,441 ADSs from our company prior to July 31, 2003.

In connection with this financing, the parties have entered into a shareholders agreement providing for, among other things, a Board of Directors comprised of nine directors to be nominated as follows: SAIF two nominees; VentureTech two nominees; Satyam Computer Services two nominees; South Asia Regional Fund one nominee; one independent nominee; and one nominee who shall be the Managing Director of Sify. The shareholders agreement has also granted the investors consent rights with respect to specified corporate transactions.

### *Investment Strategy*

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

### *IndiaWorld Communications*

In June 2000, we acquired IndiaWorld Communications, a private company organized under the laws of the Republic of India, through the payment of Rs.3,767.4 million in cash and issuance of 268,500 equity shares. In fiscal 2002, due to a general decline in market valuations for technology companies, we reassessed, in accordance with our accounting policy, the goodwill to be carried forward relating to this acquisition. As a result, we recorded a charge relating to the impairment of goodwill arising in connection with this acquisition.

### *CricInfo Limited*

In July 2000, we acquired a 25% stake in CricInfo Limited, a private company incorporated in the United Kingdom, through the issuance of 551,180 ADSs (representing 551,180 equity shares).

In October 2001, we entered into a loan transaction with CricInfo Limited for the issuance of unsecured convertible notes by CricInfo with a principal amount of up to GBP 1.0 million, subject to the satisfaction of certain performance measures by CricInfo. These notes, which provided for an interest rate of 8.0% per annum, were convertible into CricInfo shares by us at any time and redeemable by CricInfo on October 5, 2004. On May 17, 2002, we entered into an Amended Subscription Agreement for an additional principal amount of notes up to GBP 0.6 million that were subject to the same terms as the original issue, thereby increasing our total subscription to GBP 1.6 million. We also entered into a Term Loan Agreement with CricInfo granting a term loan facility of GBP 100,000. The Loan carried an interest rate of 4% per annum. The interest was payable on the last day of the interest periods of six months each. The loan was repayable on December 31, 2004. The term loan and the convertible loan were secured by a debenture document executed by CricInfo.

In February 2003, CricInfo transferred its net assets other than the loan payable to Sify and miscellaneous current assets and liabilities to a newly formed company incorporated in the United Kingdom, Wisden Cricinfo Limited. In consideration of its contribution of assets, CricInfo Limited received a 33% equity stake in Wisden Cricinfo Limited and GBP 1.8 million. CricInfo Limited repaid our loan, including accrued interest of Rs. 107.0 million, and transferred its 33% stake in Wisden Cricinfo Limited to us for a consideration of Rs.22.6 million (GBP 0.3 million). Contemporaneously we advanced Rs.23.0 million (GBP 0.3 million) to Wisden Cricinfo Limited.

### *Indiaplaza.com*

In July 2000, we entered into an agreement to acquire the outstanding capital stock of Indiaplaza.com, a private company incorporated in California. We completed our acquisition of Indiaplaza.com in December 2000 through the issuance of an aggregate of 113,798 ADSs (representing 113,798 equity shares) to the former equity holders of IndiaPlaza.com. In June 2003, we completed the sale of substantially all of the assets of Indiaplaza.com to a third party.

## **Table of Contents**

### *Kheladi.com*

In July 2001, we completed our acquisition of Kheladi.com through the issuance of 19,073 equity shares. Kheladi.com is a sports portal promoted by Geet Sethi, the six time World Billiards Champion and a well-known sports personality in India. The terms of the agreement include contingent payments upon the achievement of specified profitability and revenue targets. As of March 31, 2003, these contingencies were not met and no payments have been made.

### *Software Services Business*

In October 2001, we announced our proposal to divest our software services business, which principally involved business to business e-commerce and website development services including our strategic relationships with Open Market and Sterling Commerce, to our former parent company, Satyam Computer Services. Our software services business represented approximately 18% of our revenues for fiscal 2002. This transaction was approved by our stockholders at our Extraordinary General Meeting held on February 28, 2002. In February 2002, we complete the divestment for the Indian Rupee equivalent of \$6.9 million. The objective of the divestment was to permit us to concentrate on our core business of Internet services.

### *WIPRO Limited Customers*

In July 2002, we entered into an agreement with WIPRO Limited, pursuant to which, among other things, WIPRO Limited assigned its service contracts with its corporate connectivity customers to us in exchange for a cash payment based on the historical revenues generated by these customers.

## **Business Overview**

We are the largest integrated Internet, network and electronic commerce services company 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 consumer customers 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:

*Corporate Network/Data Services.* We offer a suite of technology and network-based 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.

*Internet Access Services.* We offer dial-up Internet access, email and web page hosting to consumers in India through convenient online registration and user-friendly software. As of March 31, 2003, we had more than 600,000 consumer Internet subscribers. In addition, we offer public Internet access to consumers through a retail chain of iway cybercafés.

*Online Portal and Content Offerings.* We operate an online portal, *www.sify.com*, that functions as a principal entry point 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, 2003 we had more than 800 corporate customers. 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 an online portal, *www.sify.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.

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

## **Table of Contents**

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.

As of March 31, 2003, we owned and operated 55 points of presence serving more than 250 cities across India, representing an estimated 90% of the installed personal computer base in 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. We operate international Internet gateways in Ahmedabad, Bangalore, Bhopal, Kolkata (Calcutta), Chennai (Madras), Cochin, Chandigarh, Delhi, Hyderabad, Lucknow, Mumbai (Bombay) and Pune.

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.* According to International Data Corporation, the total number of Internet users worldwide is expected to grow at a compound annual growth rate of 27% from approximately 196 million in 1999 to 502 million in 2003. 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 becomes more developed and 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 information systems and databases to web-enabled systems.

*The Opportunity in India.* As with many developing nations, the telecommunications infrastructure in India had, until recently, been controlled by government-controlled telecom providers. The resulting 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 homes and businesses in India with a resulting increased demand for Internet services. We believe these trends, which mirror trends in more mature economies, will continue to develop in India.

The ability to exploit the Internet service provider and other data service markets in India is currently inhibited by bandwidth limitations imposed by cost and technical obstacles. Generally, bandwidth remains very expensive in India. Prices for bandwidth are set by two agencies in India, the Department of Telecommunications, or DOT, and the TRAI and have remained high due to, among other things, capacity constraints. The entry of private sector providers into the market for bandwidth in India has not yet impacted prevailing bandwidth prices.

To date, a significant amount of the usage of Indian content sites on the World Wide Web has been driven by Internet users outside of India. 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.

**Table of Contents**

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 VSNL, 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 provider services is not regulated by the Government of India, although it has the power to elect to do so through policy directives. The prices Internet service providers charge their subscribers and the interconnection charges between service providers are regulated by the TRAI. The charges for international gateways and other services presently being provided by VSNL are the subject of a dispute pending before the TRAI and the Telecom Disputes Settlement and Appellate Tribunal between VSNL and private Internet service providers, including our company. VSNL has priced these services at levels which we believe are inconsistent with the terms and conditions on which VSNL has secured the bandwidth for its international gateways. The Telecom Disputes Settlement and Appellate Tribunal remanded the matter back to the TRAI, which decided against the ISPAI. The ISPAI has not yet decided on a further course of action. We are currently paying for bandwidth from VSNL at the higher rates and do not believe that the outcome of this dispute will be material to our business provided that the international gateway services market continues to be open to competition.

**Sify Business Model**

We believe that the growth of the Internet and other network services in India has been inhibited by relatively high costs 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, hosting and managed service solutions complemented by a broad base of web-based business applications. Our corporate services range from dial-up and 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 with International Gateways.* We operate a large national Internet protocol data network in India. As of March 31, 2003, we owned and operated 55 points of presence serving more than 250 cities across India, representing an estimated 90% of the installed personal computer base in India. Our network provides the platform for the national delivery of Internet access to consumers as well as the backbone for our full range of corporate network/data services. Our private network infrastructure allows corporations to establish virtual private networks without dealing directly with the government telecom providers.

*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 have been able to increase traffic flow to our websites and to create brand awareness for our SifyOnline access service.



**Table of Contents**

**Strategy**

Our goal is to become the premier integrated Internet, network and electronic commerce solutions provider to businesses and consumers in India. Our principal business strategies to accomplish this objective are:

*Invest in the continued enhancement and expansion of our network infrastructure to support customer growth, enter 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. We have deployed asynchronous transfer mode, or ATM, switches on nine points of presence along our network. The rest of 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. Our Internet service provider license permits us to establish and maintain our own direct connections to the international Internet, either by leasing or purchasing capacity on transoceanic fiber optic cables or by purchasing satellite earth stations. We have leased an STM-1 from VSNL landing at Mumbai (Bombay). In addition, in partnership with Singapore Telecommunications, Cyberstar and New Skies, we have deployed private international satellite gateways that provide regional egress and ingress points. We believe that as the size and capacity of our network infrastructure grows, its large scale and national coverage will create economies of scale and barriers to entry for our competitors.

*Increase penetration in our existing markets by expanding awareness of the SifyOnline 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. As of March 31, 2003, we had more than 600,000 consumer Internet subscribers and 844 iway cybercafés, of which 27 were owned and 817 were franchised. Approximately 90% of these iways are on broadband, which provides the user with significantly faster access speeds. Our marketing strategy includes print, television and radio advertising, direct mailing campaigns targeting personal computer owners and operating with cybercafés. We are also actively promoting our broadband services to homes by either the multi dwelling route or through cable television operators.

*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. For example, we launched a new generation billing software in our cybercafés where the user can pay by the minute, which distinguishes our iways from the cybercafés operated by our competitors. Our cybercafés prominently display the Sify and SifyOnline brands and offer a full range of our Internet connectivity services. We also introduced a number of other services, including Internet telephony at select cybercafés in April 2002, e-mail designed for regional Indian dialects, a user customized portal site, video mail, Internet Protocol fax service, Internet messaging and micro-payments.

*Strengthen our Internet portal and other Internet content websites with more content tailored to Indian interests worldwide.* Our portals, www.sify.com and 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. Our portals are media rich, user friendly, 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, and are developing additional content oriented towards topical and cultural interests of Indians worldwide. In addition, we are forming strategic alliances with several offline media partners to deliver content to our users. As the availability of Internet access expands in India, we believe that increasing numbers of Internet users will be attracted to our high quality websites and online content designed specifically for the Indian consumer. We will

**Table of Contents**

seek to attract advertisers, electronic commerce merchants and third-party content providers trying to reach our users in order to generate additional revenues for *sify.com*.

*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. We have arrangements with a leading personal computer manufacturer to bundle our *SifyOnline* Internet access service with the sale of its personal computers in India. We have also formed strategic alliances with computer and electronics retailers.

*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 web hosting, data center, web implementation and/or systems integration companies. We will also consider acquisitions of third party websites and content providers for our portal, *www.sify.com*, and acquisitions of Internet service providers that have a significant or growing customer base in our current or targeted markets. We believe that as the Internet service provider market in India evolves, customers will place greater emphasis on Internet service provider performance, network coverage, reliability, value-added services and customer support. These trends could lead to a future consolidation of Internet service providers in India.

*Superior end-user performance and customer support.* 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-hours-a-day, seven-days-a-week. Our network engineers continually monitor network traffic and congestion points to deliver consistent, high quality 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**

*Corporate network/data services.* Our corporate network/data services division addresses the network, security and application services needs of Indian enterprises by leveraging our national Tier 1 IP network infrastructure. We offer end-to-end integrated solutions that address critical needs of our corporate customers, such as wide area network, or WAN, services, security services and application services. We offer a comprehensive range of Internet protocol, or IP, virtual private network, or VPN, offerings, including intranets, extranets and remote access applications. 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 email 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.

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.

*VPN Services.* We offer VPN services for both small and large corporate customers. We offer virtual private network based on Frame, IPsec and MPLS, which provide corporate connectivity for transaction-based VPNs as well as high bandwidth transfers. We are the first service provider in India to provide MPLS-based quality of service in India. We provide complex solutions to various clients enabling them to run their mission critical applications on our backbone. VPN services, often in combination with a website, are also the basis for offering intranet and extranet services. Intranets are corporate networks that rely on Internet-based technologies to provide secure links between corporate offices and secure access to internal company data. Extranets expand the network to selected business partners through secure links on the Internet. Our nationwide Lotus Notes management system

**Table of Contents**

provides the software and framework for our customers to utilize their private network systems to interlink their offices and exchange information. We also support the Microsoft Exchange messaging system.

We are a strategic partner of MCI in India and provide dial-up access to MCI's roaming international clients in India. Through our strategic partnership, we enable MCI customers traveling in India to connect to their corporate network and systems resources using the Internet. We offer Internet access through a local phone call in all locations in India that are serviced by our network points of presence. Our service allows Internet connectivity from India without incurring international telephone charges. For providing our network services, we receive a portion of the fees paid by MCI's customers when using its service in India.

*Web-based services.* We offer web hosting accounts for companies and other organizations that wish to create their own websites without maintaining their own web servers and Internet connections. Our web hosting services feature advanced web servers for high speed and reliability, high capacity connections to the Internet and specialized customer support and security features. Our co-location services accommodate customers who prefer to own their servers, but require the high performance and reliability of our Internet data center. Co-location customers are typically larger enterprises employing more sophisticated Internet hardware and software and having the expertise to maintain their websites and related equipment.

*Security services.* We offer security services for audits, consulting, implementation and managed services. Consulting services include consulting for security audits, policy design, vulnerability and risk management services. Implementation services include implementation of security equipment, such as firewalls, intrusion detection systems, content security, authentication tools and VPN services.

*Data Center.* Our data center in Mumbai (Bombay) has been designed to act as a reliable, secure and scalable facility to host mission-critical applications with the capacity to host 4,000 servers. Through this data center, which is connected to the DOT's telecom backbone by redundant fiber optic links, we offer co-location and hosting services with an uptime of 99%.

*SafeScrip Limited.* In partnership with Verisign, a leading provider of Internet trust services, we have formed a wholly-owned subsidiary, SafeScrip Limited, to provide managed digital certificate-based authentication services in India. SafeScrip Limited is the principal affiliate of Verisign in India and is a member of Verisign's Global Affiliate Network. SafeScrip Limited was accredited as the first Certifying Authority for issuance of Certificate for Digital Signature by the Ministry of Information Technology, Government of India.

Our corporate network/data services division accounted for approximately 48.4%, 49.6% and 50.0%, respectively, of our revenues in fiscal 2001, 2002 and 2003. The increase in corporate network/data services division revenues as a percentage of total revenues from fiscal 2001 to fiscal 2003 was primarily due to the growth of our corporate customer base. Recent trends cause us to believe that corporate services will continue to be the largest part of our business for the immediate future.

*Internet access services.*

We offer dial-up Internet access, e-mail and web page hosting to consumers in India through convenient online registration and user-friendly software. In November 1998 after deregulation of the Internet service provider market in India, we launched our Internet service provider business and became the first private Internet service provider in India. As of March 31, 2003, we had more than 600,000 consumer Internet subscribers. Dial-up internet access is sold to customers either for a specified number of hours or for an unlimited usage within a specified period of time. Customers purchase a CD-ROM that enables them to access the Internet.

In addition, we offer public Internet access to consumers through cybercafés, which we refer to as *iways*. Because the personal computer penetration rate in India is relatively low, *iways* are designed to provide public Internet access to the significant portion of the Indian population that does not own a personal computer. As of March 31, 2003, we had 844 *iways* in 20 cities, of which 817 cybercafés were franchised and 27 cybercafés were owned and operated by our company. We believe that *iways* will expand access to our portal and websites to consumers who do not own a personal computer or have Internet access at home. *Iways* offer a full range of Internet connectivity services.

In connection with our franchised *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

**Table of Contents**

rights and obligations of each party. The cybercafés are owned and operated by the franchisees. The franchisee procures the retail space, invests in furniture, interior decor, PCs, point of sale signage and employs/trains the franchisee staff. The franchisee is responsible for the maintenance of the premises and interface with customers. We provide the complete backend support, including bandwidth, the authentication/usage engine and the billing/collection system. In connection with the establishment of a franchised way, we receive an initial franchise fee that covers the following upfront services rendered by our company:

conducting a market survey and deciding on the best location for the cybercafé;

installing the broadband receiver equipment on the roof top of the cybercafé and connecting it to one of Sify's broadcasting towers;

obtaining the regulatory approvals for clearance of the site for wireless transmission at the allotted frequency range;

installing the wiring from the receiver unit to the individual PCs;

assistance in obtaining facilities, including computers and interiors; and

providing the operations manual with instructions and guidelines for running the cybercafé.

We are also actively promoting our broadband services to homes by either the multi dwelling route or through cable television operators.

Until recently, the largest national Internet service provider in India was VSNL, which had been majority-owned by the Indian government. In February 2002, the Government of India sold a 25% stake in VSNL to the TATA group. The Government of India retained a 26% interest in VSNL. The TATA group has announced various initiatives in telecom operations in India.

Our strategy is to offer better and more extensive services to our subscribers than our competitors, with an emphasis on ease of use. Our subscribers purchase a ready-to-use CD-ROM available at bookstores, computer stores and universities, or bundled with a personal computer, to access our service immediately. Our online registration process is available to initiate service and purchase renewals. We also support our subscribers with a 24-hour-a-day, seven-day-a-week call center staffed with trained technicians.

Our dial up service offerings come in a number of packages, designed to attract beginning Internet users and service the needs of advanced users. Our efforts are to provide more and more value added services to our customers. All our customers are supported by 24-hour-a-day, seven-day-a-week customer service. Our services are offered only on a prepaid basis and can be renewed online. Subscribers can access a single number for customer service and technical support. Subscribers can also e-mail their questions directly to a customer service and technical support address at our company.

Since May 2000, we have offered unlimited Internet access to consumers for a fixed price. Our Unlimited... domestic packs for home personal computer users offer unlimited Internet access for a period of one and three, months from the date of registration. We expect the market for consumer Internet access to remain highly price competitive as late market entrants attempt to acquire customers. Our consumer Internet service provider offerings include:

Service	Summary Description	Price as of March 31, 2003
Discover 12	12 hours of Internet access over a 1-month period	Rs. 149
Discover 25	25 hours of Internet access over a 3 month period	Rs. 299
Discover 36	36 hours of Internet access over a 3-month period	Rs. 399
Discover 100	100 hours of Internet access over a 12-month period	Rs. 990
Discover 200	200 hours of Internet access over a 24-month period	Rs. 1,790
Discover 500	500 hours of Internet access over a 36-month period	Rs. 3,390
UnLtd... (1 month)	Unlimited hours of Internet access over a 1-month period	Rs. 799
UnLtd... (3 month)	Unlimited hours of Internet access over a 3-month period	Rs. 2199
Net blast 150 hrs	150 hours of Internet access over a 3-month period	Rs. 840
Net blast 50 hrs	50 hours of Internet access over a 1-month period	Rs. 315

**Table of Contents**

Service	Summary Description	Price as of March 31, 2003
Venture 750	750 hours of Internet access over a 12- month period	Rs. 5,465
Venture 1500	1500 hours of Internet access over a 12 -month period	Rs. 9,465

The most common connection technique is for subscribers to dial-up to our system using a personal computer configured with a modem. A subscriber who is within local dialing range of one of our points of presence can access the Internet with a local telephone call. In addition to paying for Internet access, the customer is responsible for the cost of the call, which currently is 1.3 rupees (2.7¢) per 3 minutes. We estimate that substantially all of our subscribers access our services with a local telephone call. Subscribers who access our services with a long-distance telephone call are responsible for the long-distance charges. We believe that a critical element of consumer satisfaction is to have an adequate number of access lines available to assure prompt and reliable connection to our service.

Our Internet access services division accounted for approximately 38.3%, 32.7% and 33.8%, respectively, of our revenues in fiscal 2001, 2002 and 2003. The decrease in Internet access services division revenues as a percentage of total revenues from fiscal 2001 to fiscal 2002 was due to competition and pricing pressures in the market for consumer Internet access services and the growth of our corporate customer base. The increase in Internet access services division revenues as a percentage of total revenues from fiscal 2002 to fiscal 2003 was due to the stabilization of pricing for consumer Internet access services in fiscal 2003.

*Online portal and content offerings.*

We operate an online portal, [www.sify.com](http://www.sify.com), that functions as a principal entry point 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 in four local Indian languages. Our portal site, [www.sify.com](http://www.sify.com), is designed to be the initial launch screen for all of our SifyOnline customers and Iway users, but can also be accessed by Internet users worldwide.

As a portal, we provide a gateway to the Internet by offering information services, directory tools, e-mail, contests, Internet chat and electronic commerce activities such as online shopping and classified ads. We also allow the user to personalize the [www.sify.com](http://www.sify.com) start page to include links to the user's most frequently used features on the Internet, including particular search engines, free mail providers and favorite content sites. For online merchants, we allow them to create their own e-commerce store hosted on our [www.sify.com](http://www.sify.com) virtual shopping mall web page. Our customization features encourage users to make [www.sify.com](http://www.sify.com) their first stop on the Internet and allow us to provide special privileges and benefits to our Internet service provider subscribers compared to users who access [www.sify.com](http://www.sify.com) through another service provider. Our objective is to attract as many users as possible to generate revenues from advertising, sponsorship fees and electronic commerce transaction commissions.

Channels on [www.sify.com](http://www.sify.com) presently include:

Group	Channels in Group	Content of Group
News & Info	News Samachar Tamil Telugu Malayalam Hindi Cities Search/Khoj Education Weather	Our news and information channels provide news and information to our users in multiple languages.
Connect	Mail Mobile Messenger Chat Greetings Clubs	Our communication channels provide a range of communications services to our users, including email and instant messaging.



**Table of Contents**

	Return2India Voice of India	
Entertainment	Movies Carnatic music Games Youth People & Places	Our entertainment channels provide infotainment to our users, including games and contests.
Lifestyle	Astrology Bawarchi Home Decor Women Carstreet	Our lifestyle channels cater to the hobby interests of users in the fields of astrology, home improvement, food and automobiles.
Services	Shopping IP Travel Real Estate Matrimonial Samachar Gifts Jobs Vacations	Our services channels provide ecommerce services to our users. SifyMall is a destination shopping site for Indian Residents. Jobs and Matrimonial are partner channels. Vacations is a newly introduced channel.
Finance	Equity Mutual Funds Fixed Income Forex Tax Bullion Insurance	Our finance channels offer a range of financial services to our users.
Sports	Cricket Motorsport Football Hockey Tennis Others	Our sports channels offer cricket and other sports news and information to our users.
Services	Dial-up I-way Way2Talk Broadband	Our services channels provide information about certain services to our users.
Interactives		Our interactives channels provide a range of interactive tools to our users, such as discussion boards, photogalleries and contests.

Today, there are probably more non-resident Indians than Indians residing domestically who have access to the Internet. As a result, many content sites, including sify.com, have more users located outside of India than within. However, we believe that the market for content and services within India will develop rapidly. To expand usage of our services domestically, we believe that we must provide more services of daily value, such as the ability to buy groceries or movie tickets online or to check an up-to-date movie review before buying a ticket.

In fiscal 2001, 2002 and 2003, our online portal and content offerings division accounted for approximately 11.8%, 13.1% and 8.3%, respectively, of our total revenues. The increase in online portal and content offerings division revenues as a percentage of total revenues from

## Edgar Filing: SIFY LTD - Form 20-F

fiscal 2001 to fiscal 2002 was primarily due to [an increase in advertising and sponsorship revenue as a result of the] growth of our corporate customer base. The decrease in online portal and content offerings division revenues as a percentage of total revenues from fiscal 2002 to fiscal 2003 was due to a decrease in advertising revenues as a result of decreasing advertising expenditures by our customers combined with lower advertising rates.



## **Table of Contents**

### **Strategic Vendor Partnerships**

We maintain a number of strategic relationships with key vendors of Internet-related hardware, software and services. Some of these relationships are exclusive to us in India, subject in some cases to minimum sales thresholds. These relationships result in two significant benefits. First, they provide us with the ability to offer valuable services to our customers in India. In addition, these relationships help us market our services by providing us with access to our partners' customer bases. Our network and related services are focused on meeting the needs of corporate customers, particularly in manufacturing and service organizations, which have a need to coordinate their activities with satellite operations such as dealers, distributors, agents and suppliers. For additional information regarding our relationships with these companies, please see Item 10. Additional Information - Material Contracts.

### **Corporate Customers**

We have established a diversified base of corporate customers in a variety of data intensive industries, including financial services, publishing, retail, shipping and manufacturing. Our corporate customer base has grown to over 800 customers. Based on fiscal 2003 revenues generated by our corporate network/data services division, our largest corporate customers were Accel ICIM, Accenture, DCM Sriram Consolidated, General Electric, Gillette India, Gric Communication, Hutch, I-Flex solutions, iPass, ITC Infotech, Lucent, Novell Software, Oracle, Ranbaxy, Sapient, Usha International, UUNet, Whirlpool and Wipro. No single customer accounted for more than 10% of our revenues in fiscal 2003. The increased scope of the services we offer, particularly the provision of broadband services to our existing customers, and our acquisition of Wipro's corporate customers has increased our market base.

### **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 all 55 cities in which we have a point of presence. Our web-based help desk and MIS system provides 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**

*Corporate Offerings.* The principal focus of our sales and marketing staff is existing and potential 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, 2003, we had 77 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.

In addition, we intend to continue to operate cybercafés under the *iway* brand name, and to enter into relationships with independent cybercafés to co-brand our websites with their businesses, in order to expand access to our portal and websites by consumers who do not own a personal computer or have Internet access at home. To increase Internet access and use of our websites by personal computer buyers, we entered into an arrangement with a leading personal computer manufacturer to have our Internet access software bundled with its computers sold in India.

### **Technology and Network Infrastructure**

We operate a national Internet protocol private data network with 55 points of presence serving more than 250 cities across India, representing an estimated 90% of the installed personal computer base in India. A point of

## **Table of Contents**

presence is commonly defined as the ability to access online services in a market through a local telephone call or local leased lines. 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 allows 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.

*Geographic Coverage.* Through our national network of points of presence, our business and consumer Internet access customers are able to access the Internet in 55 of the largest markets in India via a local phone call. We have backbone points of presence in Ahmedabad, Bangalore, Bhopal, Kolkata (Calcutta), Chennai (Madras), Cochin, Chandigarh, Delhi, Hyderabad, Lucknow, Mumbai (Bombay) and Pune. These backbone points of presence, or primary nodes, reside at the core of a larger Internet protocol network with a meshed topology architecture. We also have additional points of presence, or secondary nodes, in Aurangabad, Baroda, Belgaum, Bhubaneshwar, Calicut, Coimbatore, Davengere, Ghaziabad, Goa, Gurgaon, Guwahati, Gwalior, Hubli, Indore, Jabalpur, Jaipur, Jamnagar, Jamshedpur, Jodhpur, Kanpur, Kakinada, Karnal, Kota, Ludhiana, Madurai, Mangalore, Mysore, Nagpur, Nasik, Patna, Pondicherry, Raipur, Rajkot, Salem, Shimoga, Siliguri, Surat, Thiruvananthapuram, Tiruvalla, Trichy, Varanasi, Vijayawada and Vishakapatnam. 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 located near a Bharat Sanchar Nigam Limited (BSNL), Mahanagar Telephone Nigam Limited (MTNL) or private basic service operator (BSO) telephone switching station. Each point of presence contains a modem bank which receives and aggregates incoming calls from customers who access our system by modem connection through a local call on the public telephone system. The last mile of the Internet could be a leased line, ISDN or point-to-multipoint radio link in the 5.7 gigahertz range which we have licensed from the Wireless Planning Commission. 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 Cisco routers to route traffic between nodes interconnected using a high speed interface. Our applications and network verification servers are manufactured by Sun, Dell and Hewlett-Packard.

The primary nodes on the backbone network are connected by up to 42 Mbps high speed fiber optic lines that we lease from long distance operators. The secondary nodes are connected by 2 Mbps or lower leased lines. A number of nodes are accessible from at least two other nodes, allowing us to reroute traffic. We reduce our exposure to failures on the local loop by usually locating our points of presence within one segment of the central telephone exchange and purchasing connectivity from multiple exchanges. To further maximize our network uptime, we are continuing to install fiber optic connections directly from each of our primary nodes to the central exchange.

In addition to a fundamental emphasis on reliability, our network design philosophy has focused on compatibility, interoperability and scalability. We use Internet protocol 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. Finally, we have deployed Cisco ATM switches on eight points of presence along our network. These ATM switches allow us to allocate our existing capacity more efficiently by offering frame relay services and dedicated bandwidth to corporate customers.

*Network Operations Center.* We maintain a network operation center located in Chennai (Madras) and in Mumbai (Bombay). The Chennai facility houses our central network servers as well as our network staff which 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.

## **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

**Table of Contents**

expand. We compete primarily on the basis of service, reliability and customer support. Price and ease of use are also competitive factors.

*Corporate network/data services.* Our competitors for many private network services include government services, companies that have built and operate their own private data networks, satellite communications agencies, such as Bharti BT, Comsat, HCL Comnet and Hughes, and terrestrial network providers, such as Bharti Broadband, Global Electronic Commerce Services and HCL Infinity and Tata Internet.

*Internet Access Services.* Our principal competitor is VSNL, a telecom provider that was controlled by the Government of India until recently. As of February 28, 2003, approximately 395 companies had obtained Internet service provider licenses in India. We expect other competitors to emerge in the future. We also expect prices to continue to fall as more competitors enter the market. Further, we believe that it is inevitable that the large, foreign providers of Internet service provider services will eventually attempt to enter the Indian market through local joint ventures or other means.

Since May 2000, we have offered unlimited Internet access to consumers for a fixed price. A number of our competitors, including VSNL, Dishnet and Mantra, also offer unlimited Internet access for a fixed price. In addition, at least one of our competitors offers free Internet service at night. We expect the market for consumer Internet access to remain extremely price competitive as late market entrants attempt to acquire customers.

In the past, VSNL aggressively reduced consumer Internet access prices despite the lack of offsetting reductions in prevailing bandwidth tariffs payable by private competitors, such as our company. We believe that these practices constitute an improper cross-subsidy funded by VSNL's present monopoly in long distance telephone service. The charges for international gateways and other services presently being provided by VSNL are the subject of a dispute pending before the TRAI and the Telecom Disputes Settlement and Appellate Tribunal between VSNL and private Internet service providers, including our company. The Telecom Disputes Settlement and Appellate Tribunal remanded the matter back to the TRAI, which decided against the ISPAI. The ISPAI has not yet decided on a further course of action. We are currently paying for bandwidth from VSNL at the higher rates and do not believe that the outcome of this dispute will be material to our business provided that the international gateway services market continues to be open to competition. In addition, we could face competition from companies that develop new and innovative techniques to access the Internet. Although growing rapidly, International Data Corporation estimates that India had an installed base of only approximately 4.2 million personal computers in 2000. Technology permitting a connection to the Internet through alternative, less capital intensive means is likely to be attractive to Indian consumers. A number of companies are planning alternative Internet access devices, such as set-top boxes for televisions, to create demand for Internet services in excess of that which could be supported by the installed base of personal computers. The provider who develops this technology is likely to have a significant advantage in the marketplace.

*Online Portal.* There are several other companies in India that have developed websites, including rediff.com which completed its initial public offering in the United States in June 2000 and others, that are designed to act as Internet portals. These sites currently have greater traffic than our site and offer some features that we do not. Further, the dominant Internet portals continue to be the online services and search engine companies based in the United States, such as America Online, Yahoo!, Microsoft Network and Lycos. These companies have been developing specially branded or co-branded products designed for audiences in specific markets. We expect that these companies will deploy services that are targeted at the Indian market. For example, Yahoo! launched an Indian service in June 2000.

Many of our existing or potential competitors in each of our markets enjoy substantial competitive advantages compared to our company, including:

- the ability to offer a wider array of services;
- larger production and technical staff;
- greater name recognition and larger marketing budgets and resources;
- larger subscriber bases; and

## **Table of Contents**

substantially greater financial, technical and other resources.

To be competitive, we must respond promptly and effectively to the challenges of technological change, evolving standards and our competitors' innovations by continuing to enhance our services, as well as our sales and marketing channels. Increased competition could result in loss of market share, reduced prices or reduced margins, any of which could adversely affect our business. Competition is likely to increase significantly as new companies enter the market and current competitors expand their services.

## **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 applications for *SifyOnline*, *Sify.Net*, *Sifyonline.com*, *sify.com* and *Sifyiway* in India. These applications are currently pending.

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. Our subsidiary IndiaWorld Communications was involved in litigation relating to the IndiaWorld trademark in Federal Court in San Diego, California with a third party located in the United States, which was settled during the quarter ended December 31, 2002 without any liability to Sify or IndiaWorld Communications.

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, 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.

**Table of Contents**

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 which 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.

We began offering Internet access services on November 22, 1998, and as of March 31, 2003, we operated 55 Internet access nodes. In November 1998, the Government of India opened the Internet service provider market to private competition, and the DOT instituted a mandatory license requirement for the provision of Internet services. We entered into a license agreement with the DOT on November 12, 1998 with effect on the same day, under which we were granted a license to provide national Internet services on a non-exclusive basis. The terms and conditions of our license are generally consistent with the policy for licensing Internet service providers. The term of our license is 15 years. Our license can be revoked by the DOT if we breach the terms and conditions of the license. The DOT retains the right to take over our network and to modify, revoke, terminate or suspend the terms and conditions of the license at any time if, in its opinion, it is necessary or expedient to do so in the interest of general public, or for the proper operation of the telecommunications sector or for security considerations. The DOT also retains the right to review the terms of our license based on changes in national telecommunications policy. We are not allowed to assign or transfer our rights under our license without the prior written consent of the DOT.

## **Table of Contents**

The Government of India has recently revised foreign investment policies permitting up to 74% foreign equity in an Internet service provider. Our license was reissued in April 2002 permitting us to have foreign investment up to 74% of our total equity and also permitting us to offer Internet telephony, subject to the terms of operation as detailed in our license.

Our license also requires us to ensure that objectionable, obscene and unauthorized content, or any other content, messages or communications infringing copyrights, intellectual property rights and domestic and international cyberlaws or which is inconsistent with the laws of India, is not carried on our network.

Although under the terms of our license we are free to fix the prices we charge our subscribers, the TRAI may set prices for the provision of Internet access services generally. We are permitted to use encryption to safeguard information transmitted over our network. However, if we use a higher level of encryption than that specified by the Government of India, our license requires us to deposit a set of keys with the Government of India. License fees are waived through October 31, 2003, and a nominal license fee of Re.1 per annum is payable from November 1, 2003. Our obligations under the license are secured by a performance bank guarantee in the amount of Rs.29.2 million (\$0.6 million).

We may be required to import into India computer hardware and Internet related software purchased from foreign manufacturers for business purposes. These imports will be subject to the Export and Import Policy as declared by the Ministry of Commerce. At the time of import, we will be required to pay a customs duty pursuant to the Customs Tariff Act, 1975.

## **Seasonality**

Given the early stage of the development of the Internet in India, the rapidly evolving nature of our business and our limited operating history, we cannot predict to what extent, if at all, our operations will prove to be seasonal.

## **Property, plant and equipment**

We own our approximately 100,000 square foot corporate headquarters located in Chennai (Madras), India. We lease an approximately 3,500 square foot network operations center in Chennai and an approximately 25,000 square foot operations center in Mumbai (Bombay). Our Chennai facility houses our central network servers as well as our network staff which monitors network traffic, service quality and equipment at all our points of presence, or POPs, to ensure a reliable Internet service. Most of our POPs are staffed 24-hours-a-day, seven-days-a-week. Approximately 80% of our POPs are owned, and approximately 20% of our POPs are leased. 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. We have POPs in Ahmedabad, Aurangabad, Bangalore, Baroda, Belgaum, Bhopal, Bhubaneswar, Kolkata (Calcutta), Calicut, Chandigarh, Cochin, Coimbatore, Davengere, Delhi, Goa, Gurgaon, Guwahati, Hubli, Hyderabad, Indore, Jabalpur, Jaipur, Jamnagar, Jamshedpur, Jodhpur, Kakinada, Karnal, Kota, Kanpur, Lucknow, Ludhiana, Madurai, Mangalore, Nagpur, Nasik, Patna, Pondicherry, Pune, Raipur, Rajkot, Salem, Shimoga, Siliguri, Surat, Thiruvananthapuram, Tiruvalla, Trichy, Varanasi and Vijayawada. As we expand our operations, we anticipate leasing additional facilities in each city in which we develop a point of presence.

During fiscal 2001, we invested approximately Rs.173.0 million in land located in Hyderabad for one of our subsidiaries. We subsequently decided not to pursue this business opportunity and are in negotiations for the sale of this land.

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

*Investors are cautioned that this discussion contains forward-looking statements that involve risks and uncertainties. When used in this discussion, the words believe, estimate, intend, will and expect and other similar expressions as they relate to our company or its business are intended to identify such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Actual results, performance or achievements could differ*

## **Table of Contents**

*materially from those expressed or implied in such forward-looking statements. Factors that could cause or contribute to such differences include those described under the heading Risk Factors in this report. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of their dates. The following discussion and analysis should be read in conjunction with our financial statements included herein and the notes thereto.*

### **Overview**

Please see the section entitled Item 4. Information on the Company Business Overview in this annual report.

### **Operating Results**

The primary operating segments of our company include:

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

Internet access services;

Online portal services and content offerings; and

Other services, such as development of e-learning software.

In Note 29 to our consolidated financial statements, 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.

### **Revenues**

#### *Corporate network/data services*

Corporate network/data services revenues primarily include connectivity services and, to a lesser extent, the revenues from the sale of hardware and software purchased from third party vendors, installation of the link and other ancillary services, such as e-mail, fax and domain registration. Generally, these elements are sold as a package consisting of all or some of the elements.

The revenue attributable to hardware/software is recognized on delivery. The revenue attributable to the installation of the link is recognized on completion of the installation work. Revenue from ancillary services, such as email facilities, fax facility and domain registration, are recognized over the period such facilities are provided. All revenues are shown exclusive of sales tax and service tax and net of applicable discounts and allowances.

Web hosting service revenues primarily include co-location services and connectivity services. On occasion, we also sell related hardware/software to our web hosting customers. Revenue from these sales is recognized on delivery. Revenue from hosting services is recognized over the period during which the service is provided.

#### *Internet access services*

Internet access services include dial-up Internet access revenues and public Internet access revenues. Dial-up internet access is sold to customers either for a specified number of hours or for an unlimited usage within a specified period of time. Customers purchase a CD-ROM that enables them to access the Internet. The amounts received from customers on the sale of these CD-ROMs are not refundable. We recognize revenue from sale of CD-ROMs based on usage by the customer. At the end of the specified period, the remaining unused hours, if any, are recognized as revenue. Revenue from unlimited internet access and electronic mail access is recognized over the specified period.

Public Internet access is provided to customers through a chain of franchisee cybercafé outlets and, to a lesser extent, Sify-owned cybercafés. Initial franchise fee revenue is recognized at the time of commencement of operations by the franchisee.

## **Table of Contents**

### *Online portal services and content offerings*

Online portal services and content offerings revenues include advertising revenues from the various channels of our internet portal, *www.sify.com*. We enter into contracts with customers to serve advertisements in the portal, and we are paid on the basis of impressions, click-throughs or leads.

### *Other services*

Other services include revenue from our subsidiaries, Sify E-learning Limited and Safescrypt Limited. We provide e-learning software development services to facilitate web-based learning in various organisations. Revenue from such projects is recognized on the proportionate performance method.

## **Expenses**

### *Corporate network/data services*

Cost of revenues for the corporate network/data services division consists of telecommunications costs necessary to provide services, customer support costs, cost of goods in respect of communication hardware and security services sold and the cost of providing network operations. Depreciation of plant and equipment has not been included in the cost of revenues since a significant part of the fixed assets are not directly identifiable.

### *Internet access services*

Cost of revenues for the Internet access services division consists primarily of recurring telecommunications costs necessary to provide service to subscribers. Telecommunications costs include the costs of international bandwidth procured from VSNL and satellite gateway providers and is 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 and leased line costs. Although the trend towards lower bandwidth costs in India has slowed, the market for bandwidth in India remains volatile and future pricing trends are not susceptible to quantification.

Another recurring cost included in cost of revenues is the personnel and related operating expenses associated with customer support and network operations. We expect that customer support and network operations expenses will decrease as a percentage of revenues as we more efficiently utilize these capabilities across a larger customer base and across multiple business segments.

### *Online portal services and content offerings*

Cost of revenues for the online portal and content offerings division includes the cost of procuring and managing content for the websites, the cost of third-party software that are sold in accordance with EITF 99-19.

## **General**

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, provision for doubtful debts, depreciation and amortization of intangibles and travel costs, and occupancy and overhead costs.

A total of 1.8 million equity shares are reserved for issuance under our Associate Stock Option Plan, or ASOP. As of March 31, 2003, we had outstanding an aggregate of 390,560 options (net of 562,040 options forfeited or expired by employees and 200 options exercised for equity shares) under our ASOP with a weighted average exercise price equal to approximately Rs.1,359 per equity share. The unamortized deferred compensation related to these grants amounted to Rs.24.8 million as of March 31, 2003.

We depreciate our tangible assets on a straight-line basis over the useful life of assets, ranging from two to five years and, in the case of buildings, 28 years. Historically, we have amortized the goodwill recognized in acquisition transactions on a straight-line basis over five years. In accordance with our accounting policy, during



**Table of Contents**

fiscal 2002, our management assessed the goodwill that we were carrying on our books in connection with the significant acquisitions and investments made by us in Internet content and commerce companies in 1999 and 2000, including IndiaWorld Communications and Indiaplaza.com. Based on that evaluation, which was measured at the enterprise level, we concluded that these intangible assets were impaired. Accordingly, during the fiscal 2002, we recorded a non-cash charge of Rs.4,112.7 million to write-off all of the goodwill related to these acquisitions. Impairment of Rs.15.0 million was recognized in fiscal 2002 in respect of other investments. In addition, during fiscal 2002, we recorded a non-cash charge of Rs.1,089.9 million to reflect an impairment of investment in affiliate related to our investment in CricInfo Limited.

We assess for impairment of long lived assets under SFAS No. 144. The carrying value of long-lived assets are compared with the adjusted estimated future cash flows at the identifiable business segment level. If the sum of such undiscounted cash flows is less than the aggregate carrying amount, the asset is not recoverable and the impairment loss is recognized. During fiscal 2003, we recorded an impairment charge of Rs.247 million (\$5.2 million).

In addition to our operations and those of our consolidated subsidiaries, our financial statements include our *pro rata* share of the financial results of those companies in which we have significant, non-controlling minority interests, such as Wisden Cricinfo Limited and Refco Sify Securities Private Limited. These investments are accounted for under the equity method of accounting. In December 2002, we divested our entire stake in Placements.com Private Limited.

Since our inception, we have experienced negative cash flow from operations and have incurred net losses. Our ability to generate positive cash flow from operations and achieve profitability is dependent on our ability to continue to grow our revenues base and achieve further operating efficiencies. For fiscal 1999 through 2003, we incurred negative cash flow from continuing operations of approximately, Rs.172.1 million, Rs.596.9 million, Rs.1,133.4 million, Rs.775.7 million and Rs. 238.3 million (\$5.0 million), respectively. For fiscal 1999 through 2003, we incurred net losses of approximately Rs.187.4 million, Rs.381.9 million, Rs.2,509.0 million, Rs.7,202.5 million and Rs. 1,329.4 (\$28.0 million), respectively. We may not be able to realize sufficient future revenues to recover our present investment in network infrastructure and online content offerings or achieve positive cash flow or profitability in the future. As of March 31, 2003, we had an accumulated deficit of approximately Rs.11,737.8 million (\$247.0 million). For additional information, see Item 3. Key Information Risk Factors.

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

**Results of Operations**

*Year ended March 31, 2003 compared to year ended March 31, 2002*

**Revenues.** We recognized Rs.1,994.2 million (\$42.0 million) in revenues for the year ended March 31, 2003, as compared to Rs.1,577.5 million for the year ended March 31, 2002, representing an increase of Rs.416.7 million, or 26.4%. This increase was attributable to a Rs.215.23 million increase in revenues generated by our corporate network/data services business and a Rs.158.4 million increase in revenues generated by our Internet access services business. Our corporate network/data services business obtained a significant number of new orders from prominent customers with operations throughout India. The increase in Internet access revenues was mainly on account of an increase in prices charged to customers in the dial-up business and increased revenues from *iway* cafes. Our online portal and content offerings division accounted for Rs 164.9 million of revenues for the year ended March 31, 2003, as compared to Rs. 207.1 million for the year ended March 31, 2002, representing a decrease of Rs. 42.2 million, or 20.4%. Revenues generated by our other businesses and subsidiaries increased by Rs.85.31 million, or 119%, primarily as a result of revenues generated by our wholly owned subsidiary, Satyam Education Services Limited. Satyam Education Services derives its revenues from the design and development of content for Element K, a company based in the United States that provides tutorials over the web. The contract between Satyam Education Services Limited and Element K expires in September 2003. The renewal of the contract is under discussion and continued revenues from this business will depend on the terms of this renewal agreement.

**Cost of Revenues.** Cost of revenues were Rs.1,264.1 million (\$26.6 million), or 63.4 % of revenues, for the year ended March 31, 2003, compared to Rs.1,192.7 million, or 75.6 % of revenues, for the year ended March 31, 2002, representing an increase of Rs.71.4 million, or 6.0%. This increase was due to a Rs.99.8 million increase in

**Table of Contents**

cost of goods sold as result of a Rs.50.5 million increase in direct expenses paid to franchisees for operating franchised *ipay* cafes and an increase in direct personnel costs of our e-learning subsidiary as we hired additional employees, offset by a Rs.76.4 million decrease in international bandwidth and leased line costs resulting from our negotiations with suppliers and marginal changes in direct personnel and other costs.

*Gross Profit.* Gross profit for the year ended March 31, 2003 was Rs.730.1 million, compared to Rs.384.8 million for the year ended March 31, 2002. This increase was due to an increase in revenues generated by our Internet access and corporate data/network services division combined with cost reductions in international bandwidth through our purchase of satellite bandwidth and cost reductions in leased lines within the country.

*Selling, general and administrative expenses(including provision for doubtful receivables and impairment of assets).* Selling, general and administrative expenses were Rs.2,038.3 million (\$42.9 million) for the year ended March 31, 2003, compared to Rs.1,962.5 million for the year ended March 31, 2002, representing an increase of Rs.75.9 million, or 3.9%. This increase was largely on account of a Rs. 247.0 million impairment charge relating to certain assets identified to have carrying values not considered to be recoverable. Provision for doubtful receivables and advances increased by Rs. 54.7 million from Rs.101.5 million to Rs.156.2 million as a result of changes in our credit and provisioning policy. The increase in selling, general and administrative expenses was offset by a Rs.43.5 million decrease in marketing and promotional expenses resulting from a reduction in advertisement expenses, a Rs.54.9 million decrease in personnel expenses by, a Rs.106.77 million decrease in depreciation and a Rs.20.6 million decrease in general administrative expenses as a result of the cost cutting measures implemented during the year.

*Amortization / Impairment of goodwill.* Amortization / Impairment of goodwill for the year ended March 31, 2003 was nil, compared to an impairment of Rs.4,127.7 million and an amortization of Rs. 293.0 for the year ended March 31, 2002. With the adoption of SFAS No. 142, we no longer amortize goodwill for indefinite lived assets. Goodwill was tested and assessed with no charge for impairment for the year ended March 31, 2003.

*Amortization of Deferred Stock Compensation expenses.* Amortization of deferred stock compensation expenses was Rs.57.7 million (\$1.2 million) for the year ended March 31, 2003, compared to Rs.9.7 million for the year ended March 31, 2002, representing an increase of Rs.48.0 million.

*Equity in loss of affiliates.* Equity in loss of affiliates was Rs.26.1 million (\$0.54 million) for the year ended March 31, 2003, compared to Rs.1,225.5 million for the year ended March 31, 2002, representing a decrease of Rs.1,199.4 million, or 97.9 %. This decrease was primarily due to an impairment charge of investments amounting to Rs.1,089 million during the previous year. The decrease in operating losses in the affiliates is a result of the sale of certain investments during the year and an improvement in the performance of certain investments of our company. We also recorded a gain on sale of investments during the year amounting to Rs.24.6 million.

*Other income (net).* Other income was Rs.52.9 million (\$1.1 million) for the year ended March 31, 2003, compared to Rs.32.7 million for the year ended March 31, 2002, representing an increase of Rs.20.2 million, or 61.8%.

*Net Loss.* Our net loss was Rs. 1,329.4 million (\$28.0 million) for the year ended March 31, 2003, compared to a net loss of Rs.7,202.5 million for the year ended March 31, 2002. This decrease is attributable to a Rs.416.7 million increase in revenue, improved operating margins and non-impairment and non-amortisation of goodwill and investments in affiliates. Amortisation and impairment of goodwill during the year ended March 31, 2002 was Rs 4,127.7 million and Rs 293.0 million.

*Income/loss from discontinued operations.* Loss from discontinued operations for the year ended March 31, 2003 was nil, compared to Rs.125.4 million for the year ended March 31, 2002.

*Year ended March 31, 2002 compared to year ended March 31, 2001*

*Revenues.* We recognized Rs. 1,577.5 million in revenues from continuing operations for the year ended March 31, 2002, as compared to Rs.1,225.5 million for the year ended March 31, 2001, representing an increase of

**Table of Contents**

Rs.352.0 million, or 28.7%. This increase was due to a Rs.189.5 million in corporate services revenues, a Rs.46.3 million increase in Internet access revenues and a Rs.62.7 million increase in revenue from online portal and content offerings.

*Cost of Revenues.* Cost of revenues were Rs. 1,192.7 million, or 75.6 % of revenues, for the year ended March 31, 2002, compared to Rs. 1,177.1 million, or 96.1 % of revenues, for the year ended March 31, 2001, representing an increase of Rs. 15.6 million. This increase was due to a Rs.103.2 million increase in cost of goods sold and a Rs. 94.2 million increase in lease line charges, partially offset by a decrease in direct personnel expenses and other costs.

*Selling, general and administrative expenses.* Selling, general and administrative expenses were Rs.1962.5 million for the year ended March 31, 2002, compared to Rs.1,887.3 million for the year ended March 31, 2001, representing an increase of Rs.75.2 million, or 4.0%. This increase resulted from a Rs.229.5 million increase in personnel expenses, a Rs.155.6 million increase in depreciation, a Rs.70.0 million increase in provision for bad and doubtful receivables and a Rs.39.1 million increase in other administrative expenses, partially offset by a Rs. 419.1 million decrease in marketing and promotional expenses resulting from a reduction in advertisement expenses.

*Amortization / impairment of goodwill.* Amortization / impairment of goodwill was Rs.4,420.6 million for the year ended March 31, 2002, compared to Rs. 932.0 million for the year ended March 31, 2001. The increase resulted primarily from Rs. 4,127.7 million of goodwill impaired during the year.

*Amortization of deferred compensation expense.* Amortization of deferred compensation expense was Rs.9.7 million for the year ended March 31, 2002, compared to Rs.61.5 million for the year ended March 31, 2001, representing a decrease of Rs.51.8 million.

*Other income, net.* Other income was Rs.32.7 million for the year ended March 31, 2002, compared to Rs.242.4 million for the year ended March 31, 2001, representing a decrease of Rs.209.7 million, or 86.5%.

*Equity in losses of affiliates.* Equity in losses of affiliates was Rs.1,225.4 for the year ended March 31, 2002, compared to Rs. 263.2 million for the year ended March 31, 2001, representing an increase of Rs.962.3 million, or 365.6%. This increase is primarily due to a Rs.1,089.9 million impairment of investment in affiliates during the year ended March 31, 2002. Of the unamortized goodwill of Rs.1,248 million (\$26 million) on April 1, 2001, Rs.159 million (\$ 3.3 million) attributable to future cash flows has been retained and the balance Rs.1,089 million (\$22.7 million) impaired. In assessing recoverability of goodwill, we considered the cash flows receivable on account of the investment, the current fair value of the entity on an independent basis and the value of strategic and synergistic factors in assessing for other than temporary decline in the value of the investment. We do not believe that these factors are reasonably likely to impact our future results of operations and financial position.

*Income/loss from discontinued operations.* Loss from discontinued operations for the year ended March 31, 2002 was Rs.125.4 million (\$2.6 million), compared to Rs.172.5 million in income from discontinued operations for the year ended March 31, 2001. This is attributable to a Rs.220.9 million decrease in revenues, a Rs.125.3 million increase in cost of revenues and a Rs.7.6 million increase in amortization of goodwill and intangibles, offset by a Rs.51.4 million decrease in selling, general and administrative expenses and a Rs.4.5 million decrease in amortization of deferred stock compensation expense.

*Net loss.* Our net loss was Rs.7,202.5 million (\$147.5 million) for the year ended March 31, 2002, compared to Rs.2,509.0 million for the year ended March 31, 2001.

**Liquidity and Capital Resources**

Prior to 1998, we financed our operations through funding from Satyam Computer Services, our former parent company. No further funding is expected from Satyam Computer Services in the future. Since 1998, we have financed our operations through equity sales and borrowings from institutions and banks. During fiscal 1998, 1999 and 2000, we received Rs.38.5 million, Rs.307.5 million and Rs.10,220.0 million, respectively, in net cash proceeds from the sale of equity securities. We did not issue any equity shares in financing transactions in fiscal 2001 or fiscal 2002. During fiscal 2003, we received Rs. 792.0 million in net cash proceeds from the sale of equity securities.

**Table of Contents**

In February 2002, we divested our software services business to Satyam Computer Services for the Indian Rupee equivalent of \$6.9 million. The objective of the divestment was to permit our company to concentrate on our core business of Internet services. This transaction was approved by our stockholders at an extraordinary general meeting held on February 28, 2002.

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

	Fiscal year ended, and as of March 31,			
	2001	2002	2003	2003
	Indian Rupees (in thousands)			US Dollars
Net loss from continuing operations	(2,681,611)	(7,158,265)	(1,329,388)	(27,969)
Net decrease (increase) in working capital	(167,297)	27,232	52,320	1,100
Other adjustments for non-cash items	1,715,473	6,355,353	1,038,795	21,856
Net cash provided by (used in) operating activities				
- continuing operations	(1,133,435)	(775,680)	(238,273)	(5,013)
- discontinued operations	(174,927)	237,531		
Net cash provided by (used in) investing activities				
-continuing operations	(4,318,732)	(481,136)	(273,674)	(5,757)
- discontinued operations	(26,804)	(71,279)		
Proceeds from sale of discontinued operations		349,165		
Net cash provided by (used in) financing activities	(216,465)	(9,097)	758,777	15,964
Effect of exchange rate changes on cash		(5,598)	(7,345)	(155)
Net increase (decrease) in cash and cash equivalents	(5,870,363)	(756,094)	239,485	5,039

Our principal capital and liquidity needs historically have related to developing our network infrastructure and our corporate network and electronic commerce services, establishing our customer service and support operations, developing our sales and marketing activities and for general working capital needs. We have also expended significant funds in our acquisition and investment program, including the Indiaworld Communications transaction.

A significant part of our development of 55 points of presence in India and our related network and infrastructure was completed during fiscal 2001. During fiscal 2001, we invested approximately Rs.500.0 million in moving to new owned office space in Chennai and Mumbai. During fiscal 2001, we also invested approximately Rs.173.0 million in land located in Hyderabad for one of our subsidiaries. We subsequently decided not to pursue this business opportunity and are in negotiations for the sale of this land. Since the expansion into additional points of presence in India is not presently a priority and since the network has sufficient capacity to handle the traffic during 2003, there were no significant sums expended on plant and equipment during the year, other than equipment required to provide broadband access through wireless technologies on the last mile. In the light of reduced capital expenditure for our business, we incurred Rs.304.7 million for capital expenditures for the fiscal year ending March 31, 2003.

Although we have 55 points of presence in India, a need for expansion into smaller towns could arise as our corporate and data network services grow. There are many ISP's and data/network service providers exiting the business and, depending on pricing and other terms, we may acquire one or more of these third parties. We will need to invest in technologies to increase the speed of the backbone and edge networks. We will also have to invest in wireless and wireline methods of last mile Internet access delivery. We are also likely to add an owned access capability in the United States.

During fiscal 2003, our highest operational priority was to reduce cash burn incurred to build our organization and infrastructure to support our rapid growth, which has now stabilized. We pursued several initiatives to reduce our cash burn. The first focus was toward reducing the working capital required by our business. This was



**Table of Contents**

done by enhanced focus on collecting receivables and advancing the billing for the customers of our corporate data/network services division to the beginning of the quarter from the end of the quarter. Our improved collection efforts and change in policy to collect fees for certain services in advance resulted in a decrease in net receivables in recent periods. The second focus was toward reducing bandwidth costs. This was achieved by leveraging on the demonopolization of VSNL, negotiation with a range of suppliers, including VSNL, and increasing the role of fixed wireless mode of delivery in the last mile. As a result of these initiatives, we have significantly reduced our cash burn over the last eight quarters. We believe that the reductions achieved on account of the above are permanent reductions.

We intend to continue to focus on the reduction of our cash burn in fiscal 2004. Nonetheless, we expect to incur continued losses in the near future. Based upon our present business and funding plans, we believe that our cash and cash equivalents of Rs.897.6 million (\$18.9 million) as of March 31, 2003, excluding restricted cash included in current assets of Rs. 74.6 million (\$1.6 million) and restricted cash included in non-current assets of Rs.100.0 million (\$2.1 million), is sufficient to meet our currently known requirements for at least the next 12 months. In light of the highly dynamic nature of our business, however, we cannot assure you that our capital requirements and sources will not change significantly in the future.

Cash balances held in foreign currency were Rs.1,344.3, Rs.252.8 and Rs. 551.0 million as of March 31, 2001, 2002 and 2003, respectively. Cash balances held in Indian currency were Rs.100.0 million, Rs.557.7 and Rs. 521.2 million as of March 31, 2001, 2002 and 2003, respectively. These amounts include cash and cash equivalents and restricted cash.

Cash used in operating activities during fiscal 2003 was Rs.238.3 million (\$5.0 million). Cash used in operating activities of continuing operations for fiscal 2003 was attributable to a Rs.1,329.4 million (\$28.0 million) net loss from continuing operations, a Rs.78.8 million decrease in trade accounts payable, a Rs.65.8 million increase in accounts receivable, a Rs.25.0 million increase in other assets, a Rs.12.6 million increase in minority interest, a Rs.11.3 million increase in inventories, a Rs.10.0 million increase in prepaid expenses, a Rs.7.9 million increase in amounts due from related parties and a Rs.1.5 million gain in sale of investments, offset a Rs.2.6 million loss on sale of plant and equipment, a Rs. 6.7 million write-off of inventory, a Rs.10.9 million increase in advances from customers, a Rs.26.1 million loss on equity in loss of affiliates, a Rs.32.9 million increase in other liabilities, a Rs.62.6 million decrease in due from officers and employees a Rs. 144.8 million increase in deferred revenue, a Rs.156.2 million against provision for doubtful receivables and advances and a Rs.854.2 million of depreciation and amortisation. Cash used in investing activities of continuing operations during fiscal 2003 was Rs.273.7 million (\$5.8 million), principally as a result of the purchase of routers, modems, ports, servers and other capital equipment in connection with the expansion of our network of Rs.284.3 million (\$6.0 million), purchase of intangible assets of Rs.16.9 million (\$0.4 million) and a Rs.22.2 million increase in restricted cash, offset by proceeds from sale of plant and equipment of Rs.12.1 million (\$0.3 million), proceeds from sale of investments of Rs. 8.6 million (\$0.3 million) and proceeds from sale of investments in affiliates of Rs.29.2 million (\$0.6 million). Cash provided by financing activities for fiscal 2003 was Rs. 758.8 million (\$16.0 million) consisted of net proceeds from issuance of common stock of Rs. 760.5 million (\$16.0 million), offset by repayment of principal under capital lease obligations of Rs.1.7 million.

Cash used in operating activities during fiscal 2002 was Rs.538.1 million attributable to cash used in continuing operations of Rs.775.7 million, partially offset by cash provided by discontinued operation of Rs.237.6 million. Cash used in operating activities of continuing operations for fiscal 2002 was attributable to a Rs.7,158.3 million net loss from continuing operations, a Rs.17.9 million minority interest, a Rs.15.9 million increase in account receivables, a Rs.84.4 million decrease in advances from customers, a Rs.15.7 million decrease in other liabilities, a Rs.14.5 million decrease in accrued liabilities and a Rs.39.5 million decrease in deferred revenue, offset by depreciation, amortization and write off of goodwill of Rs.4,978.0 million, impairment of investment in affiliate of Rs.1,089.9 million, equity in losses of affiliates of Rs.178.2 million, loss on sale of plant and equipment of Rs.3.7 million, provision for doubtful debts of Rs.101.5 million, inventory write down of Rs.22.0 million, a Rs.50.5 million decrease in inventories, a Rs.26.1 million decrease in due from officers and employees, a Rs.26.0 million decrease in other assets and a Rs.94.6 million decrease in prepaid expenses. Cash used in investing activities of continuing operations during fiscal 2002 was Rs.481.1million, principally as a result of the purchase of routers, modems, ports, servers and other capital equipment in connection with the expansion of our network of Rs.181.2 million, investment in affiliates of Rs.119.7 million, payment of license fees of Rs.59.2 million, an increase

**Table of Contents**

of Rs.122.3 million in restricted cash and purchase consideration for acquisition of Rs.11.2 million, offset by proceeds from sale of plant and equipment of Rs.12.5 million. Cash provided by proceeds from sale of our software services division was Rs.349.2 million. Cash used in investing activities of discontinued operations was Rs.71.3 million. Cash used in financing activities for fiscal 2002 was Rs.9.1 million and represented the repayment of principal under capital lease obligations.

Cash used in operating activities during fiscal 2001 consisted of cash used in continuing operations of Rs.1,133.55 million and cash used in discontinued operations of Rs.174.9 million. Cash used in operating activities of continuing operations for fiscal 2001 was attributable to Rs.2,681.6 million of net loss from continuing operations, a Rs.11.1 million increase minority interest, a Rs.304.1 million increase in accounts receivable, a Rs.83.5 million increase in due from officers and employees, a Rs.91.7 million increase in inventories, a Rs.157.3 million increase in other assets and a Rs.5.9 million decrease in other liabilities, offset by depreciation, amortization and write off of goodwill of Rs.1,400.0 million, equity in losses of affiliate of Rs.294.5 million, loss on sale of plant and equipment of Rs.0.6 million, provision for doubtful debts of Rs.31.5 million, a Rs.42.2 million decrease in prepaid expenses, a Rs.320.5 million increase in accrued liabilities, a Rs.33.3 million increase in deferred revenue and a Rs.79.2 million increase in advance from customers. Cash used in investing activities of continuing operations during fiscal 2001 was Rs.4,318.7 million, principally as a result of the purchase of routers, modems, ports, servers and other capital equipment in connection with the expansion of our network of Rs.1,888 million, investment in affiliates of Rs.163.6 million, payment of license fees of Rs.28.0 million and purchase consideration for acquisition of Rs.2,233.1 million, a increase of Rs.7.0 million in cash restricted offset by proceeds from sale of plant and equipment of Rs.0.9 million and proceeds from sale of investments of Rs.0.1 million. Cash used in investing activities of discontinued operations was Rs.26.8 million. Cash used in financing activities for fiscal 2001 was Rs.216.5 million attributable to repayment of principal of long term debt of Rs.208.1 million, repayment of principal under capital lease obligations of Rs.6.5 million and repayment of short-term loans of Rs.1.8 million, offset by cash provided by proceeds from issuance of common stock of Rs.0.1 million.

In the ordinary course of our business we regularly engage in discussions and negotiations relating to potential investments, strategic partnerships and acquisitions. We will continue to be aggressive in our efforts to identify one or more investment or acquisition opportunities. However, we cannot assure you that we will be able to identify or complete any such transaction on favorable terms, or at all.

Government of India policies previously limited the total foreign equity in an Internet service provider to 49%. In May 2001, the Department of Commerce and Industry increased the limit on foreign direct investment for Internet companies, such as our company, from 49% to 74%. Our license was reissued in April 2002, increasing the maximum permitted level of foreign equity investment in our company to 74% and also permitting us to provide Internet telephony, subject to the terms of operation as detailed in the license. If additional funds are raised through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders and the holders of our ADSs will be reduced and these securities may have rights, preferences or privileges senior to those of our stockholders and the holders of our ADSs. We cannot assure you that additional financing will be available on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms, our ability to fund and expand our operations, take advantage of unanticipated opportunities, develop or enhance Internet content, features or services, or otherwise respond to competitive pressures will be significantly limited. Our business, results of operations and financial condition could be materially adversely affected by any such limitation. Please see Item 3. Key Information Risk Factors Forward-looking statements contained in this annual report may not be realized.

As of March 31, 2003, we had spent approximately Rs.1,562.0 million to develop and deploy our network infrastructure. As of March 31, 2003, our future contractual obligations and commercial commitments were as follows:

**Table of Contents**

Contractual Obligations	Payments Due by Period			Rs. million	
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Capital Lease Obligations	6.3	2.5	3.8		
Total Contractual Obligations	6.3	2.5	3.8		

Other Commercial Commitments	Amount of Commitment Expiration Per Period				Rs. million	
	Total Amounts Committed	Less than 1 year	1-3 years	4-5 years	Over 5 years	
Standby Letters of Credit	140.4	40.4	100.0			
Guarantees	34.2	34.2				
Other Commercial Commitments	20.2	20.2				
Total Commercial Commitments	194.8	94.8	100.0			

**Recent Accounting Pronouncements**

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

In November 2002, the FASB issued Interpretation No. 45, *Guarantors Accounting and Disclosure Requirements for Guarantees Including Indirect Guarantees of Indebtedness of Others*. FIN No. 45 requires a guarantor to include disclosures of certain obligations, and if applicable, at the inception of the guarantee, recognize a liability for the fair value of certain other obligations undertaken in issuing a guarantee. The recognition requirements are effective for guarantees issued or modified after December 31, 2002. The adoption of this Interpretation did not have a material impact on our accounting or disclosure policies.

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

On May 15, 2003, the Financial Accounting Standards Board issued Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. Statement 150 requires issuers to classify as liabilities (or assets in some circumstance) three classes of freestanding financial instruments that embody obligations for the issuer. Generally, Statement 150 is effective for financial instruments entered into or modified after May 31, 2003 and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. We will adopt the provisions of Statement 150 on July 1, 2003. We do not expect to have significant impact on adoption of Statement 150.

**Critical Accounting Policies**

Critical accounting policies are defined as those that in our view are most important to the portrayal of the Company's financial condition and results and that are most demanding on our calls on judgment. We believe that the accounting policies discussed below are the most critical accounting policies.

*Revenue recognition*





**Table of Contents**

*Corporate network/data services.* Corporate network/data services revenues primarily include connectivity services and, to a lesser extent, the revenues from the sale of hardware and software purchased from third party vendors, installation of the link and other ancillary services, such as e-mail, fax and domain registration. Generally, these elements are sold as a package consisting of all or some of the elements. This multiple element arrangement is recognized as separable elements because each element constitutes a separate earnings process, each element has a fair value that is reliable, verifiable and objectively determinable, and the undelivered element is not essential to functionality of the delivered elements. We provide connectivity for a fixed period of time at a fixed rate regardless of usage. Connectivity is the last element that is provided in the case of a bundled contract. The connectivity charges are the same when sold alone or as part of a package. The revenue attributable to connectivity services is recognized ratably over the period of the contract. The hardware and software are standard products that are being freely traded in and purchased from the market, have standard specifications and are not otherwise customized for the specific needs of a customer. The software sold by us is an off-the-shelf software, such as antivirus utilities and firewalls. The fair value for the hardware and software is available from the market. The revenue attributable to hardware/software is recognized on delivery. Installation consists of commissioning the last mile connectivity to the customer premises from the carrier exchange (primarily Bharat Sanchar Nigam Limited, or BSNL, a Government of India entity). However, once commissioned this connection can be used by the customer to access any other service provider. The installation normally takes 4-6 weeks. When the customer has such last mile connectivity, we do not charge any installation fee. The revenue attributable to the installation of the link is recognized on completion of the installation work. When installation and connectivity services are provided as a package, the value of the installation service is based on the residual amount using the residual method as defined in SOP 98-9. Revenue from ancillary services, such as email facilities, fax facility and domain registration, are recognized over the period such facilities are provided. All revenues are shown exclusive of sales tax and service tax and net of applicable discounts and allowances.

Web hosting service revenues primarily include co-location services and connectivity services. On occasion, we also sell related hardware/software to our web hosting customers. At all times, such hardware and software belongs to the customer. This hardware and software is purchased from outside vendors and is freely traded in the market. We treat each element of the arrangement as a separate earnings process based on the guidelines of SOP 97-2, *Software Revenue Recognition*. The value of the hosting service is determined based on vendor specific objective evidence from similar services sold separately by us. When hardware and/or software is also included with hosting services and sold as a package, the vendor specific objective evidence of the undelivered element is considered to arrive at the residual value of the delivered element under SOP 98-9. Revenue from hosting services is recognized over the period during which the service is provided.

*Internet access services.* Dial-up Internet access is sold to customers either for a specified number of hours or for an unlimited usage within a specified period of time. Customers purchase a CD-ROM that enables them to access the Internet. The amounts received from customers on the sale of these CD-ROMs are not refundable. We recognize revenue from sale of CD-ROMs based on usage by the customer. At the end of the specified period, the remaining unused hours, if any, are recognized as revenue. Revenue from unlimited Internet access and electronic mail access is recognized over the specified period.

Public Internet access is provided to customers through a chain of franchisee cybercafé outlets and, to a lesser extent, Sify-owned cybercafés.

We enter into an arrangement with franchisees that provides for the payment of an initial franchisee fee in consideration for establishing the franchisee relationship and providing specified initial services. The fee is typically received in full before installation. The fee covers the following upfront services rendered by us in:

- conducting a market survey and deciding on the best location for the cybercafé;
- installing the broadband receiver equipment on the roof top of the cybercafé and connecting it to one of Sify's broadcasting towers;
- obtaining the regulatory approvals for clearance of the site for wireless transmission at the allotted frequency range;
- installing the wiring from the receiver unit to the individual PCs;

**Table of Contents**

assisting in obtaining facilities, including computers and interiors; and

providing the operations manual with instructions and guidelines for running the cybercafé.

Initial franchisee fee revenue is recognized at the time of commencement of operations by the franchisee, in accordance with SFAS No. 45, Accounting for Franchisee Fee Revenue, because we believe that substantial performance for which these non-refundable payments are received is completed at the time of commencement of operations and no uncertainty exists with regard to the collection of such fees. The amount of initial franchise fee revenue recognized during the year ending March 31, 2003 was Rs.21.4 million (\$0.5 million). As of March 31, 2003, we owned 26 of the 844 cybercafés. Internet access revenue is recognized based on usage by the customer.

*Online portal services and content offerings.* 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. In each case, revenue is recognized based on actual impressions, click throughs or leads delivered. There are no performance obligations or minimum guarantees. Revenues from electronic commerce transactions are recognized when the transactions are completed.

*Impairment of long-lived assets*

We assess for impairment of long lived assets under SFAS No. 144. Estimated future cash profits are adjusted for taxes, normal capital expenditure and any inflow from sale or divestment of a business. We use the undiscounted adjusted cash flows in evaluating the impairment of long-lived assets under SFAS 144. We first assess the recoverability test (and the measurement of impairment loss, if necessary) at the identifiable business segments level that benefit from common assets of our company. If the sum of such undiscounted cash flows is less than the aggregate carrying amount, an impairment charge is recognized. The carrying amounts of the long-lived assets within the business segment is added to the carrying amount of the common asset. We compare that aggregate carrying amount with the sum of the cash flows from the business segments as calculated above, which includes the cash outlays the entity expects to incur at the common asset level. If the sum of such undiscounted cash flows is less than the aggregate carrying amount, the common asset is not recoverable and the impairment loss is recognized. During fiscal 2003, we recorded an impairment charge of Rs.247 million (\$5.2 million).

*Deferred Stock Compensation*

We apply the intrinsic-value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, including FASB Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB Opinion No. 25, issued in March 2000, to account for our fixed-plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. SFAS No. 123, Accounting for Stock-Based Compensation, established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, we have elected to continue to apply the intrinsic-value-based method of accounting described above, and have adopted only the disclosure requirements of SFAS No. 123 as amended by SFAS No. 148 Accounting for Stock-Based Compensation – Transition and Disclosure.

*Accounting estimates*

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

We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and

**Table of Contents**

liabilities that are not readily apparent from other sources. Since the use of estimates are an integral component of the financial reporting process, actual results could differ from those estimates.

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****Board of Directors and Senior Management Executives**

The following table sets forth the name, age and position of each director and executive officer of our company as of May 31, 2003:

Name	Age	Position
R. Ramaraj	53	Chief Executive Officer and Director
George Zacharias	44	Chief Operating Officer
T.R. Santhanakrishnan	45	Chief Financial Officer
Shrikant Joshi	46	Vice President Access Media
V.V. Kannan	44	Vice President Interactive Services
K. Dasaratharaman	43	Chief Executive Officer, Safescrypt
Rahul Swarup	43	President, Enterprise Solutions
J. Avinash	41	Vice President, Internet Data Centers
Rustom Irani	40	Chief Technology Officer
George A. Ajit	43	Chief Human Resources Officer
Donald Peck (1)(2)	50	Director
Eric Hsia	32	Director
Ravi Chandra Adusumalli (1)(2)	27	Director
Sandeep Reddy (1)(2)	34	Director
V. Srinivas	43	Director
K Thiagarajan	50	Director
T.H. Chowdary	71	Director
S. Srinivasan	68	Director

(1) Member of the Compensation Committee.

(2) Member of the Audit Committee.

R. Ramaraj has served as Chief Executive Officer of our company since April 1998. Mr. Ramaraj has served as a Director since August 1996, prior to which he served as an advisor to our company since June 1996. From 1992 to 1996, Mr. Ramaraj served as a Director of Sterling Cellular Limited, a mobile telephone company based in India. Mr. Ramaraj is a Director of Universal Print Systems Ltd., a publicly held printing company based in India. Mr. Ramaraj received a B.Tech from Madras University and a P.G.D.M. from IIM Kolkata (Calcutta).

George Zacharias has served as Chief Operating Officer of our company since March 2000. From May 1997 to March 2000, Mr. Zacharias was the President of Madura Garments, a clothing manufacturer. Prior to joining Madura Garments, Mr. Zacharias was the Vice President Marketing, Consumer Thread, of Madura Coats. From February 1994 to March 1995, he was Marketing Director, Coats Tootal Lanks, a subsidiary of Coats Viyella Plc., UK. Mr. Zacharias received a B. Tech from Nagpur University in 1980 and a PGDBM from XLRI, Jamshedpur in 1982.

T.R. Santhanakrishnan has served as Chief Financial Officer of our company since September 1999. From 1997 to 1999, Mr. Santhanakrishnan was Executive Vice President, Finance of Sanmar Engineering Corporation. From 1990 to 1997, he served in a senior financial position for Royal Dutch/Shell Oil Company. Mr. Santhanakrishnan received a degree in Commerce from the University of Madras and is a member of the Institute of Chartered Accountants of India and the Institute of Cost and Works Accountants of India.

Shrikant Joshi has joined as Vice President Access Media in December 2001. Mr. Joshi served as Head of Sales of Heinz from July 2000 to November 2001. From 1996 to 2000, Mr. Joshi served as Head of Domestic appliances and Personal Care Business of Phillips India Ltd. Mr. Joshi started his career with WIPRO in 1983 and

**Table of Contents**

held various senior positions across different businesses of WIPRO. Mr. Joshi received a Bachelors degree from IIT Delhi and an M.B.A from IIM Ahmedabad.

V.V. Kannan has served as Vice President Interactive Services since May 2002. Mr Kannan served as Vice President, Internet Sales of our company from July 1999 to April 2002. From 1996 to 1999, Mr. Kannan was Vice President, Marketing of G.M. Pens International Limited, a manufacturing company. From 1995 to 1996, he was Vice President, Retail Sales of Real Value Marketing Sales Limited, and from 1992 to 1995 he was Marketing Manager of ITC Agri Business Division, a manufacturing company.

K Dasaratharaman joined us in April 2002 as Chief Executive Officer, Safescrypt. From April 2000 to March 2002, Mr. Dasaratharaman was the Chief Executive Officer of Music World, part of the RPG group. From 1984 to March 2000, he was with ITC Limited, where he started as a Management Trainee. Mr. Dasaratharaman received a B.Tech in Mechanical Engineering from IIT Madras and an M.B.A from IIM, Ahmedabad.

Rahul Swarup has served as President, Enterprise Solutions of our company since April 2001. From September 1999 to March 2001, Mr. Swarup served as Chief Technology Officer of our company. From 1989 to 1999, he was Vice President of Citicorp Global Technology Infrastructure. Mr. Swarup received a B.E. in Electrical Engineering from IIT Kanpur.

J. Avinash has served as Vice President, Internet Data Centers of our company since March 2000. From October 1999 to March 2000, Mr. Avinash served as our General Manager, Hosting Services. From 1994 to 1999, he served as Chief Consultant for Infosynth.

Rustom Irani has served as Chief Technology Officer of our company since April 2001. From December 1999 to March 2001, Mr. Irani served as our Vice President, Technology. From August 1999 to December 1999, he was Vice President, Technology and Chief Information Officer of GE Capital International Services, Hyderabad. From 1987 to August 1999, Mr. Irani was Vice President, Technology of Citibank N.A. Mr. Irani received a B.Sc. in Chemistry from the Arts & Sciences College, Secunderabad and a diploma in Computer Programming from Data Network Consultants, Mumbai.

George A. Ajit has served as Chief Human Resources Officer of our company since May 1999. From 1998 to 1999, Mr. Ajit was Vice President, Human Resources of Mobil India, an oil company. From 1996 to 1998, he was General Manager, Human Resources, of Mahindra Holidays and Resorts. From 1994 to 1996, Mr. Ajit was Deputy General Manager, BioProducts Division of E.I.D. Parry, a manufacturing company.

Donald Peck has served as a Director of Sify since March 1999. Mr. Peck has been with Commonwealth Development Corporation, a UK-based institution investing in developing markets, since 1991. He has been based in India since 1995, initially as head of International Venture Capital Management, or IVCM, and since April 1998 as Chief Executive Officer of CDC Advisors Private Limited, a Commonwealth Development Corporation subsidiary providing advisory services to IVCM. Mr. Peck received a PhD in Latin American Economic History from Oxford University. Mr. Peck is also a director in BPL Communications Limited, Cico Technologies Limited, International Auto Limited, Ortel Communications Limited, UTI Bank Limited, Alumnus Software Limited and Daksh eServices Private Limited.

Eric Hsia has served as a Director of Sify since December 2002. Mr. Hsia is Managing Director of SOFTBANK Infrastructure Fund (SOFTBANK), a venture capital fund launched in partnership with Cisco systems in January 2001. Mr. Hsia led SOFTBANK's investments in ADIR Technologies, Groupe Sense PDA, SEVEN and Skypilot. Previously, Mr Hsia was an Associate Partner with SOFTBANK Venture Capital focused on seed and early stage communications services, e-commerce and e-finance investments. Prior to joining SOFTBANK, Mr. Hsia was a founding member of Merrill Lynch's Technology Investment Banking Group in New York and San Francisco focused on the communications equipment sector and was a consultant with The LEK/Aclar Consulting Group in Briton. Mr. Hsia received a B.A. in economics from Harvard College.

Ravi Chandra Adusumalli has served as a Director of Sify since December 2002. Mr. Adusumalli is a Principal with the Softbank Asia Infrastructure Fund (SOFTBANK). Prior to joining SOFTBANK, Mr. Adusumalli was an Associate Partner with Mobius Venture Capital in Silicon Valley, an early stage venture capital firm with \$2.3 billion under management. Prior to Mobius, Mr Adusumalli was an Associate with Softbank Capital Partners, a

## **Table of Contents**

private equity firm with \$1.25 billion under management. Prior to Softbank Capital Partners, Mr. Adusumalli worked with Credit Suisse First Boston and Wasatch Funds. Mr. Adusumalli holds a B.A. in Economics and Government from Cornell University.

Sandeep Reddy has served as a Director of Sify since December 2002. Mr. Reddy is a London based professional. Mr. Reddy is a Director in VentureTech Solutions Private Limited (VentureTech), which has invested in a diversified portfolio of companies spanning telecom, life sciences, network and software companies. Mr. Reddy holds an MBA from IMD Switzerland. Mr. Reddy is also a director of Unify Wealth Management Limited and Trans Cibernet (India) Limited.

V. Srinivas has served as a Director of Sify since December 2002. Mr. Srinivas has been Senior Vice President and Chief Financial Officer of Satyam Computer Services Limited since November 2000. Prior to this, Mr. Srinivas was Vice President and Chief Financial Officer of Satyam Computer Services Limited since 1998. Before this, he was General Manager, Finance of Satyam Computer Services Limited. Mr. Srinivas is a fellow member of the Institute of Chartered Accountants of India and the Institute of Company Secretaries of India. He is also an associate member of the Institute of Cost and Works Accountants of India. Mr. Srinivas is also a director of Satyam Asia Pte Limited and Nipuna Services Limited. In addition, Mr. Srinivas holds a bachelor of law degree and a master of commerce degree from Osmania University.

K. Thiagarajan has served as a Director of Sify since December 2002. Mr. Thiagarajan has served as a Director and Senior Vice President-Corporate Planning and Strategy of Satyam Computer Services Limited since April 2001. Prior to this, Mr. Thiagarajan was President-E Training of Sify since January 2000. Before this, he was with Sanmar Weighing Systems Ltd., as President. Mr. Thiagarajan, is also a director in Satyam Computer Services (Shanghai) Co. Ltd. Mr. Thiagarajan holds a Bachelor of Technology degree from Indian Institute of Technology, Chennai and Post Graduate Diploma in Business Management from Indian Institute of Management, Ahmedabad.

T.H. Chowdary has served as a Director of our company since February 1996. Mr. Chowdary retired as the Chief Executive Officer of VSNL. Mr. Chowdary is also a director in Icomm, Softsol India Limited and Tera Software Limited.

S. Srinivasan has served as a Director of our company since February 1996. From 1989 to 1995, Mr. Srinivasan was Chief Executive Officer of AT&T India Limited. Mr. Srinivasan received a BE in Engineering and a PG in Management from Madras University.

## **Board Composition**

Our Articles of Association set the minimum number of directors at two and the maximum number of directors at 12. We currently have nine directors. The Companies Act and our Articles of Association require the following:

at least two-thirds of our directors shall be subject to re-election by our stockholders; and

at least one-third of our directors who are subject to re-election shall be up for re-election at each annual meeting of our stockholders.

On February 5, 1999, we entered into a Share Subscription and Stockholders Agreement, or Stockholders Agreement, with Satyam Computer Services, South Asia Regional Fund, or SARF, and Mr. B. Ramalinga Raju, which was subsequently amended effective September 14, 1999. The Stockholders Agreement provides, among other things, that:

so long as SARF owns at least 5.0% of our issued ordinary share capital, it is entitled to nominate one director to our Board of Directors;

so long as Satyam Computer Services owns at least 50.1% of our issued ordinary share capital, it is entitled to nominate four directors to our Board of Directors; and

a quorum for a meeting of our Board of Directors shall be no less than three directors.

**Table of Contents**

In December 2002, we entered into a Shareholders agreement with SAIF Investment Company Limited (SAIF), VentureTech Solutions Private Limited (VentureTech) and Satyam Computer Services providing for, among other things, a Board of Directors comprised of nine directors to be nominated as follows: SAIF two nominees; VentureTech two nominees; Satyam Computer Services two nominees; South Asia Regional Fund one nominee; one independent nominee; and one nominee who shall be the Managing Director of Sify. The shareholders agreement has also granted the investors consent rights with respect to specified corporate transactions.

Mr. Peck is a nominee of South Asian Regional Fund. Messrs. Hsia and Adusumalli are the nominees of SAIF. Mr. Reddy is a nominee of VentureTech. Messrs. Srinivas and Thiagarajan are the nominees of Satyam Computer Services. Mr. Peck was reappointed at our Annual General Meeting in 2003. Also, Messrs. Hsia, Adusumalli, Reddy, Srinivas and Thiagarajan were appointed at our Annual General Meeting in 2003 as they were appointed during the year as additional directors. The terms of Messrs. Ramaraj, Chowdary and Srinivasan will expire at our Annual General Meeting to be held in 2004. The terms of Messrs. Peck, Hsia and Adusumalli will expire at our Annual General Meeting to be held in 2005. The terms of Messrs. Reddy, Srinivas and Thiagarajan will expire at our Annual General Meeting to be held in 2006. There are no family relationships between any of the directors or executive officers of our company.

**Board Committees**

The Audit Committee of the Board of Directors reviews, acts on and reports to the Board of Directors with respect to various auditing and accounting matters, including the recommendation of our independent auditors, the scope of the annual audits, fees to be paid to the independent auditors, the performance of our independent auditors and our accounting practices. The members of the Audit Committee are Messrs. Peck, Adusumalli and Reddy.

The Compensation Committee of the Board of Directors determines the salaries, benefits and stock option grants for our employees, consultants, directors and other individuals compensated by our company. The Compensation Committee also administers our compensation plans. The members of the Compensation Committee are Messrs. Peck, Adusumalli and Reddy.

**Director Compensation**

Our Articles of Association provide that each of our directors receives a sitting fee not exceeding Rs.2,000 for every Board and Committee meeting. In fiscal 2003, we did not pay any fees to our non-employee directors. Mr. Ramaraj, who is employed as our Chief Executive Officer, does not receive any additional compensation for his service on our Board of Directors. Directors are reimbursed for travel and out-of-pocket expenses in connection with their attendance at Board and Committee meetings.

**Officer Compensation**

The following table sets forth all compensation paid by us during the fiscal year ended March 31, 2003 to our executive officers.

**Summary Compensation Table****(Rs. Million)**

Name	Salary	Bonus	All Other Compensation	
			Under Executive Employment agreement	Deferred Compensation
R. Ramaraj	5.35	Nil	Nil	4.98
George Zacharias	5.41	0.64	10.00	5.26
T.R. Santhanakrishnan	4.16	0.64	10.00	3.84
Shrikant Joshi	2.86	Nil	Nil	0.01
V V Kannan	2.71	0.34	3.50	0.26
K Dasaratharaman	3.37	Nil	Nil	0.01

**Table of Contents****Summary Compensation Table****(Rs. Million)**

Name	Salary	Bonus	All Other Compensation	
			Under Executive Employment agreement	Deferred Compensation
Rahul Swarup	4.34	0.64	5.00	2.19
J. Avinash	2.06	0.43	Nil	1.67
Rustom Irani	2.99	0.50	3.50	2.49
George A. Ajit	2.91	0.55	4.00	1.75
S Srinivasan	Nil	Nil	Nil	1.31

The following table sets forth all stock options granted by us during the fiscal year ended March 31, 2003 to our executive officers.

**Option Grant Table**

Name	Equity Shares Underlying Option Grant	Exercise Price	Expiration Date
Shrikant Joshi	5,100	Rs. 49.97	11-11-2005
K Dasaratharaman	5,100	Rs. 49.97	11-11-2005

No executive officer exercised stock options during the fiscal year ended March 31, 2003.

In February 2002, we entered into Executive Employment Agreements with each of Messrs. Ramaraj, Zacharias and Santhanakrishnan. Our agreement with Mr. Ramaraj had a term of approximately 13 months, and our agreements with Messrs Zacharias and Santhanakrishnan have a term of three years. Our stockholders approved an extension of Mr. Ramaraj's tenure as Managing Director for an additional five years, effective April 1, 2003, retaining the terms as per the Executive employment agreement. The material terms of the agreement between us and the executives, are as follows:

during the term of employment, the executive shall be entitled to compensation and benefits, subject to deduction of tax per applicable law, as provided in the agreement;

the executive agreed not to disclose confidential information and trade secrets to any third party except when mandated by law and not to use such information for any purpose except in the performance of his work for Sify;

the executive agreed that all work of a copyrightable or patentable nature done in the course of work for Sify belongs to Sify and undertook to help in every way to duly register Sify's ownership of such copyrights and patents;

Sify agreed to indemnify the executive, his executors, administrators or assigns for all expenses which the executive incurs or becomes legally obligated to pay in connection with any proceedings;

executive is entitled to full compensation and benefits (excluding the performance bonus) up to the date of termination of his employment, including a pro rated performance bonus up to the date of termination of his employment in the event that executive's employment is terminated for good reason or within one year after a change of control;

executive is entitled to certain additional terminal compensation of base salary in the event of the termination of executive's employment by Sify for any reason or by executive for good reason; and

executive has been provided with a loan by our company which is repayable by the executive with interest on December 31, 2002. We agreed to pay the executive an additional compensation sufficient to repay the loan (income tax to executive's account) and an additional compensation sufficient to pay the interest (income tax to Sify's account) at the earliest of the maturity date of the loan and



the occurrence of a change of control. The loan bears interest at an annual rate of 4%

**Table of Contents**

(increased to 13% effective October 1, 2001. If the executive's employment is terminated, the unpaid balance of the loan and accrued interest is payable by executive. In the event of the executive's death, we would waive the recovery of the unpaid balance of the loan and accrued interest.

We were providing for the incentive obligation in the accounts over the period from the date of disbursement to the contracted date of repayment. However, in the quarter ended December 31, 2002, consequent to a change of control event, the entire unamortized portion of the loan was amortized. Such additional compensation to repay the loans given to certain executives are fully written off.

**Stock Ownership**

The following table sets forth information with respect to the beneficial ownership of our equity shares as of May 31, 2003 by each director and our Chief Executive Officer. The table gives effect to equity shares issuable within 60 days of May 31, 2003 upon the exercise of all options and other rights beneficially owned by the indicated stockholders on that date. Beneficial ownership is determined in accordance with the rules of the SEC and includes voting and investment power with respect to equity shares. Unless otherwise indicated, the persons named in the table have sole voting and sole investment control with respect to all equity shares beneficially owned.

Beneficial Owner	Equity Shares Beneficially Owned	
	Number	Percent
R. Ramaraj (1)	370,000	1.1%
Donald Peck (2)	3,600,000	10.6
Eric Hsia (3)	5,558,140	16.4
Ravi Chandra Adusumalli (4)	5,558,140	16.4
Sandeep Reddy (5)	4,550,767	13.1
V Srinivas (6)	12,182,600	36.0
K Thiagarajan (7)	12,182,600	36.0
T. H. Chowdary		
S. Srinivasan		

- (1) Excludes options to purchase (a) 20,000 equity shares with an exercise price of \$76.95 per share granted on June 1, 2000 and (b) 26,040 equity shares with an exercise price of \$3.53 per share granted on November 21, 2001 to Mr. Ramaraj which expire three years and one month from the date of grant.
- (2) Consists of 3,600,000 equity shares beneficially owned by South Asia Regional Fund. Mr. Peck is affiliated with South Asia Regional Fund. Mr. Peck disclaims beneficial ownership of the equity shares owned by South Asia Regional Fund, except to the extent of his pecuniary interest therein.
- (3) Consists of 5,558,140 ADSs beneficially owned by SAIF Investment Company Limited. Mr. Hsia is Managing Director of SOFTBANK Infrastructure Fund, an affiliate of SAIF Investment Company Limited. Mr. Hsia disclaims beneficial ownership of the ADSs owned by SAIF Investment Company Limited, except to the extent of his pecuniary interest therein.
- (4) Consists of 5,558,140 ADSs beneficially owned by SAIF Investment Company Limited. Mr. Adusumalli is a Principal of SOFTBANK Asia Infrastructure Fund, an affiliate of SAIF Investment Company Limited. Mr. Adusumalli disclaims beneficial ownership of the ADSs owned by SAIF Investment Company Limited, except to the extent of his pecuniary interest therein.
- (5) Consists of 4,550,767 equity shares beneficially owned by VentureTech Solutions Private Limited, including 1,017,441 ADSs that VentureTech Solutions Private Limited or an affiliate is obligated to purchase from our company on or prior to July 31, 2003. Mr. Reddy is a Director of VentureTech Solutions Private Limited. Mr.

**Table of Contents**

Reddy disclaims beneficial ownership of the equity shares owned by VentureTech Solutions Private Limited, except to the extent of his pecuniary interest therein.

- (6) Consists of 12,182,600 equity shares beneficially owned by Satyam Computer Services Limited. Mr. Srinivas is Senior Vice President and Chief Financial Officer of Satyam Computer Services Limited. Mr. Srinivas disclaims beneficial ownership of the equity shares owned by Satyam Computer Services Limited, except to the extent of his pecuniary interest therein.
- (7) Consists of 12,182,600 equity shares beneficially owned by Satyam Computer Services Limited. Mr. Thiagarajan is a Director and Senior Vice President Corporate Planning and Strategy of Satyam Computer Services Limited. Mr. Thiagarajan disclaims beneficial ownership of the equity shares owned by Satyam Computer Services Limited, except to the extent of his pecuniary interest therein.

As of May 31, 2003, we had 33,838,392 outstanding equity shares. As of March 31, 2003, there were approximately 32,000 record holders of ADRs evidencing 13,491,543 ADSs.

**Employee Stock Option Plan**

We have an Associate Stock Option Plan, which we refer to as our Employee Stock Option Plan or ASOP, which provides for the grant of options to employees of our company. The ASOP was approved by our Board of Directors and our shareholders in March 1999. A total of 1.8 million equity shares are reserved for issuance under our Associate Stock Option Plan. As of March 31, 2003, we had outstanding an aggregate of 390,560 options (net of 562,040 options forfeited by employees or expired and 200 options exercised for equity shares) under our ASOP with a weighted average exercise price equal to approximately Rs.1,359 (\$28.60) per equity share.

The ASOP is administered by the Compensation Committee of our Board of Directors. Pursuant to the provisions of the ASOP, the Satyam Infoway Associates Trust, or Trust, is allotted options to purchase our equity shares pursuant to resolutions passed at our general meetings. The Trust holds these options for and on behalf of our employees. The Compensation Committee makes recommendations to the Trust regarding employees who should be considered for option grants. On the recommendation of the Compensation Committee, the Trust will advise our company to transfer the options to identified employees, with the right to convert the issued options into our equity shares at the rates indicated in the options. The consideration for transfer of the options will be Rs.1 per option to be paid by the employee before transfer of the options.

An employee holding options may apply for conversion of the options on a date specified therein which is referred to as the conversion date. The options are not transferable by an employee on or before the conversion date, except to the Trust should the employee cease to be an employee by reason of resignation, dismissal or termination of employment due to reasons of non-performance or otherwise. On exercise of the option, the employee submits a letter of conversion to the Trust for allotment of our equity shares in his or her name. The Trust collects the consideration for conversion arrived at as a product of number of options converted and the conversion price as reduced by the price of the options paid by the employee for the number of options converted by the employee. The equity shares transferred to the employee after conversion from options is the absolute property of the employee and will be held by the employee. Upon the filing with the U.S. Securities and Exchange Commission of a registration statement on Form S-8 covering the shares issuable under the ASOP, we expect that participants in the ASOP will be able to receive ADSs upon exercise of their options.

**Employees**

As of March 31, 2003, we had 1,068 employees. We anticipate maintaining the current size of our employee base over the next year. We had 887 employees, 1,185 employees and 622 employees, respectively, as of March 31, 2002, March 31, 2001 and March 31, 2000. The 231 employees previously engaged in our software services division have been transferred to Satyam Computer Services in connection with the sale of that division. Of our current employees, 105 are administrative, 313 form our sales and marketing staffs, 241 are in services and

**Table of Contents**

content development and 409 are dedicated to technology, technical support, business process and customer care. None of our employees are represented by a union. We believe that our relationship with our employees is good.

**Item 7. Major Stockholders and Related Party Transactions**

**Principal Stockholders**

The following table sets forth information with respect to the beneficial ownership of our equity shares as of May 31, 2003 by each person or group of affiliated persons who is known by us based on our review of public filings to beneficially own 5% or more of our equity shares. The table gives effect to equity shares issuable within 60 days of March 31, 2003 upon the exercise of all options and other rights beneficially owned by the indicated stockholders on that date. Beneficial ownership is determined in accordance with the rules of the SEC and includes voting and investment power with respect to equity shares. Unless otherwise indicated, the persons named in the table have sole voting and sole investment control with respect to all equity shares beneficially owned.

Messrs. Satyam Ramnauth and Pierre Guy Noel, directors of International Venture Capital Management, which manages South Asia Regional Fund, exercise voting control and dispositive power over the equity shares owned by South Asia Regional Fund. Mr. Peck, a director of our company, is affiliated with South Asia Regional Fund.

Messrs. Anthony J. Castellanos, Ronald David Fisher, Reaz Noormamode, Denis Sek Sum and Andrew Y. Yan, directors of SAIF Investment Company Limited, exercise voting control and dispositive power over the equity shares owned by SAIF Investment Company Ltd. Mr. Hsia and Mr Adusumalli , directors of our company, are affiliated with SOFTBANK Asia Infrastructure Fund.

Messrs. Sandeep Reddy and N. Mal Reddy, directors of VentureTech Solutions Private Limited , exercise voting control and dispositive power over the equity shares owned by VentureTech Solutions Private Limited. Mr. Reddy, a director of our company, is a Director with VentureTech.

Messrs. B. Ramalinga Raju and B. Rama Raju, directors of Satyam Computer Services Limited, exercise voting control and dispositive power over the equity shares owned by Satyam Computer Services. Messrs. Srinivas and Thiagarajan, directors of our company, are affiliated with Satyam Computer Services.

**Table of Contents**

Beneficial Owner	Equity Shares Beneficially Owned	
	Number	Percent
Satyam Computer Services Limited Mayfair Centre, S P Road Secunderabad 500 003 India	12,182,600	36.0%
SAIF Investment Company Limited Suite 307, St. James Court St. Denis Street, Port Louis Mauritius	5,558,140	16.4%
VentureTech Solutions Private Limited 12, Subba Rao Avenue Chennai 600006 India	4,550,767(1)	13.1%
South Asia Regional Fund Les Cascades Building Edith Cavell Street Port Louis Mauritius	3,600,000	10.6%
Acqua Wellington North American Equities Fund, Ltd. c/o Fortis Fund Services (Bahamas) Ltd. Montage Sterling Centre East Bay St., P.O. Box 55-6238 Nassau, Bahamas	2,000,000	5.9%

- (1) Includes 1,017,441 ADSs that VentureTech Solutions Private Limited or an affiliate is obligated to purchase from our company on or prior to July 31, 2003.

**Control of Registrant**

Satyam Computer Services, SAIF Investment Company Limited and VentureTech Solutions Private Limited collectively beneficially owned approximately 65.5% of our equity shares as of May 31, 2003. These stockholders are parties to an Investor Rights Agreement with our company dated October 7, 2002. The Investor Rights Agreement provides for, among other things, a Board of Directors comprised of nine directors to be nominated as follows: SAIF two nominees; VentureTech two nominees; Satyam Computer Services two nominees; South Asia Regional Fund one nominee; one independent nominee; and one nominee who shall be the Managing Director of Sify. The Investor Rights Agreement provides certain of the stockholders with consent rights in connection with specified corporate transactions.

These stockholders are presently able to exercise control over many matters requiring approval by our stockholders, including the election of directors and approval of significant corporate transactions. Under Indian law, a simple majority is sufficient to control all stockholder action except for those items which require approval by a special resolution. If a special resolution is required, the number of votes cast in favor of the resolution must be not 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 stockholders;

## **Table of Contents**

commencing any new line of business; and

commencing a liquidation.

Circumstances may arise in which the interests of Satyam Computer Services, SAIF Investment Company Limited and/or VentureTech Solutions Private Limited or a subsequent purchaser of their respective shares could conflict with the interest of our other stockholders or holders of our ADSs. These stockholders could prevent or delay a change in control of our company even if a transaction of that sort would be beneficial to our other stockholders, including the holders of our ADSs.

### **Related Party Transactions**

Our company has a stated policy on related party transactions which states that whenever Sify enters into any transaction with a related party the Company shall perform these transactions on terms no less favorable to the Company than could have been obtained from independent third parties.

Until December 2002, Satyam Computer Services was our parent company. In fiscal 2003, we sold an aggregate of Rs.34.3 million in services to Satyam Computer Services and its affiliates. We believe that these transactions with Satyam Computer Services and its affiliates were on terms no less favorable to our company than could have been obtained from independent third parties.

On October 5, 2001, we entered into an agreement to subscribe for unsecured convertible loan notes ( loan notes ) to be issued by CricInfo Limited in an aggregate amount of up to GBP 1.6 million to meet Cricinfo s short-medium term working capital requirements over the next year. These loan notes were redeemable on October 5, 2004 and the terms of the loan note instrument provided for the payment of interest on the principal amount at the rate of 8% per annum.

We also entered into a Term Loan Agreement with Cricinfo for granting a term loan facility of GBP 0.1 million. The Loan carried an interest rate of 4% per annum and was repayable on December 31, 2004. This term loan and the convertible loan were secured by a Debenture document executed by CricInfo.

In February 2003, CricInfo transferred its net assets, other than the loan payable to Sify and miscellaneous current assets, and liabilities to a newly formed company incorporated in the United Kingdom, Wisden Cricinfo Limited. In consideration of its contribution of assets, Cricinfo Limited received a 33% equity stake in Wisden Cricinfo Limited and GBP 1.8 million. Cricinfo Limited repaid our loan, including accrued interest of Rs. 107.0 million, and transferred its 33% stake in Wisden Cricinfo Limited to us for a consideration of Rs. 22.6 million (GBP 0.3 million). Contemporaneously we advanced Rs 23.0 million (GBP 0.3 million) to Wisden Cricinfo Limited.

As a result of the foregoing transactions including the loan to Wisden Cricinfo, we recognized a gain of Rs.22.6 million being the difference between proceeds received Rs. 126.9 million and the net carrying value of the notes (including accrued interest) of Rs.81.4 million and a deferred gain of Rs. 23.0 million.

## **Item 8. Financial Information**

### **Financial Statements**

We have elected to provide financial statements pursuant to Item 18 of Form 20-F.

### **Legal Proceedings**

Our company and certain of our officers and directors are named as defendants in a securities class action lawsuit filed in the United States District Court for the Southern District of New York. This action, which is captioned *In re Satyam Infoway Ltd.* Initial Public Offering Securities Litigation, also names several of the underwriters involved in our initial public offering of American Depositary Shares as defendants. This class action is brought on behalf of a purported class of purchasers of our ADSs from the time of our IPO in October 1999 through December 2000. The central allegation in this action is that the underwriters in our IPO solicited and received undisclosed commissions from, and entered into undisclosed arrangements with, certain investors who purchased

## **Table of Contents**

our ADSs in the IPO and the aftermarket. The complaint also alleges that we violated the United States federal securities laws by failing to disclose in the IPO prospectus that the underwriters had engaged in these allegedly undisclosed arrangements. More than 300 issuers have been named in similar lawsuits. In July 2002, an omnibus motion to dismiss all complaints against issuers and individual defendants affiliated with issuers was filed by the entire group of issuer defendants in these similar actions. In October 2002, our executive officers who were named as defendants in this action were dismissed from the action without prejudice. In February 2003, the Court in this action issued its decision on defendants' omnibus motion to dismiss. This decision denied the motion to dismiss the Section 11 claim as to Sify and virtually all of the other issuer defendants. The decision also denied the motion to dismiss the Section 10(b) claim as to numerous issuer defendants, including Sify. Although we are unable to estimate the range of loss that is reasonably possible, we believe that we have meritorious defenses and intend to defend this action vigorously. However, we could be forced to incur material expenses in the litigation and, in the event there is an adverse outcome, our business could be harmed.

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

The charges for international gateways and other services presently being provided by VSNL are the subject of a dispute pending before the TRAI and the Telecom Disputes Settlement and Appellate Tribunal between VSNL and private Internet service providers, including our company, represented by the Internet Service Providers of India (ISPAI). VSNL has priced these services at levels which we believe are inconsistent with the terms and conditions on which VSNL has secured the bandwidth for its international gateways. The Telecom Disputes Settlement and Appellate Tribunal remanded the matter back to the TRAI, which decided against the ISPAI. The ISPAI has not yet decided on a further course of action. We are currently paying for bandwidth from VSNL at the higher rates and do not believe that the outcome of this dispute will be material to our business provided that the international gateway services market continues to be open to competition.

We are party to additional legal actions arising in the ordinary course of business. Based on information available to us as of March 31, 2003 we believe that we have adequate legal defenses or insurance coverage for these actions and that the ultimate outcome of these actions will not have a material adverse effect on our company.

## **Dividends**

We have not declared or paid any cash dividends on our equity shares since inception and do not expect to pay any cash dividends for the foreseeable future. We currently intend to retain future earnings, if any, to finance the expansion of our business. Investors seeking cash dividends should not purchase our ADSs.

Under Indian law, a corporation may pay dividends upon a recommendation by its Board of Directors and approval by a majority of its stockholders. Any future cash dividends on our equity shares represented by ADSs will be paid to the depositary in rupees and will generally be converted into dollars by the depositary and distributed to holders of ADSs, net of the depositary's fees and expenses.

## **Item 9. The Offer and Listing**

### **Trading Markets**

There is no public market for our equity shares in India, the United States or any other market. Our ADSs evidenced by American Depositary Receipts, or ADRs, are traded in the United States on the Nasdaq National Market. Each ADS represents one equity share. The ADRs evidencing ADSs were issued by our depositary, Citibank, N.A., pursuant to a Deposit Agreement.

The number of outstanding equity shares in our company as of May 31, 2003 was 33,838,392. As of March 31, 2003, there were approximately 32,000 record holders of ADRs holding 13,491,543 ADSs.

### **Price History**

**Table of Contents**

Our ADSs commenced trading on the Nasdaq National Market on October 19, 1999. Effective September 24, 2002, we effected a 1-for-4 reverse ratio change such that one ADS represents one equity share. The tables below set forth, for the periods indicated, high and low trading prices for our ADSs after giving effect to the reverse ratio change:

*Prior Fiscal Years*

	Price Range	
	High	Low
<b>Fiscal Year ended</b>		
March 31, 2000 (beginning October 19, 1999)	\$452.00	\$30.00
March 31, 2001	256.00	11.76
March 31, 2002	17.60	2.88
March 31, 2003	6.44	0.88

*Quarters of Prior Fiscal Years*

	Price Range	
	High	Low
<b>Fiscal Year ended March 31, 2002</b>		
First Quarter	\$17.60	\$10.00
Second Quarter	14.20	2.88
Third Quarter	12.76	3.40
Fourth Quarter	11.16	5.84
<b>Fiscal Year ended March 31, 2003</b>		
First Quarter	\$ 6.44	\$ 2.00
Second Quarter	3.00	0.88
Third Quarter	4.95	0.90
Fourth Quarter	5.30	2.27

*Prior Six Months*

Month	Price Range	
	High	Low
December 2002	\$3.85	\$2.05
January 2003	5.30	2.27
February 2003	4.24	3.25
March 2003	4.38	2.90
April 2003	4.96	3.65
May 2003	8.10	4.55

The initial public offering of our ADSs was priced on October 18, 1999 at a price of \$18.00 per ADS.

**Item 10. Additional Information****Memorandum and Articles of Association**



## Edgar Filing: SIFY LTD - Form 20-F

Our authorized share capital is 37,500,000 shares, par value Rs.10 per share. As of May 31, 2003, 33,838,392 equity shares were issued and outstanding.

The equity shares are our only class of share capital. Some of the equity capital are represented by American Depository Receipts issued by our company in accordance with the applicable laws and regulations. Our Articles of Association and the Companies Act permit us to issue classes of securities in addition to the equity shares. For the purposes of this annual report, shareholder means a shareholder who is registered as a member in the register of members of our company.

A total of 1.8 million equity shares are reserved for issuance under our Associate Stock Option Plan, or ASOP. As of March 31, 2003, we had outstanding an aggregate of 390,560 options (net of 562,040 options forfeited)

**Table of Contents**

by employees or expired and 200 options exercised for equity shares) under our ASOP with a weighted average exercise price equal to approximately Rs.1,359 per equity share. The unamortized deferred compensation related to these grants amounted to Rs.24.8 million as of March 31, 2003.

Under our Memorandum of Association, the main objectives of our company include:

developing, servicing and selling or leasing data through direct or electronic media, developing a wide area of communications network and providing value-added services on the network for the development, service, purchase or sale of computers, software and related products in order to provide marketing services; and

designing and developing systems and application software for sale in and outside of India, and designing and developing systems and applications software for or on behalf of manufacturers, owners and users of computer systems and digital or electronic equipment.

On February 5, 1999, we entered into the Shareholders Agreement with Satyam Computer Services, SARF and Mr. B. Ramalinga Raju, which was subsequently amended effective September 14, 1999. The Shareholders Agreement grants tag-along rights to SARF in the event of a sale of our equity shares by Satyam Computer Services as well as customary information and inspection rights. The Shareholders Agreement with SARF provides that upon the occurrence of specified events, SARF may require Satyam Computer Services to repurchase our equity shares owned by SARF. The Shareholders Agreement also granted to Satyam Computer Services and SARF warrants to purchase up to an aggregate of 750,000 of our equity shares. Upon the completion of our initial public offering in October 1999, Satyam Computer Services and SARF exercised these warrants for an exercise price equal to approximately 67% of our initial public offering price, or \$12.00 per equity share, and we issued an aggregate of 150,000 and 600,000 equity shares to Satyam Computer Services and SARF, respectively.

In October 2003, we entered into an Investor Rights Agreement with Satyam Computer Services, SAIF and VentureTech providing for, among other things, a Board of Directors comprised of nine directors to be nominated as follows: SAIF two nominees; VentureTech two nominees; Satyam Computer Services two nominees; South Asia Regional Fund one nominee; one independent nominee; and one nominee who shall be the Managing Director of Sify. The Investor Rights Agreement also provides certain of the stockholders with consent rights in connection with specified corporate transactions.

*Dividends*

Under the Companies Act, unless our Board of Directors recommends the payment of a dividend, we may not declare a dividend. Similarly, under our Articles, although the shareholders may, at the annual general meeting, approve a dividend in an amount less than that recommended by the Board, they cannot increase the amount of the dividend. In India, dividends generally are declared as a percentage of the par value of a company's equity shares. The dividend recommended by the Board, and thereafter approved by the shareholders in general meeting, if any, and subject to the limitations described above, is distributed and paid to shareholders in proportion to the paid up value of their shares within 30 days of the approval by the shareholders at the annual general meeting. Pursuant to our Articles, our Board has discretion to declare and pay interim dividends without shareholder approval. With respect to equity shares issued during a particular fiscal year (including any equity shares underlying ADSs issued to the depository in connection with the offering or in the future), cash dividends declared and paid for such fiscal year generally will be prorated from the date of issuance to the end of such fiscal year.

Under the Companies Act, dividends may be paid out of profits of a company in the year in which the dividend is declared or out of the undistributed profits of previous fiscal years. Before declaring a dividend greater than 10% of the par value of its equity shares, a company is required under the Companies Act to transfer to its reserves a minimum percentage of its profits for that year, ranging from 2.5% to 10% depending upon the dividend percentage to be declared in such year. The Companies Act further provides that, in the event of an inadequacy or absence of profits in any year, a dividend may be declared for such year out of the company's accumulated profits, subject to the following conditions:

the rate of dividend to be declared may not exceed 10% of its paid up capital or the average of the rate at which dividends were declared by the company in the prior five years, whichever is less;

**Table of Contents**

the total amount to be drawn from the accumulated profits earned in the previous years and transferred to the reserves may not exceed an amount equivalent to 10% of its paid up capital and free reserves, and the amount so drawn is to be used first to set off the losses incurred in the fiscal year before any dividends in respect of preference or equity shares are declared; and

the balance of reserves after withdrawals shall not fall below 15% of its paid up capital.

For additional information, please see Item 8. Financial Information Dividends. Until April 1, 2002, a tax of 10.2%, including the applicable surcharge, of the total dividend declared, distributed or paid for a relevant period is payable by our company. For additional information, please see Item 5. Operating and Financial Review and Prospects Income Tax Matters.

*Bonus Shares*

In addition to permitting dividends to be paid out of current or retained earnings as described above, the Companies Act permits us to distribute an amount transferred from the general reserve or surplus in our profit and loss account to our shareholders in the form of bonus shares, which are similar to a stock dividend. The Companies Act also permits the issuance of bonus shares from a share premium account. Bonus shares are distributed to shareholders in the proportion recommended by the Board. Shareholders of record on a fixed record date are entitled to receive such bonus shares.

*Preemptive Rights and Issue of Additional Shares*

The Companies Act gives shareholders the right to subscribe for new shares in proportion to their respective existing shareholdings unless otherwise determined by a special resolution passed by a general meeting of the shareholders. For approval, a special resolution must be approved by a number of votes which is not less than three times the number of votes against the special resolution. At our 2000 Annual General Meeting, our stockholders approved a special resolution pursuant to which we may issue up to one million equity shares (equivalent to one million ADSs) in connection with acquisitions, 268,500 of which we issued in connection with our acquisition of IndiaWorld Communications, 551,180 of which we issued in connection with our acquisition of a 25% stake in CricInfo Limited and 113,798 of which we issued in connection with our acquisition of Indiaplaza.com. At our 2001 Annual General Meeting, our stockholders approved a special resolution permitting us to issue up to four million additional equity shares in connection with acquisitions or capital raising transactions, and ADS holders are deemed to have waived their preemptive rights with respect to these shares. At our December 2002 Extraordinary General Meeting, our stockholders approved a special resolution permitting us to issue up to 12.5 million additional equity shares (equivalent to 12.5 million ADSs) in connection with the sale of equity shares to SAIF and VentureTech, and our ADS holders are deemed to have waived their preemptive rights with respect to these shares and our Board of Directors may approve the issuance of these shares without further action of our stockholders.

Each of our directors is entitled to receive a sitting fee not exceeding Rs.2,000 for every Board and Committee meeting as well as all traveling and out-of-pocket expenses incurred in attending such meetings. Our Board of Directors may from time to time or at any time at its discretion raise or borrow any sum of money for use by our company. Unless otherwise determined by our company in a general meeting, our directors are not required to hold any shares of our company's capital stock to qualify to serve. For additional information, please see Item 6. Director, Senior Management and Employees - Board Composition, Board Committees and Director and Officer Compensation.

*Annual General Meetings of Shareholders*

We must convene an annual general meeting of shareholders within six months after the end of each fiscal year and may convene an extraordinary general meeting of shareholders when necessary or at the request of a shareholder or shareholders holding at least 10% of our paid up capital carrying voting rights. The annual general meeting of the shareholders is generally convened by our Secretary pursuant to a resolution of the Board. Written notice setting out the agenda of the meeting must be given at least 21 days (excluding the days of mailing and

**Table of Contents**

receipt) prior to the date of the general meeting to the shareholders of record. Shareholders who are registered as shareholders on the date of the general meeting are entitled to attend or vote at such meeting.

The annual general meeting of shareholders must be held at our registered office or at such other place within the city in which the registered office is located. Meetings other than the annual general meeting may be held at any other place if so determined by the Board. Effective April 3, 2003 our registered office is located at 2<sup>nd</sup> Floor, Tidel Park, 4 Canal Bank Road, Taramani, Chennai 600 113, India.

Our Articles provide that a quorum for a general meeting is the presence of at least five shareholders in person.

*2003 Annual General Meeting*

Our Annual General Meeting for the 2003 fiscal year was held on June 23, 2003 at 11.00 a.m. (local time) at the registered office of our company, 2<sup>nd</sup> Floor, Tidel Park, 4 Canal Bank Road, Taramani, Chennai 600 113, India. The matters brought in front of our stockholders at this meeting are described in a Notice of Seventh Annual General Meeting were mailed to stockholders on or about May 19, 2003 and were also filed with the Commission on Form 6-K. Please see that filing for a description of the matters considered by our stockholders at the meeting. At the Annual General Meeting, each of the proposals was approved by our stockholders.

*Voting Rights*

At any general meeting, voting is by show of hands unless a poll is demanded by a shareholder or shareholders present in person or by proxy holding at least 10% of the total shares entitled to vote on the resolution or by those holding shares with an aggregate paid up capital of at least Rs.50,000. Upon a show of hands, every shareholder entitled to vote and present in person has one vote and, on a poll, every shareholder entitled to vote and present in person or by proxy has voting rights in proportion to the paid up capital held by such shareholders. Our Chairman of the Board has a deciding vote in the case of any tie.

Any shareholder may appoint a proxy. The instrument appointing a proxy must be delivered to us at least 48 hours prior to the meeting. A proxy does not participate at the time of show of hands but the proxy is entitled to vote on a poll being taken. A corporate shareholder may appoint an authorized representative who can vote on behalf of the shareholder, both upon a show of hands and upon a poll.

Ordinary resolutions may be passed by simple majority of those present and voting at any general meeting for which the required period of notice has been given. However, specified resolutions such as amendments to our Articles and the Memorandum of Association, commencement of a new line of business, the waiver of preemptive rights for the issuance of any new shares and a reduction of share capital, require that votes cast in favor of the resolution (whether by show of hands or poll) are not less than three times the number of votes, if any, cast against the resolution.

*Register of Shareholders; Record Dates; Transfer of Shares*

We maintain a register of shareholders as required under the Companies Act, 1956. For the purpose of determining the shares entitled to annual dividends, the register is closed for a specified period prior to the annual general meeting. The date on which this period begins is the record date.

To determine which shareholders are entitled to specified shareholder rights, we may close the register of shareholders. The Companies Act requires us to give at least seven days prior notice to the public before such closure. We may not close the register of shareholders for more than thirty consecutive days, and in no event for more than forty-five days in a year.

Following the introduction of the Depositories Act, 1996, and the repeal of Section 22A of the Securities Contracts (Regulation) Act, 1956, which enabled companies to refuse to register transfers of shares in some circumstances, the equity shares of a public company are freely transferable, subject only to the provisions of Section 111A of the Companies Act. Since we are a public company, the provisions of Section 111A will apply to us. Our Articles currently contain provisions which give our directors discretion to refuse to register a transfer of

## **Table of Contents**

shares in some circumstances. According to our Articles, our directors are required to exercise this right in the best interests of our company. While our directors are not required to provide a reason for any such refusal in writing, they must give notice of the refusal to the transferee within two months after receipt of the application for registration of transfer by our company. In accordance with the provisions of Section 111A(2) of the Companies Act, our directors may exercise this discretion if they have sufficient cause to do so. If our directors refuse to register a transfer of shares, the shareholder wishing to transfer his, her or its shares may file a civil suit or an appeal with the Company Law Board, or CLB. Pursuant to Section 111A(3), if a transfer of shares contravenes any of the provisions of the Securities and Exchange Board of India Act, 1992 or the regulations issued thereunder or the Sick Industrial Companies (Special Provisions) Act, 1985 or any other Indian laws, the CLB may, on application made by the company, a depository incorporated in India, an investor, the Securities and Exchange Board of India or other parties, direct the rectification of the register of records. The CLB may, in its discretion, issue an interim order suspending the voting rights attached to the relevant shares before making or completing its investigation into the alleged contravention. Notwithstanding such investigation, the rights of a shareholder to transfer the shares will not be restricted.

Under the Companies Act, unless the shares of a company are held in a dematerialized form, a transfer of shares is effected by an instrument of transfer in the form prescribed by the Companies Act and the rules thereunder together with delivery of the share certificates. Our transfer agent is Citibank, N.A. Mumbai branch.

### *Audit and Annual Report*

At least 21 days before the annual general meeting of shareholders excluding the days of mailing and receipt, we must distribute to our shareholders a detailed version of our audited balance sheet and profit and loss account and the related reports of the Board and the auditors, together with a notice convening the annual general meeting. These materials are also generally made available at our corporate website, [www.sifycorp.com](http://www.sifycorp.com). Under the Companies Act, we must file the balance sheet and annual profit and loss account presented to the shareholders within 30 days of the conclusion of the annual general meeting with the Registrar of Companies in Tamil Nadu, India, i.e. which is the state in which our registered office is located. We must also file an annual return containing a list of our shareholders and other information, within 60 days of the conclusion of the meeting.

### *Company Acquisition of Equity Shares*

Under the Companies Act, approval of at least 75% votes in favor, of a company's shareholders present in person or by proxy as the case may be, voting on the matter and approval of the High Court of the State in which the registered office of the company is situated is required to reduce a company's share capital. A company may, under some circumstances, acquire its own equity shares without seeking the approval of the High Court. However, a company would have to extinguish the shares it has so acquired within the prescribed time period. Generally, a company is not permitted to acquire its own shares for treasury operations. An acquisition by a company of its own shares (without having to obtain the approval of the High Court) must comply with prescribed rules, regulations and conditions as laid down in the Companies Act and the Securities and Exchange Board of India (Buy-back of Securities) Regulations, 1998, or Buy-back Regulations.

### *Liquidation Rights*

Subject to the rights of creditors, employees and the holders of any shares entitled by their terms to preferential repayment over the equity shares, if any, in the event of our winding-up the holders of the equity shares are entitled to be repaid the amounts of paid up capital or credited as paid up on those equity shares. All surplus assets after payments due to the holders of any preference shares at the commencement of the winding-up shall be paid to holders of equity shares in proportion to their shareholdings.

## **Material Contracts**

*You should read the following description of our material contracts in conjunction with the descriptions of our acquisitions and investments and our relationships with strategic partners as described under Item 4. Information on the Company.*

**Table of Contents**

*Internet Service Provider License.* We entered into a license agreement with the DOT on November 12, 1998 with effect on the same day, under which we were granted a license to provide national Internet services on a non-exclusive basis. The terms and conditions of our license are generally consistent with the policy for licensing Internet service providers. The term of our license is 15 years. Our license can be revoked by the DOT if we breach the terms and conditions of the license. The DOT retains the right to take over our network and to modify, revoke, terminate or suspend the terms and conditions of the license at any time if, in its opinion, it is necessary or expedient to do so in the interest of general public, or for the proper operation of the telecommunications sector or for security considerations. The DOT also retains the right to review the terms of our license based on changes in national telecommunications policy. We are not allowed to assign or transfer our rights under our license without the prior written consent of the DOT.

Government of India policies permit a maximum level of foreign equity investment of 74% in Internet service providers. Our license was reissued in April 2002, allowing us a maximum level of foreign equity investment of 74% and also permitting us to provide Internet telephony, subject to the terms of operation as detailed in the license.

Our license also requires us to ensure that objectionable, obscene and unauthorized content, or any other content, messages or communications infringing copyrights, intellectual property rights and domestic and international cyberlaws or which is inconsistent with the laws of India, is not carried on our network. Although under the terms of our license we are free to fix the prices we charge our subscribers, the TRAI may set prices for the provision of Internet access services generally. We are permitted to use encryption to safeguard information transmitted over our network. However, if we use a higher level of encryption than that specified by the Government of India, our license requires us to deposit a set of keys with the Government of India. License fees are waived through October 31, 2003, and a nominal license fee of Re.1 per annum is payable from November 1, 2003. Our obligations under the license are secured by a performance bank guarantee in the amount of Rs.29.2 million (\$0.6 million) as of March 31, 2003.

Our company, Satyam Computer Services, SAIF Investment Company Limited and VentureTech Solutions Private Limited are parties to an Investor Rights Agreement with our company dated October 7, 2002. The Investor Rights Agreement provides for, among other things, a Board of Directors comprised of nine directors to be nominated as follows: SAIF two nominees; VentureTech two nominees; Satyam Computer Services two nominees; South Asia Regional Fund one nominee; one independent nominee; and one nominee who shall be the Managing Director of Sify. The Investor Rights Agreement provides certain of the stockholders with consent rights in connection with specified corporate transactions.

In February 2002, we entered into Executive Employment Agreements with each of Messrs. Ramaraj, Zacharias and Santhanakrishnan. Our agreement with Mr. Ramaraj had a term of approximately 13 months, and our agreements with Messrs Zacharias and Santhanakrishnan have a term of three years. Our stockholders approved an extension of Mr. Ramaraj's tenure as Managing Director for an additional five years, effective April 1, 2003, retaining the terms as per the Executive employment agreement. The material terms of the agreement between us and the executives, are as follows:

during the term of employment, the executive shall be entitled to compensation and benefits, subject to deduction of tax per applicable law, as provided in the agreement;

the executive agreed not to disclose confidential information and trade secrets to any third party except when mandated by law and not to use such information for any purpose except in the performance of his work for Sify;

the executive agreed that all work of a copyrightable or patentable nature done in the course of work for Sify belongs to Sify and undertook to help in every way to duly register Sify's ownership of such copyrights and patents;

Sify agreed to indemnify the executive, his executors, administrators or assigns for all expenses which the executive incurs or becomes legally obligated to pay in connection with any proceedings;

## **Table of Contents**

executive is entitled to full compensation and benefits (excluding the performance bonus) up to the date of termination of his employment, including a pro rated performance bonus up to the date of termination of his employment in the event that executive's employment is terminated for good reason or within one year after a change of control; and

executive is entitled to certain additional terminal compensation of base salary in the event of the termination of executive's employment by Sify for any reason or by executive for good reason.

*Convertible notes of CricInfo Limited.* On October 5, 2001, we entered into an agreement to subscribe for unsecured convertible loan notes, or loan notes, to be issued by CricInfo Limited in an aggregate amount of up to GBP 1.6 million to meet CricInfo's short-medium term working capital requirements over the ensuing year. These loan notes were redeemable on October 5, 2004, and the terms of the loan note instrument provided for the payment of interest on the principal amount at the rate of 8% per annum. We also entered into a Term Loan Agreement with CricInfo for granting a term loan facility of GBP 0.1 million. The loan carried an interest rate of 4% per annum and was repayable on December 31, 2004. This term loan and the convertible loan were secured by a debenture executed by CricInfo.

In February 2003, CricInfo transferred its net assets (other than the loan payable to our company and miscellaneous current assets and liabilities) to a newly-formed company incorporated in the United Kingdom, Wisden Cricinfo Limited. In consideration of its contribution of assets, CricInfo received a 33% equity stake in Wisden Cricinfo Limited and GBP 1.8 million. CricInfo repaid our loan, including accrued interest of Rs.107.0 million, and transferred its 33% stake in Wisden Cricinfo Limited to our company for a consideration of Rs.22.6 million (GBP 0.3 million). Contemporaneously we advanced Rs 23.0 million (GBP 0.3 million) to Wisden Cricinfo Limited.

Also in February 2003, we entered into a shareholders agreement providing for, among other things, put and call options. The options were exercisable at any time during three months from the year ended September 30, 2004, 2005 and 2006 or within three months of a material breach or in the event a liquidator being appointed. The option price was based on a factor of profits and is fixed at a minimum price of GBP 0.6 million and a maximum price of GBP 1.0 million.

## **Exchange Controls**

### *General*

Prior to June 1, 2000, investment in Indian securities was regulated by the Indian Foreign Exchange Regulation Act, 1973. Under Section 29(1)(b) of the Indian Foreign Exchange Regulation Act, 1973, no person or company resident outside India that is not incorporated in India (other than a banking company) could purchase the shares of any company carrying on any trading, commercial or industrial activity in India without the permission of the Reserve Bank of India. Also, under Section 19(1)(d) of the Indian Foreign Exchange Regulation Act, 1973, the transfer and issuance of any security of any Indian company to a person resident outside India required the permission of the Reserve Bank of India. Under Section 19(5) of the Indian Foreign Exchange Regulation Act, 1973, no transfer of shares in a company registered in India by a non-resident to a resident of India was valid unless the transfer was confirmed by the Reserve Bank of India upon application filed by the transferor or the transferee. Furthermore, the issuance of rights and other distributions of securities to a non-resident also requires the prior consent of the Reserve Bank of India. However, the Reserve Bank of India has issued notifications over the past few years relaxing the restrictions on foreign investment in Indian companies.

As of June 1, 2000, the Indian Foreign Exchange Regulation Act, 1973 was replaced by the Indian Foreign Exchange Management Act, 1999, or FEMA. The Indian Foreign Exchange Management Act, 1999 contains provisions regarding current account convertibility and amendments to the definition of a resident of India. However, some of the preexisting controls and restrictions on capital account transactions remain in force. While many of the restrictions imposed by the Indian Foreign Exchange Regulation Act, 1973 have been relaxed under this new legislation, the RBI continues to exercise control over capital account transactions, which alter the assets or liabilities, including contingent liabilities, of persons. The RBI has issued regulations under FEMA to regulate

## **Table of Contents**

various kinds of capital account transactions, including aspects of the purchase and issuance of shares of Indian companies. Therefore, transaction involving foreign investment in Indian securities is regulated by the provisions of the Indian Foreign Exchange Management Act, 1999 and continues to be regulated by the Reserve Bank of India.

### *ADR Guidelines*

Shares of Indian companies represented by ADSs, subject to sectoral limits and the guidelines issued thereunder, are no longer required to be approved for issuance to foreign investors by the either Ministry of Finance or the Reserve Bank of India under the Issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) Scheme, 1993, as modified from time to time, notified by the Government of India. This change was effected through the guidelines for ADR and GDR issues by Indian companies issued by the Ministry of Finance on January 19, 2000 and a notification issued by the Reserve Bank of India. Hence we do not require the approval of the Ministry of Finance and the Reserve Bank of India under the Issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) Scheme, 1993. However, we will be required to furnish full particulars of the issue, including the underlying equity shares representing the ADRs, to the Ministry of Finance and the Reserve Bank of India within 30 days of the completion of an offering.

Further, pending utilization of foreign exchange resources raised by issue of ADRs, Indian companies may invest the proceeds in foreign exchange in:

- (a) deposits with or certificates of deposit or other instruments of banks who have been rated not less than A1+ by Standard and Poor or B1 by Moody's for short term obligations;
- (b) deposits with branches outside India of an authorized dealer in India; and
- (c) treasury bill and other monetary instruments with a maturity or unexpired maturity of the instrument of one year or less.

The Issue of Foreign Currency Convertible Bonds and Ordinary Shares Scheme is distinct from other policies or facilities, as described below, relating to investments in Indian companies by foreign investors. The issuance of ADSs pursuant to the Issue of Foreign Currency Convertible Bonds and Ordinary Shares Scheme also affords to owners of ADSs the benefits of Section 115AC of the Indian Income-tax Act, 1961 for purposes of the application of Indian tax law. For additional information, please see [Taxation](#) Indian Taxation.

### *Foreign Direct Investment*

Currently, subject to certain exceptions, foreign direct investment and investment by individuals of Indian nationality or origin residing outside India, or non-resident Indians, and overseas corporate bodies at least 60% owned by such persons, or overseas corporate bodies, in Indian companies do not require the specific prior approval of the Foreign Investment Promotion Board, or FIPB, a body formed by the Government of India to negotiate with large foreign companies interested in making long-term investments in India. Furthermore, henceforth no prior approval of the Reserve Bank of India is required although a post-investment declaration in giving details of the foreign investment in the company pursuant to the ADR issue must be filed with the Reserve Bank of India within thirty days of our ADR offering. However, the waiver of approval by the FIPB and the RBI is unavailable in certain industries which have been identified by the Government of India. The waiver of approval would not apply in the following cases:

- foreign investment in industries that require an industrial license;
- foreign investment being more than 24% in the equity capital of manufacturing items reserved for small scale industries;
- all proposals in which the foreign collaboration has a previous venture/tie-up in India in the relevant sector;
- all proposals relating to acquisition of shares in an existing company by a foreign investor;



**Table of Contents**

all proposals for investment in the industries specified by the Government of India; and

all proposals for investment in specified industries where the proposed investment is in excess of the sectoral caps specified therein.

In cases where FIPB approval is obtained, no prior approval of the Reserve Bank of India is required, although a declaration in the prescribed form as mentioned above must be filed with the Reserve Bank of India once the foreign investment is made in the Indian company. In cases where no prior approval of the FIPB is required, prior approval of the Reserve Bank of India would also not be required. However, a declaration in the prescribed form giving details of the foreign investment must be filed with the Reserve Bank of India once the foreign investment is made in the Indian company.

In May 1994, the Government of India announced that purchases by foreign investors of ADSs and foreign currency convertible bonds of Indian companies will be treated as foreign direct investment in the equity issued by Indian companies for such offerings.

In November 1998, the Reserve Bank of India issued a notification to the effect that foreign investment in preferred shares will be considered as part of the share capital of a company and the provisions relating to foreign direct investment in the equity shares of a company discussed above would apply. Investments in preferred shares are included as foreign direct investment for the purposes of sectoral caps on foreign equity, if such preferred shares carry a conversion option. If the preferred shares are structured without a conversion option, they would fall outside the foreign direct investment limit.

The discussion on the foreign direct investment regime in India set forth above applies only to a new issuance of shares made by Indian companies, not to a transfer of shares.

Notwithstanding the foregoing, Government of India policies permit a maximum level of foreign equity investment of 74% in Internet service providers. Our license was reissued in April 2002, allowing us a maximum level of foreign equity investment of 74% and also permitting us to provide Internet telephony, subject to the terms of operation as detailed in the license.

*Investment by Non-Resident Indians and Overseas Corporate Bodies*

A variety of special facilities for making investments in India in shares of Indian companies is available to individuals of Indian nationality or origin residing outside India, or non-resident Indians, and to overseas corporate bodies, or OCBs, at least 60% owned by such persons. These facilities permit non-resident Indians and overseas corporate bodies to make portfolio investments in shares and other securities of Indian companies on a basis not generally available to other foreign investors. These facilities are different and distinct from investments by foreign direct investors described above.

Apart from portfolio investments in Indian companies, non-resident Indians and overseas corporate bodies may also invest in Indian companies through foreign direct investments. For additional information, please see Foreign Direct Investment. Under the foreign direct investment rules, non-resident Indians and overseas corporate bodies may invest up to 100% in high-priority industries in which other foreign investors are permitted to invest only up to 50%, 51%, 74% or 100%, depending on the industry category.

*Investment by Foreign Institutional Investors*

In September 1992, the Government of India issued guidelines which enable foreign institutional investors, including institutions such as pension funds, investment trusts, asset management companies, nominee companies and incorporated/institutional portfolio managers, to make portfolio investments in the securities of listed and unlisted companies in India. Under the guidelines, foreign institutional investors must obtain an initial registration from the Securities and Exchange Board of India to make these investments. Foreign institutional investors must also comply with the provisions of the Securities Exchange Board of India Foreign Institutional Investors Regulations, 1995. When it receives the initial registration, the foreign institutional investor also obtains general permission from the Reserve Bank of India to engage in transactions regulated under the Indian Foreign Exchange Regulation Act. Together, the initial registration and the Reserve Bank of India's general permission enable the

**Table of Contents**

registered foreign institutional investor to buy, subject to the ownership restrictions discussed below, and sell freely securities issued by Indian companies whether or not they are listed, to realize capital gains on investments made through the initial amount invested in India, to subscribe or renounce rights offerings for shares, to appoint a domestic custodian for custody of investments held and to repatriate the capital, capital gains, dividends, income received by way of interest and any compensation received towards sale or renunciation of rights offerings of shares. The foreign institutional investor regulations also set out the general obligations and responsibilities and investment conditions and restrictions applicable to foreign institutional investors. One such restriction is that unless the foreign Institutional Investor is registered as a debt fund with the Securities Exchange Board of India, the total investment in equity and equity-related instruments should not be less than 70% of the aggregate of all investments of a foreign institutional investor in India.

Apart from making portfolio investments in Indian companies as described above, foreign institutional investors may direct foreign investments in Indian companies. For additional information, please see Foreign Direct Investment.

*Ownership Restrictions*

The Securities and Exchange Board of India and Reserve Bank of India regulations restrict portfolio investments in Indian companies by foreign institutional investors, non-resident Indians and overseas corporate bodies, all of which we refer to as foreign portfolio investors. The Reserve Bank of India issued a circular in August 1998 stating that foreign institutional investors in aggregate may hold no more than 30% of the equity shares of an Indian company and non-resident Indians and overseas corporate bodies in aggregate may hold no more than 10% of the shares of an Indian company through portfolio investments. Under current Indian law, foreign institutional investors in the aggregate may hold no more than 24% of the equity shares of an Indian company, and non-resident Indians and overseas corporate bodies in aggregate may hold no more than 10% of the shares of an Indian company through portfolio investments. The 24% limit referred to above may be increased to 49% if the stockholders of the company pass a special resolution to that effect. The Reserve Bank of India circular also states that no single foreign institutional investor may hold more than 10% of the shares of an Indian company and no single non-resident Indian or overseas corporate body may hold more than 5% of the shares of an Indian company.

Foreign institutional investors are urged to consult with their Indian legal and tax advisers about the relationship between the foreign institutional investor regulations and the ADSs and any equity shares withdrawn upon surrender of ADSs.

Under the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 approved by the Securities and Exchange Board of India in January 1997 and notified by the Government of India in February 1997, which replaced the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Resolutions, upon the acquisition (directly or indirectly) of more than 5% of the outstanding shares (the aggregate of the existing shares and the newly acquired shares) of a listed public Indian company, a purchaser is required to notify the company, and the company is required to notify all the stock exchanges on which the shares of the company are listed, of the purchaser's shareholdings or voting rights in that company within four working days of (a) the receipt of allotment information or (b) the acquisition of shares or voting rights, as the case may be. Before the acquisition of 15% or more of such shares or a change in control of the company, either by himself or with others acting in concert the purchaser is required to make annual disclosures of the purchaser's holdings in the company and to make an open offer to the other stockholders offering to purchase at least 20% of all the outstanding shares of the company at a minimum offer price as determined pursuant to the new regulations. A purchaser who holds between 15.0% and 75.0% of a company's shares cannot acquire additional shares or voting rights that would entitle the purchaser to exercise an additional 5.0% of the voting rights in any 12-month period unless such purchaser makes a public announcement offering to acquire an additional 20% of the company's shares. Upon conversion of ADSs into equity shares, an ADS holder will be subject to the Takeover Code. The Takeover Code does not apply to purchases involving the acquisition of shares (i) by allotment in a public, rights and preferential issue, (ii) pursuant to an underwriting agreement, (iii) by registered stockbrokers in the ordinary course of business on behalf of customers, (iv) in unlisted companies, (v) pursuant to a scheme of reconstruction or amalgamation or (vi) pursuant to a scheme under Section 18 of the Sick Industrial Companies (Special Provisions) Act, 1985. The Takeover Code does not apply to purchases in the ordinary course of business by public financial institutions either on their own account or as a pledgee. In addition, the Takeover Code does not apply to the purchase of ADSs so long as they are not converted into equity shares. However, since we are an

## **Table of Contents**

unlisted company, the provisions of the new regulations will not apply to us. If our shares are listed on an Indian stock exchange in the future, the new regulations will apply to the holders of our ADSs.

Open market purchases of securities of Indian companies in India by foreign direct investors or investments by non-resident Indians, overseas corporate bodies and foreign institutional investors above the ownership levels set forth above require Government of India approval on a case-by-case basis.

### *Voting Rights of Deposited Equity Shares Represented by ADSs*

Holders of ADSs generally have the right under the deposit agreement to instruct the depository bank to exercise the voting rights for the equity shares represented by the related ADSs. At our request, the depository bank will mail to the holders of ADSs any notice of stockholders meeting received from us together with information explaining how to instruct the depository bank to exercise the voting rights of the securities represented by ADSs.

If the depository bank timely receives voting instructions from a holder of ADSs, it will endeavor to vote the securities represented by the holder's ADSs in accordance with such voting instructions. In the event that voting takes place by a show of hands, the depository bank will cause the custodian to vote all deposited securities in accordance with the instructions received by holders of a majority of the ADSs for which the depository bank receives voting instructions.

Please note that the ability of the depository bank to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities on deposit. We cannot assure you that ADS holders will receive voting materials in time to enable them to return voting instructions to the depository bank in a timely manner. Securities for which no voting instructions have been received will not be voted except as discussed above.

Under Indian law, subject to the presence in person at a stockholder 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 stockholder present in person at the meeting demands that a poll be taken. Equity shares not represented in person at the meeting, including equity shares underlying ADSs for which a holder has provided voting instructions to the depository bank, are not counted in a vote by show of hands. As a result, only in the event that a stockholder present at the meeting demands that a poll be taken will the votes of ADSs holders be counted. Securities for which no voting instructions have been received will not be voted on a poll.

As a foreign private issuer, we are not subject to the SEC's proxy rules which regulate the form and content of solicitations by United States-based issuers of proxies from their stockholders. To date, our practice has been to provide advance notice to our ADS holders of all stockholder 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.

## **Taxation**

### *Indian Taxation*

*General.* The following relates to the principal Indian tax consequences for holders of ADSs and equity shares received upon withdrawal of such equity shares who are not resident in India, whether of Indian origin or not. We refer to these persons as non-resident holders. The following is based on the provisions of the Income-tax Act, 1961, including the special tax regime contained in Section 115AC and the Issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depository Receipt Mechanism) Scheme, 1993. The Income-tax Act is generally amended or changed by amendments carried out through the Finance Act enacted every year as a part of the budget approvals.

This section is not intended to constitute a complete analysis of the individual tax consequences to non-resident holders under Indian law for the acquisition, ownership and sale of ADSs and equity shares. Personal tax consequences of an investment may vary for non-resident holders in various circumstances, and potential investors should therefore consult their own tax advisers on the tax consequences of such acquisition, ownership and sale, including specifically the tax consequences under the law of the jurisdiction of their residence and any tax treaty between India and their country of residence.

**Table of Contents**

*Residence.* For purposes of the Income-tax Act, an individual is considered to be a resident of India during any fiscal year if he or she is in India in that year for:

a period or periods amounting to 182 days or more; or

60 days or more and, in case of a citizen of India or a person of Indian origin, who, being outside India, comes on a visit to India, is in India for 182 days or more effective April 1, 1995 and in each case within the four preceding years has been in India for a period or periods amounting to 365 days or more.

A company is a resident of India if it is registered in India or the control and the management of its affairs is situated wholly in India. A firm or other association of persons is resident in India except where the control and management of its affairs is situated wholly outside India. Individuals, companies, firms and other associations of persons that are not residents of India would be treated as non-residents for purposes of the Income-tax Act.

*Taxation of Distributions.* There is no withholding tax on dividends paid to stockholders. Dividend distribution tax is in addition to the normal corporate tax of 35.9%, including the presently applicable surcharge of 2.5% for fiscal 2004.

Any distributions of additional ADSs, equity shares or rights to subscribe for equity shares made to non-resident holders with respect to ADSs or equity shares will not be subject to Indian tax. Similarly, the acquisition by a non-resident holder of equity shares upon redemption of ADSs will not constitute a taxable event for Indian income tax purposes. Such acquisition will, however, give rise to a stamp duty as described below under Stamp Duty and Transfer Tax.

*Taxation of Capital Gains.* Any gain realized on the sale of ADSs or equity shares by a non-resident holder to any non-resident outside India is not subject to Indian capital gains tax.

Since our ADS offerings were approved by the Government of India under the Issue of Foreign Currency Convertible Bonds and Ordinary Shares Scheme, non-resident holders of the ADSs have the benefit of tax concessions available under Section 115AC. As a result, gains realized on the sale of ADSs will not be subject to Indian taxation. The effect of the Scheme in the context of Section 115AC is unclear as to whether such tax treatment is available to a non-resident who acquires equity shares outside India from a non-resident holder of equity shares after receipt of the equity shares upon surrender of the ADSs. If concessional tax treatment is not available, gains realized on the sale of such equity shares will be subject to customary Indian taxation on capital gains as discussed below. The Issue of Foreign Currency Convertible Bonds and Ordinary Shares Scheme provides that if the equity shares are sold on a recognized stock exchange in India against payment in Indian rupees, they will no longer be eligible for such concessional tax treatment.

Subject to any relief provided pursuant to an applicable tax treaty, any gain realized on the sale of equity shares to an Indian resident or inside India generally will be subject to Indian capital gains tax which is to be withheld at the source by the buyer. However, the acquisition by non-resident holders of equity shares in exchange for ADSs will not be subject to Indian capital gains tax. Under the Issue of Foreign Currency Convertible Bonds and Ordinary Shares Scheme, the cost of acquisition of equity shares received in exchange for ADSs will be the cost of the underlying shares on the date that the depository gives notice to the custodian of the delivery of the equity shares in exchange for the corresponding ADSs. In the case of companies listed in India, the cost of acquisition of the equity shares would be the price of the equity shares prevailing on the Stock Exchange, Mumbai or the National Stock Exchange on the date the depository gives notice to the custodian of the delivery of the equity shares in exchange for the corresponding ADSs. However, the Issue of Foreign Currency Convertible Bonds and Ordinary Shares Scheme and Section 115AC do not provide for determination of the cost of acquisition for the purposes of computing capital gains tax where the shares of the Indian company are not listed on the Stock Exchange, Mumbai or the National Stock Exchange in India. Therefore, in the case of our company, which is not listed on either the Stock Exchange, Mumbai or the National Stock Exchange, the mode of determination of the cost of acquisition of equity shares is unclear. Therefore, the original cost of acquisition of the ADSs may be treated as the cost of acquisition for the purposes of determining the capital gains tax. According to the Issue of Foreign Currency Convertible Bonds and Ordinary Shares Scheme, a non-resident holder's holding period for purposes of determining the applicable Indian capital gains tax rate in respect of equity shares received in exchange for ADSs commences on

**Table of Contents**

the date of the notice of the redemption by the depository to the custodian. The India-U.S. Treaty does not provide an exemption from the imposition of Indian capital gains tax.

Under Section 115AC, taxable gain realized in respect of equity shares held for more than 12 months, or long-term gain, is subject to tax at the rate of 10%. Taxable gain realized in respect of equity shares held for 12 months or less, or short-term gain, is subject to tax at variable rates with a maximum rate of 48%. In addition, non-corporate foreign assesseees are subject to a surcharge of 5.0%. The actual rate of tax on short-term gain depends on a number of factors, including the residential status of the non-resident holder and the type of income chargeable in India.

*Buy-back of Securities.* Currently, Indian companies are not subject to any tax in respect of the buy-back of their shares. However, the stockholders will be taxed on any gain at the long-term or short-term, as applicable, capital gains rates. For additional information, please see Taxation of Capital Gains.

*Stamp Duty and Transfer Tax.* Upon issuance of the equity shares underlying our ADSs, we are required to pay a stamp duty of 0.1% of the aggregate value of the shares issued, provided that the issue of dematerialized shares is not subject to Indian stamp duty. A transfer of ADSs is not subject to Indian stamp duty. However, upon the acquisition of equity shares from the depository in exchange for ADSs, the non-resident holder will be liable for Indian stamp duty at the rate of 0.5% of the market value of the equity shares on the redemption date. Similarly upon a sale of shares in physical form, stamp duty at the rate of 0.5% of the market value of the equity shares on the trade date is payable, although customarily such duty is borne by the purchaser. Our equity shares, if and when issued and traded in dematerialized form, are not subject to Indian stamp duty.

*Wealth Tax.* The holding of the ADSs in the hands of non-resident holders and the holding of the underlying equity shares by the depository as a fiduciary will be exempt from Indian wealth tax. Non-resident holders are advised to consult their own tax advisers in this context.

*Gift Tax and Estate Duty.* Indian gift tax was abolished in October 1998. In India, there is no estate duty law. As a result, no estate duty would be applicable in India. Non-resident holders are advised to consult their own tax advisers in this context.

*Service Tax.* Brokerage or commissions paid to stockbrokers in connection with the sale or purchase of shares is subject to a service tax of 5.0%. Effective May 14, 2003 service tax rates has been increased to 8.0%. The stockbroker is responsible for collecting the service tax and paying it to the relevant authority.

**Income Tax Matters**

As of March 31, 2003, we had a net tax loss carryforward of approximately Rs. 4,470 million (\$ 94.1 million) for financial reporting purposes. Under Indian law, loss carryforwards from a particular year may be used to offset taxable income over the next eight years.

The statutory corporate income tax rate and the surcharge thereon are subject to change in line with the changes announced in the Union Budget each year. For the fiscal ended 2003, the rate of corporate income tax was 35% with a surcharge of 5% thereon, resulting in an effective tax rate of 36.8%. For fiscal 2004, while the basic rate will remain at 35%, the surcharge has been reduced to 2.5%, thereby resulting in an effective tax rate of 35.9%. We cannot assure you that the current income tax rate will remain unchanged in the future. We also cannot assure you that the surcharge will be in effect for a limited period of time or that additional surcharges will not be levied by the Government of India. Until April 1, 2002, dividends declared, distributed or paid by an Indian corporation were subject to a dividend tax of 10.2%, including the applicable surcharge for fiscal 2002, of the total amount of the dividend declared, distributed or paid. This tax is not paid by stockholders nor is it a withholding requirement, but rather it is a direct tax payable by the corporation before distribution of a dividend. Effective April 1, 2002, Indian companies were no longer to be taxed on declared dividends. The Finance Bill, 2003 proposes that after April 1, 2003, dividend income will be exempt from tax for shareholders and that domestic companies will be liable to pay a dividend distribution tax at the rate of 12.5% plus a surcharge at the time of the distribution.

**Table of Contents***United States Federal Taxation*

The following is a summary of the material U.S. federal income and estate tax consequences that may be relevant with respect to the acquisition, ownership and disposition of equity shares or ADSs. This summary addresses the U.S. federal income and estate tax considerations of holders that are U.S. persons, *i.e.*, citizens or residents of the United States, partnerships or corporations created in or under the laws of the United States or any political subdivision thereof or therein, estates, the income of which is subject to U.S. federal income taxation regardless of its source and trusts for which a U.S. court exercises primary supervision and a U.S. person has the authority to control all substantial decisions and that will hold equity shares or ADSs as capital assets. We refer to these persons as U.S. holders. This summary does not address tax considerations applicable to holders that may be subject to special tax rules, such as banks, insurance companies, dealers in securities or currencies, tax-exempt entities, persons that hold equity shares or ADSs as a position in a straddle or as part of a hedging or conversion transaction for tax purposes, persons that have a functional currency other than the U.S. dollar or holders of 10% or more, by voting power or value, of the stock of our company. This summary is based on the tax laws of the United States as in effect on the date of this annual report and on United States Treasury Regulations in effect or, in some cases, proposed, as of the date of this annual report, as well as judicial and administrative interpretations thereof available on or before such date and is based in part on representations of the depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms. All of the foregoing are subject to change, which change could apply retroactively and could affect the tax consequences described below.

Each prospective investor should consult his, her or its own tax advisor with respect to the U.S. Federal, state, local and foreign tax consequences of acquiring, owning or disposing of equity shares or ADSs.

*Ownership of ADSs.* For U.S. federal income tax purposes, holders of ADSs will be treated as the owners of equity shares represented by such ADSs.

*Dividends.* Distributions of cash or property (other than equity shares, if any, distributed pro rata to all stockholders of our company, including holders of ADSs) with respect to equity shares will be includible in income by a U.S. holder as foreign source dividend income at the time of receipt, which in the case of a U.S. holder of ADSs generally will be the date of receipt by the depositary, to the extent such distributions are made from the current or accumulated earnings and profits of our company as determined under U.S. federal income tax principles. Such dividends will not be eligible for the dividends received deduction generally allowed to corporate U.S. holders. To the extent, if any, that the amount of any distribution by our company exceeds our company's current and accumulated earnings and profits, it will be treated first as a tax-free return of the U.S. holder's tax basis in the equity shares or ADSs and thereafter as capital gain.

A U.S. holder will not be eligible for a foreign tax credit against its U.S. federal income tax liability for Indian dividend distribution taxes paid by our company, unless it is a U.S. company holding at least 10% of our company. U.S. holders should be aware that dividends paid by our company generally will constitute passive income for purposes of the foreign tax credit (or, in the case of certain holders, financial services income).

If dividends are paid in Indian rupees, the amount of the dividend distribution includible in the income of a U.S. holder will be in the U.S. dollar value of the payments made in Indian rupees, determined at a spot exchange rate between Indian rupees and U.S. dollars applicable to the date such dividend is includible in the income of the U.S. holder, regardless of whether the payment is in fact converted into U.S. dollars. Generally, gain or loss, if any, resulting from currency exchange fluctuations during the period from the date the dividend is paid to the date such payment is converted into U.S. dollars will be treated as ordinary income or loss.

*Sale or Exchange of equity shares or ADSs.* A U.S. holder generally will recognize gain or loss on the sale or exchange of equity shares or ADSs equal to the difference between the amount realized on such sale or exchange and the U.S. holder's tax basis in the equity shares or ADSs. Subject to special rules described below governing passive foreign investment companies, such gain or loss will be capital gain or loss, and will be long-term capital gain or loss if the equity shares or ADSs were held for more than one year. Gain or loss, if any, recognized by a U.S. holder generally will be treated as U.S. source gain or loss for U.S. foreign tax credit purposes. The deductibility of capital losses may be subject to limitation.

## **Table of Contents**

*Estate Taxes.* An individual stockholder who is a citizen or resident of the United States for U.S. federal estate tax purposes will have the value of the equity shares or ADSs owned by such holder included in his or her gross estate for U.S. federal estate tax purposes.

*Passive Foreign Investment Company.* A non-U.S. corporation will be classified as a passive foreign investment company for U.S. Federal income tax purposes if either:

75% or more of its gross income for the taxable year is passive income; or

on a quarterly average for the taxable year by value (or, if it is not a publicly traded corporation and so elects, by adjusted basis) 50% or more of its assets produce or are held for the production of passive income.

We do not believe that we satisfy either of the tests for passive foreign investment company status. If we were to be a passive foreign investment company for any taxable year, U.S. holders would be required to either:

pay an interest charge together with tax calculated at maximum ordinary income rates on excess distributions, which is defined to include gain on a sale or other disposition of equity shares;

if a qualified electing fund election is made, include in their taxable income their pro rata share of undistributed amounts of our income; or

if the equity shares are marketable and a mark-to-market election is made, mark-to-market the equity shares each taxable year and recognize ordinary gain and, to the extent of prior ordinary gain, ordinary loss for the increase or decrease in market value for such taxable year.

*Backup Withholding Tax and Information Reporting Requirements.* Dividends paid on equity shares to a holder who is not an exempt recipient, if any, may be subject to information reporting and, unless a holder either furnishes its taxpayer identification number or otherwise establishes an exemption, may also be subject to U.S. backup withholding tax. In addition, information reporting will apply to payments of proceeds from the sale or redemption of equity shares or ADSs by a paying agent, including a broker, within the United States to a U.S. holder, other than an exempt recipient. An exempt recipient includes a corporation. In addition, a paying agent within the United States will be required to withhold 31% of any payments of the proceeds from the sale or redemption of equity shares or ADSs within the United States to a holder, other than an exempt recipient, if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with such backup withholding requirements.

The above summary is not intended to constitute a complete analysis of all tax consequences relating to ownership of equity shares or ADSs. You should consult your own tax advisor concerning the tax consequences of your particular situation.

## **Item 11. Quantitative and Qualitative Disclosures About Market Risk**

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

## **Table of Contents**

We also face market risk relating to foreign exchange rate fluctuations, principally relating to the fluctuation of U.S. dollar to Indian rupee exchange rate. Our foreign exchange risk principally arises from accounts payable to overseas vendors. This risk is partially mitigated as we hold balances in foreign currency with overseas banks. Our foreign exchange gain/(loss) was Rs.0.6 million, Rs.5.4 million, Rs.162 million, Rs. 44.5 million and Rs. 0.01 million for fiscal 1999, 2000, 2001, 2002 and 2003 respectively.

### **Item 12. Description of Securities Other Than Equity Securities**

Not applicable.

## **PART II**

### **Item 13. Defaults, Dividend Arrearages and Delinquencies**

Not applicable.

### **Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

Under the Companies Act, 1956 of India, or 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 the preemptive rights have been waived by adopting a special resolution by holders of three-fourths of the company's shares which are voted on the resolution. At our 2000 Annual General Meeting, our stockholders approved a special resolution permitting us to issue up to one million equity shares in connection with acquisitions. We issued virtually all of these equity shares in connection with our acquisitions of IndiaWorld Communications and Indiaplaza.com and our investment in CricInfo Limited. At our 2001 Annual General Meeting, our stockholders approved a special resolution permitting us to issue up to four million additional equity shares in connection with acquisitions or capital raising transactions, and ADS holders are deemed to have waived their preemptive rights with respect to these shares. At our December 2002 Extraordinary General Meeting, our stockholders approved a special resolution permitting us to issue up to 12.5 million additional equity shares (equivalent to 12.5 million ADSs) in connection with the sale of equity shares to SAIF and VentureTech, and our ADS holders are deemed to have waived their preemptive rights with respect to these shares and our Board of Directors may approve the issuance of these shares without further action of our stockholders.

### **Item 15. Controls and procedures**

#### **Evaluation of disclosure controls and procedures**

Based on their evaluation as of a date within 90 days of the filing of this Annual Report on Form 20-F, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures as defined in Rules 13a-14(c) under the Securities Exchange Act of 1934 (the Exchange Act) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

#### **Changes in internal controls**

There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation. There were no significant deficiencies or material weaknesses, and therefore there were no corrective actions taken.



**Table of Contents**

**Item 16A. Audit committee financial expert**

**Item 16B. Code of ethics**

**Item 16C. Principal Accountant Fees and Services**

**PART III**

**Item 17. Financial Statements**

**Not applicable.**

77

---

**Table of Contents**

**ITEM 18. FINANCIAL STATEMENTS**

**INDEPENDENT AUDITORS REPORT**

To the Board of Directors and Stockholders

Sify Limited (formerly known as Satyam Infoway Limited)

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

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

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

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

KPMG  
Chennai, India  
April 17, 2003

**Table of Contents**

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

	As at March 31,		
	2002	2003	2003
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	Rs. 658,111	Rs. 897,596	\$ 18,885
Cash restricted	52,389	74,612	1,570
Accounts receivable	419,961	346,270	7,285
Due from officers and employees	38,675	982	21
Due from related parties	8,137	16,016	337
Inventories	35,426	39,971	841
Prepaid expenses	114,755	124,785	2,625
Other current assets	76,891	72,948	1,535
<b>Total current assets</b>	<b>1,404,345</b>	<b>1,573,180</b>	<b>33,099</b>
Cash restricted	100,000	100,010	2,104
Property, plant and equipment-net	1,932,046	1,542,829	32,460
Goodwill and other intangible assets	341,179	166,983	3,513
Investments in affiliated companies	170,332	140,053	2,947
Investments in securities	9,477	1,140	24
Other assets	188,895	176,192	3,707
<b>Total assets</b>	<b>Rs. 4,146,274</b>	<b>Rs. 3,700,387</b>	<b>\$ 77,854</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
<b>Current liabilities:</b>			
Current installments of capital lease obligations	3,218	2,482	52
Trade accounts payable	243,099	89,259	1,878
Accrued liabilities	256,291	271,632	5,715
Deferred revenue	144,519	289,297	6,087
Advances from customers	15,320	26,171	551
Other current liabilities	21,278	60,520	1,273
<b>Total current liabilities</b>	<b>683,725</b>	<b>739,361</b>	<b>15,556</b>
Capital lease obligations, excluding current installments	3,922	3,767	79
Deferred Tax Liability	13,388		
Other liabilities	39,877	65,864	1,386
<b>Total liabilities</b>	<b>740,912</b>	<b>808,992</b>	<b>17,021</b>
<b>Minority interest</b>	11,249	2,699	57
<b>Stockholders equity</b>			
Common stock, Rs 10 par value; 37,500,000 equity shares authorized; Issued and outstanding: 23,202,176 shares as of March 31,2002 and 32,795,200 as of March 31, 2003	232,022	327,952	6,900
Additional paid-in capital	13,649,324	14,326,742	301,425
Deferred compensation - employee stock offer plan	(74,961)	(24,839)	(523)
Accumulated deficit	(10,408,381)	(11,737,769)	(246,955)
Accumulated other comprehensive income	(3,891)	(3,390)	(71)

Edgar Filing: SIFY LTD - Form 20-F

<b>Total stockholders equity</b>	<b>3,394,113</b>	<b>2,888,696</b>	<b>60,776</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total liabilities and stockholders equity</b>	<b>Rs. 4,146,274</b>	<b>Rs. 3,700,387</b>	<b>\$ 77,854</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>

See accompanying notes to consolidated financial statements

**Table of Contents**

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

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

Edgar Filing: SIFY LTD - Form 20-F

Weighted equity shares used in computing loss per equity share	22,852,600	23,196,428	25,988,095	25,988,095
----------------------------------------------------------------	------------	------------	------------	------------

See accompanying notes to consolidated financial statements

**Table of Contents**

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

	Year ended March 31,			
	2001	2002	2003	2003
<b>Net loss from continuing operations</b>	<b>Rs. (2,681,611)</b>	<b>Rs. (7,158,265)</b>	<b>Rs. (1,329,388)</b>	<b>\$ (27,969)</b>
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation, amortization and impairment	1,431,459	5,020,600	854,182	17,971
Equity in losses of affiliates	263,178	1,225,444	26,061	548
Gain on sale of investments	(28)		(1,495)	(31)
Loss on sale of plant and equipment	661	3,652	2,552	54
Provision for doubtful receivables and advances	31,460	101,500	156,233	3,287
Deferred taxes	(120)			
Inventory write down		22,085	6,720	141
Minority interest	(11,137)	(17,928)	(12,564)	(264)
Others			7,106	150
<i>Changes in assets and liabilities:</i>				
Accounts receivable	(304,155)	(15,997)	(65,793)	(1,384)
Due from officers and employees	(83,466)	26,152	62,552	1,316
Due from related parties	(30,041)	4,159	(7,879)	(166)
Inventories	(91,670)	50,557	(11,265)	(237)
Prepaid expenses	42,203	94,580	(10,030)	(211)
Other assets	(127,237)	21,815	(24,962)	(525)
Trade accounts payable and accrued liabilities	320,490	(14,477)	(78,836)	(1,659)
Deferred revenue	33,298	(39,484)	144,778	3,046
Advances from customers	79,181	(84,388)	10,851	228
Other liabilities	(5,900)	(15,685)	32,904	692
<b>Net cash used in continuing operations</b>	<b>Rs. (1,133,435)</b>	<b>Rs. (775,680)</b>	<b>Rs. (238,273)</b>	<b>\$ (5,013)</b>
<b>Net cash provided by / (used in) discontinued operations</b>	<b>Rs. (174,927)</b>	<b>Rs. 237,531</b>		
<b>Net cash used in operating activities</b>	<b>Rs. (1,308,362)</b>	<b>Rs. (538,149)</b>	<b>Rs. (238,273)</b>	<b>\$ (5,013)</b>
<b>Cash flows from investing activities:</b>				
Expenditure on plant and equipment	(1,888,020)	(181,217)	(284,346)	(5,982)
Proceeds from sale of plant and equipment	934	12,559	12,055	254
Expenditure on investment in affiliates	(163,627)	(119,741)	29,162	614
Net movement in cash - restricted	(7,045)	(122,287)	(22,233)	(468)
Purchase consideration for acquisition, net of cash	(2,233,121)	(11,210)		
Expenditure on intangible assets	(28,000)	(59,240)	(16,891)	(355)
Proceeds from sale of investments	147		8,579	180
<b>Net cash used in continuing operations</b>	<b>Rs. (4,318,732)</b>	<b>Rs. (481,136)</b>	<b>Rs. (273,674)</b>	<b>\$ (5,757)</b>
<b>Net cash used in discontinued operations</b>	<b>Rs. (26,804)</b>	<b>Rs. (71,279)</b>		
<b>Proceeds from sale of discontinued operation</b>		<b>Rs. 349,165</b>		
<b>Net cash used in investing activities</b>	<b>Rs. (4,345,536)</b>	<b>Rs. (203,250)</b>	<b>Rs. (273,674)</b>	<b>\$ (5,757)</b>
<b>Cash flows from financing activities:</b>				

Edgar Filing: SIFY LTD - Form 20-F

Principal payments of long-term debt	(208,167)			
Principal payments of short term loans	(1,800)			
Principal payments under capital lease obligations	(6,568)	(9,097)	(1,696)	(36)
Net proceeds from issuance of common stock	70		760,473	16,000
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net cash provided by /(used in) continuing operations</b>	<b>Rs. (216,465)</b>	<b>Rs. (9,097)</b>	<b>Rs. 758,776</b>	<b>\$ 15,964</b>
<b>Net cash provided by/(used in) discontinued operations</b>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net cash provided by/(used in) financing activities</b>	<b>Rs. (216,465)</b>	<b>Rs. (9,097)</b>	<b>Rs. 758,776</b>	<b>\$ 15,964</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>



**Table of Contents**

	Year ended March 31,			
	2001	2002	2003	2003
Effect of exchange rate changes on cash		(5,598)	(7,345)	(155)
<b>Net increase / (decrease) in cash and cash equivalents</b>	(5,870,363)	(756,094)	239,485	5,039
<b>Cash and cash equivalents at the beginning of the year</b>	7,284,568	1,414,205	658,111	13,846
<b>Cash and cash equivalents at the end of the year</b>	<b>Rs. 1,414,205</b>	<b>Rs. 658,111</b>	<b>Rs. 897,596</b>	<b>\$ 18,885</b>
<b>Supplementary Information</b>				
Cash paid towards interest	11,695	2,838	795	17
Cash paid towards taxes	935	44,958	20,048	422
<b>Supplemental schedule of non cash financing activity</b>				
Capital leases	12,994	9,440	2,956	62
Additional common stock issued for acquisition of business	3,131,364	49,268		
Property plant and equipment purchased on credit during the year	93,660	80,148	20,397	429

See accompanying notes to consolidated financial statements

**Table of Contents**

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

	Common Stock		Additional Paid In Capital	Compre -hensive income	Accumulated Other comprehensive income	Deferred Compensation - Employee Stock offer plan	Accumulated deficit	Total Stockholders Equity
	Shares	Par Value						
<b>Balance as of March 31, 2000</b>	22,249,425	222,494	10,520,953		1,451	(120,225)	(696,834)	9,927,839
Issue of common stock for acquisitions and investments	933,678	9,337	3,122,097					3,131,434
Compensation related to stock option grants			67,676			(67,676)		
Amortization of compensation related to stock option grants						86,796		86,796
Capital transaction of investee			(41,156)					(41,156)
Comprehensive income								
Net loss				(2,509,030)			(2,509,030)	(2,509,030)
Other comprehensive income								
Unrealized loss on investments, net				(7,547)	(7,547)			(7,547)
Comprehensive income				(2,516,577)				
<b>Balance as of March 31, 2001</b>	23,183,103	231,831	13,669,570		(6,096)	(101,105)	(3,205,864)	10,588,336
Issue of common stock for acquisitions and investments	19,073	191	49,077					49,268
Compensation related to stock option grants			72,492			(72,492)		
Amortization of compensation related to stock option grants			(83,962)			98,636		14,674
Capital transaction of investee			(57,853)					(57,853)
Comprehensive income								
Net loss				(7,202,517)			(7,202,517)	(7,202,517)

Other comprehensive income							
Unrealized loss on investments, net				(356)	(356)		(356)
Foreign exchange translation adjustment				2,561	2,561		2,561
Comprehensive income				(7,200,312)			
<b>Balance as of March 31, 2002</b>	<u>23,202,176</u>	<u>232,022</u>	<u>13,649,324</u>	<u>(3,891)</u>	<u>(74,961)</u>	<u>(10,408,381)</u>	<u>3,394,113</u>

**Table of Contents**

	Common Stock		Additional Paid In Capital	Compre -hensive income	Accumulated Other comprehensive income	Deferred Compensation - Employee Stock offer plan	Accumulated deficit	Total Stockholders Equity
	Shares	Par Value						
Issue of common stock (net of expenses)	9,593,024	95,930	664,542					760,472
Compensation related to stock option grants			86			(86)		
Amortization of compensation related to stock option grants			12,789			50,208		62,997
Comprehensive income								
Net loss				(1,329,388)			(1,329,388)	(1,329,388)
Other comprehensive income								
Unrealized loss on investments, net				(1,253)	(1,253)			(1,253)
Foreign exchange translation adjustment				1,754	1,754			1,754
Comprehensive income				(1,328,887)				
<b>Balance as of March 31, 2003</b>	<b>32,795,200</b>	<b>327,952</b>	<b>14,326,742</b>		<b>(3,390)</b>	<b>(24,839)</b>	<b>(11,737,769)</b>	<b>2,888,696</b>
<b>Balance as of March 31, 2003 (in US\$)</b>		<b>6,900</b>	<b>301,425</b>		<b>(71)</b>	<b>(523)</b>	<b>(246,955)</b>	<b>60,776</b>

See accompanying notes to consolidated financial statements

## **Table of Contents**

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

#### **Notes to Consolidated Financial Statements**

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

#### **1 Description of business**

Sify Limited ( Sify ) together with its subsidiaries (the Company) and its affiliates is engaged in providing various services, such as Corporate Network and Data Services, Internet Access Services, Online Portal and Content Offerings.

#### **2 Change of name**

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

#### **3 Summary of significant accounting policies**

##### *Basis of preparation of financial statements*

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States (US GAAP) in Indian Rupees (Rs.), the national currency of India. Solely for the convenience of the reader, the financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars at the noon buying rate in New York City on March 31, 2003 for cable transfers in Indian rupees, as certified for customs purposes by the Federal Reserve Bank of New York of US\$1 = Rs. 47.53. No representation is made that the Indian rupee amounts have been, could have been or could be converted into United States dollars at such a rate or at any other rate on March 31, 2003 or at any other date.

##### *Use of estimates*

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

##### *Principles of consolidation*

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

##### *Investments in affiliates*

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

##### *Cash, cash equivalents and short-term investments*

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

##### *Revenue recognition*

The operating segments of the Company include:

## Edgar Filing: SIFY LTD - Form 20-F

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

Internet access services;

Online portal services and content offerings ; and

Other services such as development of e-learning software

85

---

**Table of Contents**

These segments recognize revenues on the following basis:

*Corporate network/data services*

Corporate network service revenues primarily include connectivity services and, to a lesser extent, the revenues from the sale of hardware and software purchased from third party vendors, installation of the link, and other ancillary services such as e-mail, fax and domain registration. Generally, these elements are sold as a package consisting of all or some of the elements. This multiple element arrangement is recognized as separable elements because each element constitutes a separate earnings process, each element has a fair value that is reliable, verifiable and objectively determinable, and the undelivered element is not essential to functionality of the delivered elements. The Company provides connectivity for a fixed period of time at a fixed rate regardless of usage. Connectivity is the last element that is provided in the case of a bundled contract. The connectivity charges are the same when sold alone or as part of a package. The revenue attributable to connectivity services is recognized ratably over the period of the contract. The hardware and software are standard products that are being freely traded in and purchased from the market, have standard specifications and are not otherwise customized for the specific needs of a customer. The software sold by the Company is an off-the-shelf software, such as antivirus utilities and firewalls. The fair value for the hardware and software is available from the market. The revenue attributable to hardware/software is recognized on delivery. Installation consists of commissioning of the last mile connectivity to the customer premises from the carrier exchange (primarily Bharat Sanchar Nigam Limited, or BSNL, a Government of India entity). However, once commissioned this connection can be used by the customer to access any other service provider. The installation normally takes 4-6 weeks. When the customer has such last mile connectivity, the Company does not charge any installation fee. The revenue attributable to the installation of the link is recognized on completion of the installation work. When installation and connectivity services are provided as a package, the value of the installation service is based on the residual amount using the residual method as defined in SOP 98-9. Revenue from ancillary services such as email facilities, fax facility and domain registration are recognized over the period such facilities are provided. All revenues are shown exclusive of sales tax and service tax and net of applicable discounts and allowances.

Web hosting service revenues primarily include co-location services and connectivity services. On occasion, the Company also sells related hardware/software to its web hosting customers. At all times, such hardware and software belongs to the customer. This hardware and software is purchased from outside vendors and is freely traded in the market. The Company treats each element of the arrangement as a separate earnings process based on the guidelines of SOP 97-2, Software Revenue Recognition. The value of the hosting service is determined based on vendor specific objective evidence from similar services sold separately by the Company. When hardware and/or software is also included with hosting services and sold as a package the vendor specific objective evidence of the undelivered element is considered to arrive at the residual value of the delivered element under SOP 98-9. Revenue from hosting services is recognized over the period during which the service is provided.

*Internet access services*

Dial-up internet access is sold to customers either for a specified number of hours or for an unlimited usage within a specified period of time. Customers purchase a CD that allows them to access the Internet. The amounts received from customers on the sale of these CDs are not refundable. Sify recognizes revenue from sale of CDs based on usage by the customer. At the end of the specified period, the remaining unutilized hours, if any, are recognized as revenue. Revenue from unlimited internet access and electronic mail access is recognized over the specified period.

Public Internet access is provided to customers through a chain of franchisee cybercafé outlets and, to a lesser extent, Sify-owned cybercafés. Sify enters into an arrangement with franchisees that provides for the payment of an initial non-refundable franchisee fee in consideration for establishing the franchisee relationship and providing certain initial services. These initial services consist of a number of activities, including installing the broadband receiver equipment at the cybercafé and connecting it to one of Sify's broadcasting towers, obtaining regulatory approvals for clearance of the site for wireless transmission at the allotted frequency range and other ancillary services.

Initial franchisee fee revenue is recognized at the time of commencement of operations by the franchisee, in accordance with SFAS No. 45, Accounting for Franchisee Fee Revenue, because Sify believes that substantial performance for which these non-refundable payments are received is completed at the time of commencement of operations and no uncertainty exists with regard to the collection of such fees. The amount of initial franchisee fee revenue recognized during the year ending March 31, 2003 was Rs.21.4 million (US\$ 0.45 million). As of March 31, 2003, Sify owned 27 of the 844 cybercafés. Internet access revenue is recognized based on usage by the customer.

*Online portal services*

The Company enters into contracts with customers to serve advertisements in the portal and the Company is paid on the basis of impressions, click-throughs or leads and in each case the revenue is recognized based on actual impressions/click throughs/ leads delivered. There are no performance obligations or minimum guarantees. Revenues from electronic commerce transactions are recognized when the transactions are completed.





**Table of Contents***Other services*

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

*Inventories*

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

*Property, plant and equipment*

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

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

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

*Goodwill and intangible assets*

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

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

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

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

*Foreign currency translations*

The functional and reporting currency of the Company is the Indian Rupee, except that of India Plaza Inc. (a wholly owned subsidiary incorporated in United States) whose functional currency is the US Dollar. The translation of the US Dollar into Indian Rupee is performed for balance sheet accounts using the exchange rate in effect at the balance sheet date and for revenue and expense accounts using a monthly simple average exchange rate for the respective periods. The gains or losses resulting from such translation are reported in other comprehensive income, a separate component of shareholders' equity.



## **Table of Contents**

### *Foreign currency transactions*

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

### *Earnings per share*

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

### *Income taxes*

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

### *Advertising costs*

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

### *Retirement benefits to employees*

#### *Provident fund*

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

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

### *Stock-based compensation*

The Company applies the intrinsic-value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations including FASB Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB Opinion No. 25, issued in March 2000, to account for its fixed-plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. SFAS No. 123, Accounting for Stock-Based Compensation, established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic-value-based method of accounting described above, and has adopted only the disclosure requirements of SFAS No. 123 as amended by SFAS No. 148 Accounting for Stock-Based Compensation Transition and Disclosure.

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



**Table of Contents**

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

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

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

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

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

*Investment securities*

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

*Fair value of financial instruments*

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

*Recent Accounting Pronouncements*

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



**Table of Contents**

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

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

*Reclassifications*

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

**4 Business acquisition***Kheladi.com*

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

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

*Estimated fair values*

	<b>Rs.</b>
Assets acquired	196
Intangible assets	37,500
Goodwill	14,595
	<hr/>
Total consideration	52,291
	<hr/>

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

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

	<b>Years ended March 31,</b>	
	<b>2001</b>	<b>2002</b>
	<b>Rs</b>	<b>Rs</b>
	<hr/>	<hr/>
Revenues	1,225,601	1,577,488
Net loss	(2,516,530)	(7,204,443)
Loss per equity share	(110.03)	. (310.51)

## Edgar Filing: SIFY LTD - Form 20-F

Weighted average equity share used in computing the loss per equity share	22,871,673	23,202,176
---------------------------------------------------------------------------	------------	------------

### 5 Discontinued operations

On October 24, 2001, Sify announced its proposal to divest its software services (e-business services) division to its parent company, Satyam Computer Services. The software services division provided business-to-business e-commerce and web site development that covered information technology services in India, Australia and the U.S. Revenues from this segment represented approximately 22% of Sify's total revenue for the year ended March 31, 2002. The objective of the divestment is to permit Satyam Computer Services to concentrate on its core business of software services and to permit Sify to concentrate on Internet services. Sale of this division to Satyam Computer Services was completed for an aggregate consideration of Rs. 332.5



**Table of Contents**

million on February 28, 2002, the date on which requisite shareholders approval was obtained. The results of operations of the discontinued e-business division for all periods have been reported separately as Income / (loss) from discontinued operations. The gain on disposal of the e-business division amounting to Rs. 81,121 net of consultancy and other expenses incurred in relation to the disposal of Rs. 37,510 has been reported separately in the statements of operations.

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

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

**6 Cash and cash equivalents**

Cash and cash equivalents as on March 31, 2003 amounted to Rs. 897,596 (Rs.658,111 as on March 31, 2002). This excludes cash-restricted included in current assets of Rs. 74,612 (Rs.52,389 as on March 31, 2002) and cash-restricted included in non-current assets of Rs. 100,010 (Rs.100,000 as on March 31, 2002), representing deposits held under lien against bank guarantees given by the Company towards future performance obligations and letters of credit given to suppliers of the Company against purchase obligations.

*Cash Restricted Current*

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

*Cash Restricted Non current*

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

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

**7 Accounts receivable**

## Edgar Filing: SIFY LTD - Form 20-F

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

Accounts receivable consist of :

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

**Table of Contents**

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

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

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

**8 Investment securities**

Investment securities consist of:

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

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

**9 Inventories**

Inventories consist of:

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

**Table of Contents****10 Other current assets**

Other current assets consist of:

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

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

**11 Investments in affiliates***Refco-Sify Securities India Private Limited*

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

*Placements.com Limited*

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

*CricInfo Limited*

On July 29, 2000, Sify acquired 25% of the outstanding shares of Cricinfo Limited (Cricinfo), a private company incorporated in the United Kingdom and the Company accounted for its interest in Cricinfo by the equity method. On October 5, 2001, the Company entered into an agreement to subscribe for unsecured convertible loan notes (loan notes) to be issued by Cricinfo in an aggregate amount of up to GBP 1.6 million to meet Cricinfo's short-medium term working capital requirements over the next year. These loan notes were redeemable on October 5, 2004 and the terms of the loan note instrument provided for the payment of interest on the principal amount at the rate of 8% per annum. The Company had also entered into a Term Loan Agreement with Cricinfo for granting a term loan facility of GBP 0.1 million. The Loan would carry an interest rate of 4% per annum and was repayable on 31st December 2004. This term loan and the convertible loan had been secured by a Debenture document executed by Cricinfo.

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

Contemporaneously Sify advanced Rs. 22,951 (GBP 0.3 million) to Wisden Cricinfo Limited. AS a result of the foregoing transactions including the loan to Wisden Cricinfo, Sify recognized a gain of Rs. 22,628 being the difference between proceeds received Rs. 126,948 and the net

## Edgar Filing: SIFY LTD - Form 20-F

carrying value of the notes (including accrued interest) of Rs 81,369 and a deferred gain of Rs. 22,951.

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

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

**Table of Contents****Balance Sheet**

	As at March 31,	
	2002 Rs	2003 Rs
Current assets	Rs. 21,431	16,690
Current liabilities	(127,749)	(17,538)
Net liability	(106,318)	(848)
Non-current assets	1,113	
Net liability	(105,205)	(848)
Stockholders deficit	(105,205)	(848)

**Statement of Operations**

	For the year ended March 31,	
	2002 Rs	2003 Rs
Revenues	70,609	96,281
Gross profit	65,410	89,553
Net (loss)/profit	(419,495)	114,876

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

*Wisden Cricinfo Limited*

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

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

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

**12 Property, plant and equipment**

Property, plant and equipment consist of:

	As at March 31,	
	2002 Rs	2003 Rs
Land	187,701	188,600
Building	480,272	485,156
Leasehold improvements	109,139	111,806
Plant and machinery	1,778,468	1,842,829

Edgar Filing: SIFY LTD - Form 20-F

Computer equipment	102,634	95,309
Office equipment	51,475	54,384
Furniture and fixtures	95,840	115,922
Vehicles	17,254	16,237
System software	99,991	143,524
Construction-in-progress	138,847	94,371
	<u>3,061,621</u>	<u>3,148,138</u>
Accumulated depreciation	(1,129,575)	(1,605,309)
	<u><b>1,932,046</b></u>	<u><b>1,542,829</b></u>

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



**Table of Contents**

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

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

Goodwill and other intangible assets consist of:

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

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

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

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

**Table of Contents**

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

Acquired and amortized intangible assets	Weighted average life	As at March 31, 2003	
		Gross carrying amount	Accumulated amortization/Impairment
Technical know how fees	4.89	90,313	34,494
Portals and web content	5.00	98,030	46,138
Employment contracts	5.00	37,500	12,900
Customer contracts and others	3.00	164,874	144,623
<b>Total</b>		<b>390,717</b>	<b>238,155</b>

**Estimated amortization expense**

For the year ended March 31,	
2004	54,963
2005	52,830
2006	36,381
2007	8,020
2008	20

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

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

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

**14 Other assets**

Other assets consist of:

	As at March 31,	
	2002 Rs	2003 Rs
Deposits	109,582	96,138
Staff advances recoverable after one year	29,570	4,711

Edgar Filing: SIFY LTD - Form 20-F

Tax deposits	49,743	75,343
	<u>          </u>	<u>          </u>
	<b>188,895</b>	<b>176,192</b>
	<u>          </u>	<u>          </u>

**Table of Contents****15 Deferred revenue**

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

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

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

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

The breakups of deferred revenue for these segments are :

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

**16 Leases**

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

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

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

Due for the year ended March 31,	Rs
2004	3,795
2005	2,605
2006	653
<b>Total minimum lease payments</b>	<b>7,053</b>
Less: Interest	804

<b>Present value of net minimum capital leases payments</b>	<b>6,249</b>
Less: Current installments of obligations under capital leases	2,482
	<hr/>
<b>Obligations under capital leases, excluding current installments</b>	<b>3,767</b>
	<hr/>

**Table of Contents****17 Accrued Liabilities**

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

**18 Other liabilities**

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

**19 Income tax**

The provision for income taxes consists of:

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

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

	Year ended March 31,		
	2001 Rs	2002 Rs	2003 Rs
Net loss from continuing operations before taxes	Rs(2,691,041)	(7,158,265)	(1,329,388)
Enacted tax rates in India	39.55%	35.70%	36.75%
Computed expected tax expense / (benefit)	(1,064,307)	(2,555,501)	(488,550)
Permanent differences:			
Amortization/Impairment	368,792	1,600,545	31,692
Others	34,129	9,266	49,904
Change in valuation allowance	665,523	860,921	405,079
Other	3,039	6,599	54,462
Effect of tax rate change	(5,469)	78,170	(49,731)
<b>Total income tax (benefit)/expense</b>	<b>1,707</b>		<b>2,856</b>

**Table of Contents**

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

	Year ended March 31,		
	2001 Rs	2002 Rs	2003 Rs
Net gain/(loss) from discontinued operations before taxes	172,581	(44,252)	
Enacted tax rates in India	39.55%	35.7%	
Computed expected tax expense	68,256	(15,799)	
Valuation allowance	(68,256)	15,799	
<b>Total income tax (benefit)/expense</b>	<b>—</b>	<b>—</b>	<b>—</b>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes that it is more likely, than not, the Company will not realize the benefit of these deductible differences. Under Indian law, loss carry-forwards from a particular year may be used to offset taxable income over the next eight years.

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

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

**Table of Contents**

	As at March 31,	
	2002 Rs	2003 Rs
<b>Deferred tax liabilities:</b>		
Property, plant and equipment	13,658	4,425
Investments	736	1,028
Intangibles acquired	13,388	8,977
Other	(2,953)	
	<hr/>	<hr/>
Total deferred tax liabilities	24,829	14,430
	<hr/>	<hr/>
<b>Net deferred tax liability</b>	<b>13,388</b>	
	<hr/>	<hr/>

**20 Stockholders equity**

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

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

**21 Common Stock**

Effective October 7, 2002, Sify entered into definitive agreements with two investors in connection with a \$20 million equity investment in Sify. Under the agreements, (1) Softbank Asia Infrastructure Fund (SAIF) will purchase approximately 7.56 million newly issued ADS's for \$13.0 million, or \$1.72 per ADS, (2) VentureTech Solutions Private Ltd. (VentureTech) has purchased approximately 2.03 million newly issued equity shares for the Indian Rupee equivalent of \$3.5 million, or \$1.72 per equity share, and (3) VentureTech will be obligated to purchase an additional approximately 2.03 million newly issued equity shares for the Indian Rupee equivalent of \$3.5 million, or \$1.72 per equity share, prior to May 1, 2003. The parties entered into a Shareholders Agreement dated October 7, 2002 (effective on closure of the transaction namely, December 17, 2002) providing for, among other things two nominees each on a Board of Directors comprising nine directors and consent rights with respect to specified corporate transactions.

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

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

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

*Voting*

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

*Shareholding agreement*

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



## Edgar Filing: SIFY LTD - Form 20-F

consequent to the amendment to the Articles of Association in December 2002.

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

**Table of Contents***Dividends*

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

*Liquidation*

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

*Stock Options*

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

**22 Other income, net**

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

**23 Executive employment arrangements**

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

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

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

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

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

**Table of Contents****24 Employee Benefit Plan**

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

	As of March 31,	
	2002 Rs	2003 Rs
<b>Change in projected benefit obligation</b>		
Projected benefit obligation at the beginning of the year	5,898	<b>8,782</b>
Service cost	5,545	3,876
Interest cost	531	789
Divestiture	(2,508)	
Actuarial (gain)/loss	(607)	(1,606)
Benefits paid	(77)	(182)
	<u>8,782</u>	<u>11,659</u>
<b>Change in plan assets</b>		
Fair value of plan assets at the beginning of the year	1,729	3,309
Actual return on plan assets	296	66
Employer contributions	1,361	527
Benefits paid from plan assets	(77)	(182)
	<u>3,309</u>	<u>3,720</u>
<b>Fair value of plan assets at the end of the year</b>	<b>3,309</b>	<b>3,720</b>
Funded status of the plans	5,474	7,939
Unrecognized transition obligation (asset)		
Unrecognized prior service cost (benefit)		
Unrecognized net actuarial gain/(loss)	560	1,912
	<u>6,034</u>	<u>9,851</u>
<b>Accrued benefit cost</b>	<b>6,034</b>	<b>9,851</b>

	For the year ended March 31,		
	2001 Rs	2002 Rs	2003 Rs
<b>The components of net gratuity costs are reflected below:</b>			
Service cost	Rs 3,844	Rs 5,545	Rs 3,876
Interest cost	182	531	789
Expected returns on plan assets	(140)	(227)	(320)
Amortization			
	<u>3,886</u>	<u>5,849</u>	<u>4,345</u>
<b>Net gratuity costs</b>	<b>3,886</b>	<b>5,849</b>	<b>4,345</b>
<b>Principal actuarial assumptions:</b>			
Discount rate	11%	9%	8%
Long-term rate of compensation increase	10%	8%	7%
Rate of return on plan assets	11%	9%	7.5%

**Provident fund**

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



**Table of Contents****25 Related Party Transactions**

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

Satyam Computer Services Limited (formerly the parent company) where Sify provides connectivity services and software development services for certain e-learning projects.

Affiliated companies

Employees of the Company

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

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

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

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

**Table of Contents**

The Company has the following amounts due from related parties:

	Year ended March 31,	
	2002 Rs	2003 Rs
Affiliates		
Against loans	74,561	22,951
Others	5,684	
Employee loans	68,245	5,692

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

Repayable in the year ending March 31:

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

**26 Stock-based compensation plans**

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

The following table summarizes the stock option plan activity:

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



**Table of Contents**

	Number of shares	Weighted average exercise price Rs
	<u>                    </u>	<u>                    </u>
Exercisable at the end of the year	43,073	2,338
Weighted average fair value on grant date		511.22

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

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

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

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





**Table of Contents****27 Commitments and contingencies**

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

**28 Products and services**

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

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

**29 Segment reporting**

SFAS No 131, *Disclosures about Segments of an Enterprise and Related Information*, establishes standards for the way that public business enterprises report information about operating segments and related disclosures about products and services, geographic areas and major customers. The Company's operations predominantly relate to connectivity to enterprises and providing Internet access to retail subscribers (both home access and public access). The Company also operates a portal, Sify.com, that provides a variety of India-related content to audiences both in India and abroad, and which generates revenue from advertisements and other value added services. The Company also has subsidiaries to exploit other opportunities provided by the Internet in e-learning, business to business marketplaces, digital signatures and Internet security.

The primary operating segments of the Company include:

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

Internet access services; and

Online portals services and content offerings

Other services such as development of e-learning software

The chief operating decision maker (CODM) evaluates the Company's performance and allocates resources to various strategic business units that are identified based on the products and services that they offer and on the basis of the market catered to. The measure of loss reviewed by the CODM during fiscal 2002 and 2001 was Earnings/loss before interest, taxes, depreciation and amortization.

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

Bandwidth costs in Sify are of three kinds: Last mile, Inter city and International. Last mile is directly identifiable to the segment. Inter city bandwidth is allocated based on the number of subscribers or iWay cafes at non-gateway points and the bandwidth sold to and used by business enterprises (determined using packet shapers). International bandwidth is allocated amongst user population based on ports used

## Edgar Filing: SIFY LTD - Form 20-F

and estimates of bandwidth per port for retail consumers and bandwidth sold and peak bandwidth used for corporate consumers. The Company believes that the resulting allocations are reasonable.

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

**Table of Contents**

A significant part of the fixed assets used in the Company's business are not identifiable to any of the reportable segments and can be used interchangeably between segments. Management believes that it is not practicable to provide segment disclosures relating to total assets since a meaningful segregation of the available data is onerous.

The Company's operating segment information for the years ended March 31, 2003, 2002 and 2001 are presented below:

**Year ended March 31, 2003 (all in Rupees)**

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

**Year ended March 31, 2002 (all in Rupees)**

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



**Table of Contents**

Year ended March 31, 2001 (all in Rupees)

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

**30 Legal proceedings**

Sify and certain of its officers and directors are named as defendants in a securities class action lawsuit filed in the United States District Court for the Southern District of New York. This action, which is captioned *In re Satyam Infoway Ltd. Initial Public Offering Securities Litigation*, also names several of the underwriters involved in Sify's initial public offering of American Depositary Shares as defendants. This class action is brought on behalf of a purported class of purchasers of Sify's ADSs from the time of Sify's IPO in October 1999 through December 2000. The central allegation in this action is that the underwriters in Sify's IPO solicited and received undisclosed commissions from, and entered into undisclosed arrangements with, certain investors who purchased Sify's ADSs in the IPO and the aftermarket. The complaint also alleges that Sify violated the United States federal securities laws by failing to disclose in the IPO prospectus that the underwriters had engaged in these allegedly undisclosed arrangements. More than 300 issuers have been named in similar lawsuits. In July 2002, an omnibus motion to dismiss all complaints against issuers and individual defendants affiliated with issuers was filed by the entire group of issuer defendants in these similar actions. In October 2002, the Company's executive officers who were named as defendants in this action were dismissed from the action without prejudice. In February 2003, the court in this action issued its decision on defendants' omnibus motion to dismiss. This decision denied the motion to dismiss the Section 11 claim as to the Company and virtually all of the other issuer defendants. The decision also denied the motion to dismiss the Section 10(b) claim as to numerous issuer defendants, including the Company. Although Sify is unable to estimate the range of loss that is reasonably possible, Sify believes that it has meritorious defenses and intends to defend this action vigorously. However, Sify could be forced to incur material expenses in the litigation, and in the event there is an adverse outcome, Sify's business could be harmed.

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

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

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

**Table of Contents****Item 19. Exhibits**

<b>Number</b>	<b>Description</b>
1.1	Articles of Association of Sify Limited. (1)
1.2	Amendment to Articles of Association. (11)
1.3	Memorandum of Association of Sify Limited. (1)
1.4	Amendment of Memorandum of Association. (11)
2.1	Share Subscription and Shareholders Agreement, dated as of February 5, 1999 by and among Sify Limited, Satyam Computer Services Limited, South Asia Regional Fund and Mr. B. Ramalinga Raju. (1)
2.2	Amendment No. 1 to Share Subscription and Shareholders Agreement, dated as of September 14, 1999, by and among Sify Limited, Satyam Computer Services limited, South Asia Regional Fund and Mr. Ramalinga Raju. (1)
2.3	Deposit Agreement, dated as of October 18, 1999, among Sify Limited, Citibank, N.A. and holders from time to time of American Depositary Receipts issued thereunder (including, as an exhibit, the form of American Depositary Receipt). (5)
2.4	Amendment No. 1 to Deposit Agreement among Sify Limited, Citibank, N.A. and holders from time to time of American Depositary Receipts issued thereunder (including, as an exhibit, the form of American Depositary Receipt). (5)
2.5	Amendment No. 2 to Deposit Agreement among Sify Limited, Citibank, N.A. and holders from time to time of American Depositary Receipts issued thereunder (including, as an exhibit, the form of American Depositary Receipt). (10)
2.6	Letter Agreement, dated as of September 4, 1999, by and between Sify Limited and Sterling Commerce, Inc. (1)
2.7	Stockholders Agreement, dated as of September 14, 1999, by and among Sify Limited, Sterling Commerce, Inc. and Satyam Computer Services Limited. (1)
2.8	Registration Rights Agreement, dated as of September 14, 1999, by and among Sify Limited, Sterling Commerce, Inc. and South Asia Regional Fund. (1)
2.9	Registration Rights Agreement dated as of October 7, 2002 by and between Sify Limited and SAIF Investment Company Limited. (9)
2.10	Subscription Agreement dated as of October 7, 2002 by and between Sify Limited and SAIF Investment Company Limited. (9)
2.11	Subscription Agreement dated as of October 7, 2002 by and between Sify Limited and VentureTech Solutions Private Limited. (9)
2.12	Investor Rights Agreement dated as of October 7, 2002 by and among Sify Limited, SAIF Investment Company Limited, VentureTech Solutions Private Limited and Satyam Computer Services Limited.(9)
4.1	Associate Stock Option Plan (including Deed of Trust). (3)
4.2	Form of Indemnification Agreement. (3)

## Edgar Filing: SIFY LTD - Form 20-F

- 4.3 License Agreement for Provision of Internet Service, including Internet Telephony dated as of April 1, 2002 by and between Sify Limited and the Government of India, Ministry of Communications and Information Technology, Department of Telecommunications, Telecom Commission. (11)
- 4.4 Bank Guarantee, dated as of November 4, 1998. (1)
- 4.5 UUNet Technologies Strategic Alliance Agreement, dated as of April 18, 1997, by and between Sify Limited and UUNet Technologies. (3)
- 4.6 CompuServe Network Services Strategic Alliance Agreement, dated as of April 18, 1997, by and between Sify Limited and CompuServe Incorporated. (3)
- 4.7 User Agreement, effective as of April 1, 1999 by and between Sify Limited and Satyam Computer Services Limited. (1)
- 4.8 Share Purchase Agreement, dated November 29, 1999, by and among Sify Limited, Indiaworld Communications Private Limited, Mr. Rajesh Jain and the other shareholders of Indiaworld Communications Private Limited listed on the signature pages thereto. (4)



**Table of Contents**

Number	Description
4.9	Agreement for Option to Purchase Shares, dated November 29, 1999, by and among Sify Limited, Indiaworld Communications Private Limited, Mr. Rajesh Jain and the other shareholders of Indiaworld Communications Private Limited listed on the signature page thereto. (4)
4.10	Share Purchase Agreement, dated as of June 30, 2000, by and among Rajesh Jain, Bhavana R. Jain, C.M. Jain Impex and Investments Private Limited, Sify Limited and Indiaworld Communications Private Limited. (7)
4.11	Agreement for the Sale of Shares in CricInfo Limited by and between Indigo Holdings Limited and Sify Limited. (8)
4.12	Subscription Agreement by and among CricInfo Limited, Sify Limited and the Senior Management. (8)
4.13	Agreed Form of Shareholders Agreement by and among CricInfo Limited, Sify Limited and the Non-SIL Shareholders. (8)
4.14	Letter Agreement between Sify Limited and Indigo Holdings Limited. (8)
4.15	Letter Agreement, dated May 17, 2002, between Sify Limited and CricInfo Limited. (11)
4.16	Executive Employment Agreement, dated February 20, 2002, by and between Sify Limited and R. Ramaraj. (11)
4.17	Executive Employment Agreement, dated February 20, 2002, by and between Sify Limited and George Zacharias. (11)
4.18	Executive Employment Agreement, dated February 20, 2002, by and between Sify Limited and T.R. Santhanakrishnan. (11)
4.19	Business Transfer Agreement, dated March 2002, between Sify Limited and Satyam Computer Services Limited. (11)
4.20	Executive Employment Agreement, dated February 20, 2002, between Sify Limited and Ajit Abraham. (11)
4.21	Executive Employment Agreement, dated February 20, 2002, between Sify Limited and Rahul Swarup. (11)
4.22	Executive Employment Agreement, dated February 20, 2002, between Sify Limited and Rustom Irani. (11)
8.1	List of Subsidiaries.
23.1	Consent of KPMG
99.1	Certification of Chief Executive Officer
99.2	Certification of Chief Financial Officer

(1) Previously filed as an exhibit to Amendment No. 1 to the Registration Statement on Form F-1 filed with the Commission on October 4, 1999 and incorporated herein by reference.

(2) Previously filed as an exhibit to the Registration Statement on Form F-6 filed with the Commission on October 6, 1999 and incorporated herein by reference.

## Edgar Filing: SIFY LTD - Form 20-F

- (3) Previously filed as an exhibit to Amendment No. 2 to the Registration Statement on Form F-2 filed with the Commission on October 13, 1999 and incorporated herein by reference.
- (4) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on December 3, 1999 and incorporated herein by reference.
- (5) Previously filed as an exhibit to the Post-Effective Amendment No. 1 to Form F-6 filed with the Commission on January 5, 2000 and incorporated herein by reference.
- (6) Previously filed as an exhibit to the Annual Report on Form 20-F filed with the Commission on June 29, 2000 and incorporated herein by reference.

**Table of Contents**

(7) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on July 12, 2000 and incorporated herein by reference.

(8) Previously filed as an exhibit to the Registration Statement on Form F-2 filed with the Commission on July 26, 2000 and incorporated herein by reference.

(9) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on October 25, 2002 and incorporated herein by reference.

(10) Previously filed as an exhibit to the Registration Statement on Form S-8 (File No. 333-101322) filed with Commission on November 20, 2002 and incorporated herein by reference.

(11) Previously filed as an exhibit to the Annual Report on Form 20-F filed with the Commission on July 1, 2002 and incorporated herein by reference.

**Table of Contents**

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and authorized the undersigned to sign this annual report on its behalf.

**SIFY LIMITED**

By:           /s/ R. Ramaraj

Name: R. Ramaraj  
Title: Chief Executive Officer

By:           /s/ T.R. Santhanakrishnan

Name: T.R. Santhanakrishnan  
Title: Chief Financial Officer

Date: June 30, 2003

**Table of Contents**

**CHIEF EXECUTIVE OFFICER CERTIFICATION**

I, R. Ramaraj, Chief Executive Officer and Managing Director of Sify Limited, certify that:

1. I have reviewed this Annual Report on Form 20-F of Sify Limited;
2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Annual Report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Annual Report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this Annual Report (the "Evaluation Date"); and
  - c) presented in this Annual Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (and persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and Report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls, and
6. The registrant's other certifying officers and I have indicated in this Annual Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

June 30, 2003

/s/ R. Ramaraj

---

R Ramaraj  
Chief Executive Officer  
and Managing Director

**Table of Contents**

**CHIEF FINANCIAL OFFICER CERTIFICATION**

I, T.R. Santhanakrishnan, Chief Financial Officer of Sify Limited, certify that:

1. I have reviewed this Annual Report on Form 20-F of Sify Limited;
2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Annual Report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Annual Report is being prepared;
  - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this Annual Report (the Evaluation Date); and
  - c. presented in this Annual Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (and persons performing the equivalent functions):
  - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and Report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls, and
6. The registrant's other certifying officers and I have indicated in this Annual Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 30, 2003

/s/ T.R. Santhanakrishnan

---

T.R. Santhanakrishnan  
Chief Financial Officer

**Table of Contents****Exhibit Index**

<b>Number</b>	<b>Description</b>
1.1	Articles of Association of Sify Limited. (1)
1.2	Amendment to Articles of Association. (11)
1.3	Memorandum of Association of Sify Limited. (1)
1.4	Amendment of Memorandum of Association. (11)
2.1	Share Subscription and Shareholders Agreement, dated as of February 5, 1999 by and among Sify Limited, Satyam Computer Services Limited, South Asia Regional Fund and Mr. B. Ramalinga Raju. (1)
2.2	Amendment No. 1 to Share Subscription and Shareholders Agreement, dated as of September 14, 1999, by and among Sify Limited, Satyam Computer Services limited, South Asia Regional Fund and Mr. Ramalinga Raju. (1)
2.3	Deposit Agreement, dated as of October 18, 1999, among Sify Limited, Citibank, N.A. and holders from time to time of American Depositary Receipts issued thereunder (including, as an exhibit, the form of American Depositary Receipt). (5)
2.4	Amendment No. 1 to Deposit Agreement among Sify Limited, Citibank, N.A. and holders from time to time of American Depositary Receipts issued thereunder (including, as an exhibit, the form of American Depositary Receipt). (5)
2.5	Amendment No. 2 to Deposit Agreement among Sify Limited, Citibank, N.A. and holders from time to time of American Depositary Receipts issued thereunder (including, as an exhibit, the form of American Depositary Receipt). (10)
2.6	Letter Agreement, dated as of September 4, 1999, by and between Sify Limited and Sterling Commerce, Inc. (1)
2.7	Stockholders Agreement, dated as of September 14, 1999, by and among Sify Limited, Sterling Commerce, Inc. and Satyam Computer Services Limited. (1)
2.8	Registration Rights Agreement, dated as of September 14, 1999, by and among Sify Limited, Sterling Commerce, Inc. and South Asia Regional Fund. (1)
2.9	Registration Rights Agreement dated as of October 7, 2002 by and between Sify Limited and SAIF Investment Company Limited. (9)
2.10	Subscription Agreement dated as of October 7, 2002 by and between Sify Limited and SAIF Investment Company Limited. (9)
2.11	Subscription Agreement dated as of October 7, 2002 by and between Sify Limited and VentureTech Solutions Private Limited. (9)
2.12	Investor Rights Agreement dated as of October 7, 2002 by and among Sify Limited, SAIF Investment Company Limited, VentureTech Solutions Private Limited and Satyam Computer Services Limited.(9)
4.1	Associate Stock Option Plan (including Deed of Trust). (3)
4.2	Form of Indemnification Agreement. (3)

## Edgar Filing: SIFY LTD - Form 20-F

- 4.3 License Agreement for Provision of Internet Service, including Internet Telephony dated as of April 1, 2002 by and between Sify Limited and the Government of India, Ministry of Communications and Information Technology, Department of Telecommunications, Telecom Commission. (11)
  - 4.4 Bank Guarantee, dated as of November 4, 1998. (1)
  - 4.5 UUNet Technologies Strategic Alliance Agreement, dated as of April 18, 1997, by and between Sify Limited and UUNet Technologies. (3)
  - 4.6 CompuServe Network Services Strategic Alliance Agreement, dated as of April 18, 1997, by and between Sify Limited and CompuServe Incorporated. (3)
  - 4.7 User Agreement, effective as of April 1, 1999 by and between Sify Limited and Satyam Computer Services Limited. (1)
  - 4.8 Share Purchase Agreement, dated November 29, 1999, by and among Sify Limited, Indiaworld Communications Private Limited, Mr. Rajesh Jain and the other shareholders of Indiaworld Communications Private Limited listed on the signature pages thereto. (4)
-



**Table of Contents**

Number	Description
4.9	Agreement for Option to Purchase Shares, dated November 29, 1999, by and among Sify Limited, Indiaworld Communications Private Limited, Mr. Rajesh Jain and the other shareholders of Indiaworld Communications Private Limited listed on the signature page thereto. (4)
4.10	Share Purchase Agreement, dated as of June 30, 2000, by and among Rajesh Jain, Bhavana R. Jain, C.M. Jain Impex and Investments Private Limited, Sify Limited and Indiaworld Communications Private Limited. (7)
4.11	Agreement for the Sale of Shares in CricInfo Limited by and between Indigo Holdings Limited and Sify Limited. (8)
4.12	Subscription Agreement by and among CricInfo Limited, Sify Limited and the Senior Management. (8)
4.13	Agreed Form of Shareholders Agreement by and among CricInfo Limited, Sify Limited and the Non-SIL Shareholders. (8)
4.14	Letter Agreement between Sify Limited and Indigo Holdings Limited. (8)
4.15	Letter Agreement, dated May 17, 2002, between Sify Limited and CricInfo Limited. (11)
4.16	Executive Employment Agreement, dated February 20, 2002, by and between Sify Limited and R. Ramaraj. (11)
4.17	Executive Employment Agreement, dated February 20, 2002, by and between Sify Limited and George Zacharias. (11)
4.18	Executive Employment Agreement, dated February 20, 2002, by and between Sify Limited and T.R. Santhanakrishnan. (11)
4.19	Business Transfer Agreement, dated March 2002, between Sify Limited and Satyam Computer Services Limited. (11)
4.20	Executive Employment Agreement, dated February 20, 2002, between Sify Limited and Ajit Abraham. (11)
4.21	Executive Employment Agreement, dated February 20, 2002, between Sify Limited and Rahul Swarup. (11)
4.22	Executive Employment Agreement, dated February 20, 2002, between Sify Limited and Rustom Irani. (11)
8.1	List of Subsidiaries.
23.1	Consent of KPMG
99.1	Certification of Chief Executive Officer
99.2	Certification of Chief Financial Officer

(1) Previously filed as an exhibit to Amendment No. 1 to the Registration Statement on Form F-1 filed with the Commission on October 4, 1999 and incorporated herein by reference.

(2) Previously filed as an exhibit to the Registration Statement on Form F-6 filed with the Commission on October 6, 1999 and incorporated herein by reference.

## Edgar Filing: SIFY LTD - Form 20-F

- (3) Previously filed as an exhibit to Amendment No. 2 to the Registration Statement on Form F-2 filed with the Commission on October 13, 1999 and incorporated herein by reference.
  - (4) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on December 3, 1999 and incorporated herein by reference.
  - (5) Previously filed as an exhibit to the Post-Effective Amendment No. 1 to Form F-6 filed with the Commission on January 5, 2000 and incorporated herein by reference.
  - (6) Previously filed as an exhibit to the Annual Report on Form 20-F filed with the Commission on June 29, 2000 and incorporated herein by reference.
-

## Edgar Filing: SIFY LTD - Form 20-F

### **Table of Contents**

- (7) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on July 12, 2000 and incorporated herein by reference.
- (8) Previously filed as an exhibit to the Registration Statement on Form F-2 filed with the Commission on July 26, 2000 and incorporated herein by reference.
- (9) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on October 25, 2002 and incorporated herein by reference.
- (10) Previously filed as an exhibit to the Registration Statement on Form S-8 (File No. 333-101322) filed with Commission on November 20, 2002 and incorporated herein by reference.
- (11) Previously filed as an exhibit to the Annual Report on Form 20-F filed with the Commission on July 1, 2002 and incorporated herein by reference.