AMERICAN SHARED HOSPITAL SERVICES
Form 10-Q
November 10, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016 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 001-08789

American Shared Hospital Services

(Exact name of registrant as specified in its charter)

California **(State or other jurisdiction of incorporation or organization)**	**94-2918118** **(IRS Employer Identification No.)**
Two Embarcadero Center, Suite 410, San Francisco, California (Address of Principal Executive Offices)	94111 (Zip Code)

Registrant’s telephone number, including area code: (415) 788-5300

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large Accelerated Filer ¨ Accelerated Filer ¨ Non-Accelerated Filer ¨ Smaller reporting company x

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of November 7, 2016, there are outstanding 5,367,647 shares of the Registrant’s common stock.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AMERICAN SHARED HOSPITAL SERVICES

CONDENSED CONSOLIDATED BALANCE SHEETS

	(unaudited) September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$1,846,000	$2,209,000
Restricted cash	250,000	50,000
Accounts receivable, net of allowance for doubtful accounts of $100,000 at September 30, 2016 and $100,000 at December 31, 2015	4,307,000	3,038,000
Other receivables	119,000	107,000
Prepaid expenses and other current assets	733,000	603,000
Total current assets	7,255,000	6,007,000
Property and equipment:		
Medical equipment and facilities	95,417,000	83,267,000
Office equipment	535,000	721,000
Deposits and construction in progress	7,821,000	10,796,000
	103,773,000	94,784,000
Accumulated depreciation and amortization	(52,180,000)	(47,661,000)
Net property and equipment	51,593,000	47,123,000
Investment in equity securities	579,000	579,000
Other assets	427,000	405,000
Total assets	$59,854,000	$54,114,000

(unaudited)

	September 30, 2016	December 31, 2015
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$297,000	$375,000
Employee compensation and benefits	250,000	156,000
Other accrued liabilities	1,533,000	1,162,000
Current portion of long-term debt	1,861,000	2,674,000
Current portion of obligations under capital leases	5,369,000	4,331,000
Total current liabilities	9,310,000	8,698,000
Long-term debt, less current portion	4,611,000	6,923,000
Long-term capital leases, less current portion	15,364,000	9,190,000
Deferred revenue, less current portion	636,000	719,000
Deferred income taxes	3,782,000	3,404,000
Shareholders' equity:		
Common stock (10,000,000 authorized; 5,368,000 shares issued and outstanding at September 30, 2016 and 5,364,000 shares at December 31, 2015)	10,376,000	10,376,000
Additional paid-in capital	5,895,000	5,734,000
Retained earnings	4,498,000	4,020,000
Total equity-American Shared Hospital Services	20,769,000	20,130,000
Non-controlling interest in subsidiary	5,382,000	5,050,000
Total shareholders' equity	26,151,000	25,180,000
Total liabilities and shareholders' equity	$59,854,000	$54,114,000

See accompanying notes

AMERICAN SHARED HOSPITAL SERVICES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Medical services revenue	$ 4,884,000	$ 3,875,000	$ 13,640,000	$ 12,386,000
Costs of revenue:				
Maintenance and supplies	163,000	252,000	657,000	866,000
Depreciation and amortization	1,687,000	1,521,000	4,898,000	4,619,000
Other direct operating costs	638,000	648,000	2,117,000	2,048,000
	2,488,000	2,421,000	7,672,000	7,533,000
Gross Margin	2,396,000	1,454,000	5,968,000	4,853,000
Selling and administrative expense	999,000	904,000	2,911,000	2,704,000
Interest expense	501,000	235,000	1,219,000	900,000
Operating income	896,000	315,000	1,838,000	1,249,000
(Loss) on write down investment in equity securities	-	-	-	(2,114,000)
(Loss) on early extinguishment of debt	-	-	(108,000)	-
Interest and other income	3,000	3,000	11,000	14,000
Income (loss) before income taxes	899,000	318,000	1,741,000	(851,000)
Income tax expense	267,000	92,000	424,000	328,000
Net income (loss)	632,000	226,000	1,317,000	(1,179,000)
Less: Net (income) attributable to non-controlling interests	(298,000)	(183,000)	(839,000)	(620,000)

Net income (loss) attributable to American Shared Hospital Services	$ 334,000	$ 43,000	$ 478,000	$ (1,799,000	)
Net income (loss) per share:					
Earnings (loss) per common share - basic	$ 0.06	$ 0.01	$ 0.09	$ (0.33	)
Earnings (loss) per common share - diluted	$ 0.06	$ 0.01	$ 0.09	$ (0.33	)

See accompanying notes

3

AMERICAN SHARED HOSPITAL SERVICES

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

PERIODS ENDED DECEMBER 31, 2015 AND SEPTEMBER 30, 2016

	Common Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Sub-Total ASHS	Non-controlling Interests in Subsidiaries	Total
Balances at January 1, 2015	5,361,000	$10,376,000	$5,508,000	$5,542,000	$21,426,000	$ 4,728,000	$26,154,000
Stock-based compensation expense	3,000	-	226,000	-	226,000	-	226,000
Non-controlling interest investment in subsidiaries	-	-	-	-	-	46,000	46,000
Cash distributions to non-controlling interests	-	-	-	-	-	(670,000)	(670,000)
Net (loss) income	-	-	-	(1,522,000)	(1,522,000)	946,000	(576,000)
Balances at December 31, 2015	5,364,000	$10,376,000	$5,734,000	$4,020,000	$20,130,000	$ 5,050,000	$25,180,000
Stock-based compensation expense	4,000	-	161,000	-	161,000	-	161,000
Non-controlling interest investment in subsidiaries	-	-	-	-	-	7,000	7,000
Cash distributions to non-controlling interests	-	-	-	-	-	(514,000)	(514,000)

Net income	-	-	-	478,000	478,000	839,000	1,317,000
Balances at September 30, 2016	5,368,000	$10,376,000	$5,895,000	$4,498,000	$20,769,000	$ 5,382,000	$26,151,000

See accompanying notes

4

AMERICAN SHARED HOSPITAL SERVICES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months ended September 30,	
	2016	2015
Operating activities:		
Net income (loss)	$1,317,000	$(1,179,000)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation and amortization	4,929,000	4,659,000
Loss on write down of investment in equity securities	-	2,114,000
Loss on early extinguishment of debt	108,000	-
Deferred income tax	378,000	108,000
Stock based compensation expense	161,000	152,000
Other non-cash items	4,000	(43,000)
Changes in operating assets and liabilities:		
Receivables	(1,281,000)	(259,000)
Prepaid expenses and other assets	(226,000)	113,000
Customer deposits/deferred revenue	(186,000)	(43,000)
Accounts payable and accrued liabilities	490,000	535,000
Net cash from operating activities	5,694,000	6,157,000
Investing activities:		
Payment for purchase of property and equipment	(1,050,000)	(1,517,000)
Investment in equity securities	-	(10,000)
Net cash (used in) investing activities	(1,050,000)	(1,527,000)

Financing activities:		
Principal payments on long-term debt	(2,383,000)	(1,417,000)
Principal payments on capital leases	(3,054,000)	(2,983,000)
Proceeds from long-term debt financing of property and equipment	-	1,036,000
Proceeds from certificate of deposit	-	9,000,000
Payments on line of credit	-	(8,780,000)
Capital contributions from non-controlling interests	7,000	27,000
Distributions to non-controlling interests	(514,000)	(388,000)
Reclassification of restricted cash	(200,000)	-
Proceeds from capital lease financing for reimbursement of payments for acquisition of equipment	1,137,000	-
Net cash (used in) financing activities	(5,007,000)	(3,505,000)
Net change in cash and cash equivalents	(363,000)	1,125,000
Cash and cash equivalents at beginning of period	2,209,000	1,059,000
Cash and cash equivalents at end of period	$1,846,000	$2,184,000
Supplemental cash flow disclosure:		
Cash paid during the period for:		
Interest	$1,614,000	$1,251,000
Income taxes paid	$219,000	$1,000
Schedule of non-cash investing and financing activities		
Acquisition of equipment with capital lease financing	$8,332,000	$1,343,000

See accompanying notes

AMERICAN SHARED HOSPITAL SERVICES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring accruals and entries to record the impairment of the Company's investment in equity securities) necessary to present fairly American Shared Hospital Services' consolidated financial position as of September 30, 2016 and the results of its operations for the three and nine month periods ended September 30, 2016 and 2015, which results are not necessarily indicative of results on an annualized basis. Consolidated balance sheet amounts as of December 31, 2015 have been derived from audited consolidated financial statements.

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2015 included in the Company's 10-K filed with the Securities and Exchange Commission.

These condensed consolidated financial statements include the accounts of American Shared Hospital Services (the "Company") and its subsidiaries as follows: The Company wholly-owns the subsidiaries OR21, Inc. ("OR21 LLC"), MedLeader.com, Inc. ("MedLeader"), PBRT Orlando, LLC ("Orlando") and American Shared Radiosurgery Services ("ASRS"). The Company is also the majority owner of Long Beach Equipment, LLC ("LBE"). ASRS is the majority-owner of GK Financing, LLC ("GKF") which wholly-owns the subsidiaries GK Financing U.K., Limited ("GKUK"), and Instituto de Gamma Knife del Pacifico S.A.C. ("GKPeru"). GKF is also the majority-owner of the subsidiaries Albuquerque GK Equipment, LLC ("AGKE") and Jacksonville GK Equipment, LLC ("JGKE").

The Company through its majority-owned subsidiary, GKF, provided Gamma Knife units to seventeen medical centers as of September 30, 2016 in the states of Arkansas, California, Connecticut, Florida, Illinois, Massachusetts, Mississippi, Nevada, New Jersey, New Mexico, New York, Tennessee, Oklahoma, Ohio, Oregon and Texas.

The Company through its wholly-owned subsidiary, Orlando, provided proton beam radiation therapy ("PBRT") and related equipment, to a new customer in the United States, which treated its first patient during the second quarter of 2016. The Company also directly provides radiation therapy and related equipment, including Intensity Modulated Radiation Therapy ("IMRT"), Image Guided Radiation Therapy ("IGRT") and a CT Simulator to the radiation therapy department at an existing Gamma Knife site in the United States.

The Company formed the subsidiaries GKUK and GKPeru, for the purposes of expanding its business internationally into the United Kingdom and Peru; LBE and Orlando to provide proton beam therapy services in Long Beach, California and Orlando, Florida; and AGKE and JGKE to provide Gamma Knife services in Albuquerque, New Mexico and Jacksonville, Florida. AGKE began operation in the second quarter of 2011 and JGKE began operation in the fourth quarter of 2011. Orlando treated its first patient in April 2016. GKPeru is expected to begin operation in the first quarter of 2017. GKUK is inactive and LBE is not expected to generate revenue within the next two years.

The Company continues to develop its design and business model for "The Operating Room for the 21st Century℠ ("OR21℠), through its 50% owned OR21, LLC. The remaining 50% is owned by an architectural design company. OR21 is not expected to generate significant revenue within the next two years.

MedLeader was formed to provide continuing medical education online and through videos for doctors, nurses and other healthcare workers. This subsidiary is not operational at this time.

Based on the guidance provided in accordance with Accounting Standards Codification ("ASC") 280 *Segment Reporting* ("ASC 280"), the Company has analyzed its subsidiaries which are all in the business of leasing radiosurgery and radiation therapy equipment to healthcare providers, and concluded there is one reportable segment, Medical Services Revenue. The Company provides Gamma Knife, PBRT, and IGRT equipment to eighteen hospitals in the United States as of September 30, 2016. These eighteen locations operate under different subsidiaries of the Company, but offer the same service, radiosurgery and radiation therapy. The operating results of the subsidiaries are reviewed by the Company's Chief Executive Officer and Chief Financial Officer, who are also deemed the Company's Chief Operating Decision Makers ("CODMs") and this is done in conjunction with all of the subsidiaries and locations.

On January 14, 2016, the Company entered into a definitive lease agreement for financing of its MEVION S250 at UF Health Cancer Center at Orlando Health ("Orlando Health"). The total proceeds of $8,400,000 were used to pay-down the $1,000,000 in Promissory Notes (the "Notes") with four members of the Company's Board of Directors, reimburse the Company for freight costs associated with the MEVION S250, and to fund the remaining milestone payments for the MEVION S250 of approximately $7,300,000. Total proceeds from capital lease financing for reimbursement of payments for acquisition of equipment, were approximately $1,137,000.

Based on the guidance provided in accordance with ASC 405 *Extinguishment of Liabilities* ("ASC 405") and ASC 470 *Debt Modifications and Extinguishments* ("ASC 470"), the pay-down of the Notes is considered an extinguishment of debt and, as such, the difference between the net carrying amount of the Notes and the costs of extinguishment was recognized as a loss on the Company's condensed consolidated Statements of Operations. During the nine month period ended September 30, 2016, the Company recorded a loss on early extinguishment of debt of $108,000. The Notes were issued with common stock warrants with an estimated fair value of $145,000. The unamortized balance of the discount on the Notes, of $80,000, and deferred fees incurred from the issuance of the Note of approximately $28,000, were recorded as a loss on early extinguishment.

Based on the guidance provided in ASC 410 *Asset Retirement Obligations* ("ASC 410"), the Company analyzed the lease agreement with Orlando Health for the PBRT system and determined an asset retirement obligation ("ARO") exists to remove the unit at the end of the lease term. The fair value of the ARO liability is not reasonable to estimate at this time, due to uncertainties about timing, cost and, outcome of the ARO, therefore no liability has been recorded as of September 30, 2016. The Company will re-evaluate this position on a periodic basis when facts and circumstances change that could affect this conclusion.

During the nine month period ended September 30, 2016, the Company adopted a new accounting policy for the depreciation of PBRT property and equipment. Property and equipment are stated at cost less accumulated depreciation. Depreciation is determined using the modified units of production method, which is a function of both time and usage of the equipment. This depreciation method allocates costs considering the volume of usage through the useful life of the PBRT unit, which has been estimated at 20 years. Based on the guidance provided in ASC 840 *Leases* ("ASC 840"), assets under capital lease where ownership is transferred at the end of the lease, or there is a bargain purchase option, should be amortized over the economic useful life of that asset. The estimated useful life of the PBRT unit is consistent with the estimated economic life of 20 years.

In July 2016, an existing customer provided notice of their intent to exercise the option to purchase the Gamma Knife unit at their hospital at the end of the lease term for a predetermined purchase price, pursuant to the lease agreement. The lease will terminate April 2017 and the unit will be depreciated to the purchase price at the time of the sale. Based on the guidance provided in ASC 360 *Property, Plant and Equipment* ("ASC 360"), because the Gamma Knife unit is not available for immediate sale, the Company has not classified and measured the asset as held for sale.

On August 13, 2016, the Company entered into a 7 year operating lease for an office space located in San Francisco, CA. The commencement date of the new lease coincided with the termination of the Company's existing lease space.

In May 2014, the Financial Accounting Standards Board "(FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), ("ASU 2014-09"), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in United States Generally Accepted Accounting Principles ("GAAP") when it becomes effective. The new standard is effective for the Company for annual reporting periods beginning after December 15, 2017. Early application is permitted for reporting periods beginning after December 15, 2016. The standard permits the use of either the retrospective or cumulative effect transition method. In July 2015, the FASB voted to delay the effective date of this standard until the first quarter of 2018. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures and has not yet selected a transition method.

In August 2014, FASB issued ASU No. 2014-15, *Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15"), which provides guidance on determining when and how to disclose going-concern uncertainties in financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. ASU 2014-15 applies to all entities and is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. The Company is currently evaluating the impact of this update on future disclosures concerning its liquidity position.

In January 2015, the FASB issued ASU No. 2015-01, *Income Statement-Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items* ("ASU 2015-01"), which eliminates from GAAP the concept of extraordinary items and requires that an entity separately classify, present, and disclose extraordinary events and transactions. This ASU will also align more closely GAAP income statement presentation guidance with International Accounting Standards ("IAS") 1, *Presentation of Financial Statements*, which prohibits the presentation and disclosure of extraordinary items. The new standard was effective for the Company on January 1, 2016. The standard permits the use of either the retrospective or prospective application. The Company adopted ASU 2015-01 on January 1, 2016 and the adoption did not have a material impact on the condensed consolidated financial statements and related disclosures.

In February 2015, the FASB issued ASU No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis* ("ASU 2015-02"), which is intended to improve targeted areas of consolidation guidance for legal entities. The ASU focuses on the consolidation evaluation for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. In addition to reducing the number of consolidation models from four to two, the new standard simplifies the FASB ASC and improves current GAAP. The new standard was effective for the Company on January 1, 2016. The Company adopted ASU 2015-02 on January 1, 2016 and the adoption did not have a material impact on the condensed consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU No. 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"), which requires that debt issuance costs related to a recognized debt liability, be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The new standard was effective for the Company on January 1, 2016.

The Company adopted ASU 2015-03 on January 1, 2016, on a retrospective basis. Debt issuance costs that were previously recorded as other assets on the Company's condensed consolidated Balance Sheets were reclassified as an offset to the respective debt instrument for which they were derived. During the nine month period ended September 30, 2016 and as of December 31, 2015, $67,000 and $72,000 were reclassified from current and noncurrent other assets to current and noncurrent debt, respectively.

In January 2016, the FASB issued ASU No. 2016-01 *Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01") which requires equity investments, except those accounted for under the equity method of accounting or those that result in consolidation of the investee, to be measured at fair value with changes in fair value recognized in net income. The new guidance is effective for the Company on January 1, 2018. Early adoption is permitted. The standard permits the use of cumulative-effect transition method. The Company is evaluating the effect that ASU 2016-01 will have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02 *Leases* ("ASU 2016-02"), which requires lessees to recognize, for all leases, at the commencement date, a lease liability and a right-of-use asset. Under the new guidance, lessor accounting is largely unchanged. The new guidance is effective for the Company on January 1, 2019. Early adoption is permitted. The Company is evaluating the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09 *Compensation – Stock Compensation (Topic 718)* ("ASU 2016-09") which changes five aspects of accounting for share-based payment award transactions including 1) accounting for income taxes; 2) classification of excess tax benefits on the statement of cash flows; 3) forfeitures; 4) minimum statutory tax withholding requirements; and 5) classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes. The new guidance is effective for the Company for interim and annual periods beginning after December 15, 2016. Early adoption is permitted. The Company is evaluating the effect that ASU 2016-09 will have on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”), which requires measurement and recognition of expected credit losses for financial assets held. The new guidance is effective for fiscal periods beginning after December 15, 2019. Early adoption is permitted for fiscal periods beginning after December 15, 2018. The Company is evaluating the effect that ASU 2016-13 will have on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15 *Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments* (“ASU 2016-15”), which provides guidance on eight specific cash flow issues: debt prepayment or extinguishment costs; settlement of zero-coupon or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the Predominance Principle. The new guidance is effective for fiscal periods beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company is evaluating the effect that ASU 2016-15 will have on its consolidated financial statements and related disclosures.

Note 2. Per Share Amounts

Per share information has been computed based on the weighted average number of common shares and dilutive common share equivalents outstanding. The computation for the three month period ended September 30, 2016 excluded approximately 571,000 stock options and the nine month period ended September 30, 2016 excluded approximately 600,000 stock options and 200,000 common stock warrants, because the exercise price of the options was higher than the average market price during those periods.

Pursuant to GAAP, potentially dilutive common stock equivalents, such as dilutive stock options, are not considered when their inclusion in reporting earnings per share would be dilutive to reported losses incurred per share. Because the Company reported a loss for the nine month period ended September 30, 2015, the potentially dilutive effects of approximately 25,000 of the Company’s stock options, 200,000 warrants, and 7,000 unvested restricted stock units were not considered for the reporting period, respectively.

The following table sets forth the computation of basic and diluted earnings per share for the three and nine month periods ended September 30, 2016 and 2015:

	Three Months ended September 30,	Nine Months ended September 30,

	2016	2015	2016	2015
Net income (loss) attributable to American Shared Hospital Services	$334,000	$43,000	$478,000	$(1,799,000)
Weighted average common shares for basic earnings per share	5,554,000	5,494,000	5,553,000	5,485,000
Diluted effect of stock options, restricted stock & common stock warrants	39,000	22,000	11,000	-
Weighted average common shares for diluted earnings per share	5,593,000	5,516,000	5,564,000	5,485,000
Basic earnings (loss) per share	$0.06	$0.01	$0.09	$(0.33)
Diluted earnings (loss) per share	$0.06	$0.01	$0.09	$(0.33)

Note 3. Stock-based Compensation

On June 2, 2010, the Company's shareholders approved an amendment and restatement of the 2006 Stock Incentive Plan (the "2006 Plan"). Among other things, the amendment and restatement renamed the 2006 Plan to the Incentive Compensation Plan (the "Plan") and increased the number of shares of the Company's common stock reserved for issuance under the Plan by an additional 880,000 shares from 750,000 shares to 1,630,000 shares. The shares are reserved for issuance to officers of the Company, other key employees, non-employee directors, and advisors. The Plan serves as successor to the Company's previous two stock-based employee compensation plans, the 1995 and 2001 Stock Option Plans. The shares reserved under those two plans, including the shares of common stock subject to currently outstanding options under the plans, were transferred to the Plan, and no further grants or share issuances will be made under the 1995 and 2001 Plans. On June 16, 2015, the Company's shareholders approved an amendment and restatement of the Plan in order to extend the term of the Plan by two years.

Stock-based compensation expense associated with the Company's stock-based options to employees is calculated using the Black-Scholes valuation model. The Company's stock-based awards have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimates. The estimated fair value of the Company's option grants is estimated using assumptions for expected life, volatility, dividend yield, and risk-free interest rate which are specific to each award. The estimated fair value of the Company's options is amortized over the period during which an employee is required to provide service in exchange for the award (requisite service period), usually the vesting period. Accordingly, stock-based compensation cost before income tax effect, for the Company's options and restricted stock awards, in the amount of $42,000 and $161,000 is reflected in net income for the three and nine month periods ended September 30, 2016 compared to $58,000 and $152,000 in the same periods prior year, respectively. At September 30, 2016, there was approximately $399,000 of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. This cost is expected to be recognized over a period of approximately four years.

The following table summarizes restricted stock awards, consisting primarily of annual automatic grants and deferred compensation to non-employee directors, for the nine month period ended September 30, 2016:

	Restricted Stock Awards/Units	Grant Date Weighted-Average Fair Value	Intrinsic Value
Outstanding at January 1, 2016	3,000	$ 2.58	$-
Granted	40,000	$ 1.95	$-
Vested	(26,000)	$ 1.92	$-
Forfeited	-	$ -	$-
Outstanding at September 30, 2016	17,000	$ 2.10	$17,000

The following table summarizes stock option activity for the nine month period ended September 30, 2016:

	Stock Options	Grant Date Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in Years)
Outstanding at January 1, 2016	614,000	$ 2.86	5.10
Granted	20,000	$ 2.19	6.70
Exercised	-	$ -	-
Forfeited	(9,000)	$ 2.50	-
Outstanding at September 30, 2016	625,000	$ 2.85	4.51
Exercisable at September 30, 2016	85,000	$ 2.76	2.94

Note 4. Investment in Equity Securities

As of September 30, 2016 and December 31, 2015 the Company had a $579,000 investment in the common stock of Mevion Medical Systems, Inc. (“Mevion”), formerly Still River Systems, representing an approximate 0.46% interest in Mevion. The Company accounts for this investment under the cost method. The Company carries its investment in Mevion at cost and reviews it for impairment on a quarterly basis, or as events or circumstances might indicate that the carrying value of the investment may not be recoverable.

Based on guidance provided in ASC 320 *Investments–Debt and Equity Securities* (“ASC 320”) and Staff Accounting Bulletins (“SAB”) Topic 5M *Other Than Temporary Impairment (“OTTI”) of Certain Investments in Equity Securities* (“SAB Topic 5M”), the Company analyzed the related events of Mevion, that occurred in the second and third quarters of 2015 and its impact on the Company’s investment. The Company determined that these circumstances indicated a decline in value of its Mevion investment that was other-than-temporary, and concluded that a write-down of the carrying value should be recognized. As of June 30, 2015, the Company adjusted its investment in Mevion to the estimated fair value of $600,000 and recorded a $2,114,000 impairment loss. The $2,114,000 other than temporary impairment of its investment in Mevion is recorded in other income (loss) on the Company’s Condensed Consolidated Statement of Operations.

During the period ended December 31, 2015, the Company engaged a third party expert to review and corroborate its assessment of the fair value of the Mevion investment. Based on the third party analysis, an additional impairment loss of $26,000 was recognized by the Company during the three months ended December 31, 2015. The fair value of the Company’s investment in Mevion, as of December 31, 2015 and September 30, 2016 was approximately $579,000.

The impairment loss for the year ended December 31, 2015 was $2,140,000.

The Company reviewed this investment at September 30, 2016 in light of both current market conditions and the ongoing needs of Mevion to raise cash to continue its development of the first compact, single room PBRT system. Based on its analysis, the Company determined no additional impairment needs to be recognized as of September 30, 2016.

The Company's first MEVION S250 PBRT unit was contracted with Orlando Health, Inc. under a ten (10) year, revenue sharing arrangement. The Marjorie and Leonard Williams Center for Proton Therapy at Orlando Health treated its first patient on April 6, 2016.

Note 5. Fair Value of Financial Instruments

The Company's disclosures of the fair value of financial instruments is based on a fair value hierarchy which prioritizes the inputs to the valuation techniques used to measure fair value into three levels. Level 1 inputs are unadjusted quoted market prices in active markets for identical assets and liabilities that the Company has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for assets or liabilities, and reflect the Company's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The estimated fair value of the Company's assets and liabilities as of September 30, 2016 and December 31, 2015 were as follows (in thousands):

	Level 1	Level 2	Level 3	Total	Carrying Value
September 30, 2016					
Assets:					
Cash, cash equivalents, restricted cash	$ 2,096	$ -	$ -	$ 2,096	$ 2,096

Investment in equity securities	**Quarter ended September 30, 2016**	**Quarter ended September 30, 2015**	**Half year ended September 30, 2016**	**Half year ended September 30, 2015**
Service cost	4,270	3,889	8,467	7,778
Interest cost	1,718	1,491	3,387	3,002
Interest income	(666)	(596)	(1,313)	(1,212)
Net gratuity costs recognized in statement of income	5,322	4,784	10,541	9,568

Details of employee benefit obligation and plan asset are as follows:

	September 30, 2016	March 31, 2016
Present value of projected benefit obligation at the end of half year/ year	101,375	91,801
Funded status of the plans	(31,449)	(35,589)
Recognized (asset) / liability	69,926	56,212

The following table set out the status of the gratuity plan:

Change in defined benefit obligation	**September 30, 2016**	March 31, 2016
Projected benefit obligation at the beginning of half year/ year	91,801	79,038
Service cost	8,468	16,215
Interest cost	3,387	6,178
Remeasurements - Actuarial (gain) / loss	3,173	(1,325)
Benefits paid	(5,454)	(8,305)
Projected benefit obligation at the end of half year/ year	101,375	91,801

Change in plan assets	September 30, 2016	March 31, 2016
Fair value of plan assets at the beginning of the period	35,589	33,135
Interest income	1,313	2,590
Remeasurements – return on plan assets excluding amounts included in interest income	-	66
Employer contributions	-	8,103
Benefits paid	(5,453)	(8,305)
Fair value of plan assets at the end of the period	31,449	35,589

Actuarial Assumptions at reporting date:

	As at September 30, 2016	As at March 31, 2016
Discount rate	6.85% P.a	7.50% P.a
Long-term rate of compensation increase	7.00% P.a	7.00% P.a
Expected long term rate of return on plan assets	8.00% P.a	8.00% P.a
Average future working life time	4.39 years	4.40 years

The Group assesses these assumptions with the projected long-term plans of growth and prevalent industry standards.

Remeasurement of defined benefit plans recognised in other comprehensive income

The amount gains and losses on Remeasurement of defined benefit plans recognized directly in other comprehensive income for the half year ended September 30, 2016 and 2015 are as follows:

	Half year ended September 30, 2016		Half year ended September 30, 2015
Gain or (loss) on Remeasurement of defined benefit plans	(3,173	)	1,926
	(3,173	)	1,926

Historical information

	Half year ended September 30, 2016		Half year ended September 30, 2015	
Experience adjustment on plan liabilities - (loss)/gain	(163	)	(1,490	)
Impact of change in assumptions on plan liabilities - (loss)/gain	(3,010	)	4,628	
Experience adjustment on plan assets - (loss)/gain	-		(1,212	)
	(3,173	)	1,926	

10. Revenue

	Quarter ended		Half year ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Rendering of services				
Service revenue	3,304,741	3,155,524	6,617,747	5,989,359
Installation service revenue	877,009	442,067	1,394,467	850,754
	4,181,750	3,597,591	8,012,214	6,840,113
Sale of products	210,112	117,748	549,606	281,773
Total	4,391,862	3,715,339	8,561,820	7,121,886

11. Cost of goods sold and services rendered

Cost of goods sold and services rendered information is presented before any depreciation or amortization that is direct and attributable to revenue sources. The Group's asset base deployed in the business is not easily split into a component that is directly attributable to a business and a component that is common / indirect to all the businesses. Since a gross profit number without depreciation and amortization does not necessarily meet the objective of such a disclosure, the Group has not disclosed gross profit numbers but disclosed all expenses, direct and indirect, in a homogenous group leading directly from revenue to operating income.

12. Personnel expenses

	Quarter ended		Half year ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Salaries and wages	509,187	445,062	952,700	846,279
Contribution to provident fund and other funds	31,485	23,186	56,933	45,337
Staff welfare expenses	7,483	5,235	15,651	8,449
Employee Stock compensation expense	3,585	14,553	4,879	29,748
	551,740	488,036	1,030,163	929,813
Attributable to Cost of goods sold and services rendered	233,287	225,474	439,409	425,313
Attributable to selling, general and administrative expenses	318,453	262,562	590,754	504,500

13. Financial income and expense

	Quarter ended		Half year ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Interest income on bank deposits	7,260	9,577	14,463	11,251
Others	8,986	3,813	70,942	7,392
Finance income	16,246	13,390	85,405	18,643
Interest expense on financial lease liabilities	23,416	32,603	49,783	68,394
Bank charges	19,237	34,077	42,137	63,334
Other interest	55,760	119,212	157,043	192,032
Finance expense	98,413	185,892	248,963	323,760
Net finance expense recognised in profit or loss	(82,167)	(172,502)	(163,558)	(305,117)

14. Earnings per share

The calculation of basic earnings per share for the quarter and half year ended September 30, 2016 is based on the earnings attributable to ordinary shareholders:

	Quarter ended September 30, 2016	September 30, 2015	Half year ended September 30, 2016	September 30, 2015
Net profit – as reported	156,648	133,263	281,673	218,446
Weighted average number of shares – Basic	141,030,787	141,030,787	141,030,787	141,030,787
Basic earnings per share	1.11	0.94	2.00	1.55
Weighted average number of shares – Diluted	141,030,787	141,492,771	141,030,787	1,414,92,771
Diluted earnings per share	1.11	0.94	2.00	1.54

Note 1: During the year ended March 31, 2011, 125,000,000 ordinary shares were issued to the existing promoter group on a private placement basis. As at September 30, 2016, these shares were partly paid up to the extent of Rs.7.00 (March 31, 2016 : 7.00) per share.

15. Segment reporting

The operating segments of the Company are as follows:

Telecom services: Consists of domestic data, international data, wholesale voice and network managed services;

Data Centre services**:** Consists of co-location services ;

Cloud and managed services*:* Consists of IT infra services, IT transformation services, remote and onsite infrastructure management services and delivery platforms;

Technology integration services*:* Consists of data centre build, network integration, end user computing and collaborative tools and solutions;

Applications integration services: Consists of application development and maintenance, application testing, information security, mobility solutions, eLearning, portals, tools, process and automation.

The Chief Operating Decision Maker ("CODM"), i.e, the Board of Directors and the senior management, evaluate the Group's performance and allocate resources to various strategic business units that are identified based on the products and services that they offer and on the basis of the market served. The measure of profit / loss reviewed by the CODM is "Earnings/loss before interest, taxes, depreciation and amortization" also referred to as "segment operating income / loss". 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 to Network Services. Manpower costs of Technology resources rendering services to support Infrastructure operations, Managed services and Application services, are allocated to specific operating segments. The Group believes that the resulting allocations are reasonable.

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

A significant part of the fixed assets used in the Group's business are not identifiable to any of the reportable segments and can be used interchangeably between segments. As a result, the measures of segment assets and liabilities are not regularly reviewed by the CODM and hence disclosures relating to segment assets and liabilities have not been provided.

The Group's operating segment information for the quarter ended September 30, 2016 and 2015 and half year ended September 30, 2016 and 2015, are presented below:

Quarter ended September 30, 2016

	Telecom Services	Datacenter Services	Cloud and Managed Services	Technology Integration Services	Applications Integration Services	Total
Segment revenue	2,570,767	489,771	229,141	397,076	705,107	4,391,862
Allocated segment expenses	(1,996,870)	(399,427)	(215,081)	(331,546)	(587,914)	(3,530,838)
Segment operating income	573,897	90,344	14,060	65,530	117,193	861,024
Unallocated expenses:						
Selling, general and administrative expenses						(226,709)
Depreciation and amortization						(431,965)
Other income						36,465
Finance income						16,246
Finance expenses						(98,413)
Profit for the period						156,648

Half year ended September 30, 2016

	Telecom Services	Datacenter Services	Cloud and Managed Services	Technology Integration Services	Applications Integration Services	Total
Segment revenue	5,105,843	931,238	471,357	949,705	1,103,677	8,561,820
Allocated segment expenses	(3,981,321)	(733,537)	(382,458)	(796,567)	(925,803)	(6,819,686)
Segment operating income	1,124,522	197,701	88,899	153,138	177,874	1,742,134
Unallocated expenses:						
Selling, general and administrative expenses						(485,603)
Depreciation and amortization						(872,753)
Other income / (expense), net						61,453

Finance income	85,405
Finance expenses	(248,963)
Profit for the period	281,673

Quarter ended September 30, 2015 (adjusted)

	Telecom Services	Datacenter Services	Cloud and Managed Services	Technology Integration Services	Applications Integration Services	Total
Segment revenue	2,492,768	364,761	234,463	242,006	381,341	3,715,339
Allocated segment expenses	(1,862,954)	(277,587)	(202,929)	(195,293)	(264,674)	(2,803,437)
Segment operating income	629,814	87,174	31,534	46,713	116,667	911,902
Unallocated expenses:						
Selling, general and administrative expenses						(248,890)
Depreciation and amortization						(369,189)
Other income						11,942
Finance income						13,390
Finance expenses						(185,892)
Profit for the period						133,263

Half year ended September 30, 2015 (adjusted)

	Telecom Services	Datacenter Services	Cloud and Managed Services	Technology Integration Services	Applications Integration Services	Total
Segment revenue	4,714,647	742,073	438,546	549,202	677,418	7,121,886
Allocated segment expenses	(3,557,184)	(564,130)	(341,925)	(442,066)	(514,240)	(5,419,545)
Segment operating income	1,157,463	177,943	96,621	107,136	163,178	1,702,341
Unallocated expenses:						
Selling, general and administrative expenses						(455,607)
Depreciation and amortization						(744,805)
Other income / (expense), net						21,634
Finance income						18,643
Finance expenses						(323,760)
Profit for the period						218,446

We have been historically including the results of Digital Certification services under the Technology Integration Services segment. The Industry in which this product competes has witnessed newer competitions, business models resulting in dynamic market changes. In order to leverage the versatility and the organizational capability, the Chief Operations Decision Maker (CODM) has evaluated options of reorganizing this product into Applications Integration Services segment with effect from April 1, 2016. This will enable the product to address customers across segments, achieve better marketability, flexibility and scale. The corresponding revenue and costs of this product have been regrouped under the respective segments. Consequently, the figures for the quarter and half year ended September 30, 2015 are adjusted accordingly.

The reclassification of component of operating segments did not have any effect on reported consolidated operating income, income before income taxes, net income or per share amounts. The following table provides the amounts reclassified for prior period.

I. Revenue reclassifications

For the quarter ended September 30, 2015

Technology Integration Services	Applications Integration Services

As previously reported	389,319	234,028
Reclassification of Digital certification services	(147,313)	147,313
Revised Segment revenue	242,006	381,341

For the half year ended September 30, 2015

	Technology Integration Services	Applications Integration Services
As previously reported	769,270	457,350
Reclassification of Digital certification services	(220,068)	220,068
Revised Segment revenue	549,202	677,418

II. Operating costs reclassification

For the quarter ended September 30, 2015

	Technology Integration Services	Applications Integration Services
As previously reported	274,276	185,691
Reclassification of Digital certification services	(78,983)	78,983
Revised Segment Operating Cost	195,293	264,674

For the half year ended September 30, 2015

	Technology Integration Services	Applications Integration Services
As previously reported	558,153	398,153
Reclassification of Digital certification services	(116,087)	116,087
Revised Segment Operating Cost	442,066	514,240

16. Capital commitments

Contracts pending to be executed on capital account as at September 30, 2016 amounting to 889,791 (March 31, 2016 : 558,249) .

Operating leases: The Group leases office buildings and other equipments under operating lease arrangements that are renewable on a periodic basis at the option of both the lessor and the lessee. The schedule of future minimum rental payments in respect of operating leases is set out below:

Non-cancellable operating lease obligations	Total	**Less than 1 year**	1-5 years	More than 5 years
As at September 30, 2016	1,152,108	105,069	470,188	576,851
As at March 31, 2016	1,201,886	99,558	462,045	640,283

17. Legal proceedings

a) Proceedings before Department of Telecommunications

(i) License fees

- On October 12, 2009 [as later clarified by the Department of Telecommunications ('DOT')], DOT raised a demand on Sify Technologies for 14,000 after correcting the arithmetical error in the assessment letter.

- On February 26, 2010 DOT raised a demand on Sify Communications Ltd (erstwhile subsidiary merged with Sify Technologies Limited) for 26,000.

The above demands were made by the DoT on the premise that all amounts of income (whether direct or indirect) including certain items like other income, interest on deposits, gain on foreign exchange fluctuation, profit on sale of assets & provision written back, that have got anything to do with telecom operations of the Company or arise in connection with the Telecom business of the Company, are to be considered as income for the purpose of calculation of the license fee. The Company has replied suitably on the above demand notices.

On a related matter, the service providers had approached TDSAT (the 'Tribunal') on what items of income are liable for calculation of license fee and what all items of income on which license fees are not liable to be paid. The Tribunal by its order dated April 23, 2015 held that revenue from sale of scrap, treasury income etc are to be included as part of AGR. The Tribunal has also passed an order asking DOT to levy at most nominal amount as token penalty with interest if permissible at the lower rates. The Company had approached Honourable High Court of Madras (Court) in 2013 by filing a writ petition prohibiting Department of Telecommunications (DOT) from levying license fee on non-licensed activities. An interim order was passed by the Court restraining DOT from recovering license fee in respect of non- telecom activities for the writ petition filed in 2013.

(ii) The present licence for ISP under unified license issued by DOT on June 2, 2014 provides for payment of Licence fee on pure Internet services. However, the company through Internet Service Providers Association of India (ISPAI) challenged the said clause before TDSAT. TDSAT passed a stay order on DOT from charging the licence fee on pure Internet services.

(iii) The Company is party to additional legal actions arising in the ordinary course of business. Based on the available information as at September 30, 2016, the Company believes that it has adequate legal defenses for these actions and that the ultimate outcome of these actions will not have a material adverse effect. However in the event of adverse judgment in all these cases, the maximum financial exposure would be 19,700 (March 31, 2016: 19,700)

18. Related parties

The following is a summary of significant transactions with related parties during the half year ended September 30, 2016 and September 30, 2015:

Transactions	Half year ended September 30, 2016	Half year ended September 30, 2015
Consultancy services received	120	120
Lease rentals paid (Refer notes below)	2,665	2,489
Dividend paid	116,511	116,511
Amount of outstanding balances		
Advance lease rentals and refundable deposits made (Refer note below)	2,558	2,558
Oustanding balances [(Payables)/receivables]	(413)	(373)

Notes:

1. During the year 2011 -12, the Company had entered into a lease agreement with M/s Raju Vegesna Infotech and Industries Private Limited, the holding Company, to lease the premises owned by it for a period of three years

effective February 1, 2012 on a rent of 75 (Rupees Seventy Five Thousand Only) per month. Subsequently, the Company entered into an amendment agreement with effect from April 1, 2013, providing for automatic renewal for a further period of two blocks of 3 years with an escalation of 15% on the last paid rent after the end of every three years.

2. During the year 2011-12, the Company had entered into a lease agreement with M/s Raju Vegesna Developers Private Limited, a Company in which Mr Ananda Raju Vegesna, Executive Director of the Company and Mr Raju Vegesna, Chief Executive Officer and Managing director of the Company exercise significant influence, to lease the premises owned by it for a period of three years effective February 1, 2012 on a rent of 30 (Rupees Thirty Thousand Only) per month. Subsequently, the Company entered into an amendment agreement with effect from April 1, 2013, providing for the automatic renewal for further period of two blocks of 3 years with an escalation of 15% on the last paid rent after the end of every three years.

3. During the year 2010-11, the Company had entered into a lease agreement with Ms Radhika Vegesna, daughter of Mr Anand Raju Vegesna, Executive Director of the company, to lease the premises owned by her for a period of three years effective June 1, 2010 on a rent of 294 (Rupees Two Lakhs Ninety Four Thousand Only) per month and payment of refundable security deposit of 2,558 (Rupees Twenty Five Lakhs and Fifty Eight Thousand only). This arrangement will automatically be renewed for a further period of two blocks of three years with all the terms remaining unchanged.

19. Financial Instruments

Financial instruments by category:

The carrying value and fair value of financial instruments by each category as at September 30, 2016 were as follows:

Particulars	Note	Financial assets/ liabilities at amortised costs	Financial assets / liabilities at FVTPL	Financial assets / liabilities at FVTOCI	Total carrying value	Total fair value
Assets						
Cash and cash equivalents	6	1,842,241	-	-	1,842,241	1,842,241
Other assets		177,271	-	-	177,271	177,271
Trade receivables	8	6,321,561	-	-	6,321,561	6,321,561
Other receivables		143,670	-	-	143,670	143,670
Other investments		-	-	1,710	1,710	1,710
Liabilities						
Bank overdraft	6	698,026	-	-	698,026	698,026
Finance lease liabilities		760,965	-	-	760,965	760,965
Other liabilities		208,986	-	-	208,986	208,986
Borrowings from banks		2,374,035	-	-	2,374,035	2,374,035
Borrowings from others		978,807	-	-	978,807	978,807
Trade and other payables		4,803,374	-	-	4,803,374	4,803,374
Derivative financial liabilities		-	46,838	-	46,838	46,838

The carrying value and fair value of financial instruments by each category as at March 31, 2016 were as follows:

Particulars	Note	Financial assets/ liabilities at amortised costs	Financial assets / liabilities at FVTPL	Financial assets / liabilities at FVTOCI	Total carrying value	Total fair value
Assets						
Cash and cash equivalents	6	1,735,880	-	-	1,735,880	1,735,880
Other assets		179,580	-	-	179,580	179,580
Trade receivables	8	5,497,289	-	-	5,497,289	5,497,289
Other receivables		161,551	-	-	161,551	161,551

Other investments		-	-	1,710	1,710	1,710
Liabilities						
Bank overdraft	6	719,767	-	-	719,767	719,767
Finance lease liabilities		953,311	-	-	953,311	953,311
Other liabilities		205,187	-	-	205,187	205,187
Borrowings from banks		2,219,216	-	-	2,219,216	2,219,216
Borrowings from others		628,421	-	-	628,421	628,421
Trade and other payables		4,655,605	-	-	4,655,605	4,655,605
Derivative financial liabilities		-	56,496	-	56,496	56,496

Fair value measurements:

The details of assets and liabilities that are measured on fair value on recurring basis are given below:

	Fair value as at September 30, 2016			Fair value as at March 31, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Derivative financial assets – gain on outstanding forward contracts	-	-	-	-	5,473	-
Liabilities						
Derivative financial liabilities - loss on outstanding cross currency swaps	-	-	(25,559)	-	-	(33,247)
Derivative financial liabilities - loss on outstanding interest rate swaps	-	-	(21,279)	-	-	(28,722)

- Level 1 – unadjusted quoted prices in active markets for identical assets and liabilities.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 – unobservable inputs for the asset or liability

o Loss on cross currency swaps are valued using present value of cash flows from the swap contract estimated using swap rates calculated from respective countries' yield curves.

20. Financial Risk Management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors have established a risk management policy to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management systems are reviewed periodically to reflect changes in market conditions and the Group's activities. The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the risk management framework. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes reviews of risk management controls and procedures, the results of

which are reported to the Audit Committee.

Credit risk: Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's trade receivables, treasury operations and other activities that are in the nature of leases.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management considers that the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. The group is not exposed to concentration of credit risk to any one single customer since the services are provided to and products are sold to customers who are spread over a vast spectrum. Credit risk is managed through credit approvals, establishing credit limits and continuously monitoring the credit worthiness of the customers to which the Company grants credit terms in the normal course of the business.

Cash and cash equivalents and other investments

In the area of treasury operations, the Group is presently exposed to counter-party risks relating to short term and medium term deposits placed with public-sector banks, and also to investments made in mutual funds.

Guarantees

The Group's policy is to provide financial guarantees only to subsidiaries.

The Chief Financial Officer is responsible for monitoring the counterparty credit risk, and has been vested with the authority to seek Board's approval to hedge such risks in case of need.

Liquidity risks: Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses, servicing of financial obligations. In addition, the Group has concluded arrangements with well reputed Banks, and has unused lines of credit that could be drawn upon should there be a need. The Company is also in the process of negotiating additional facilities with Banks for funding its requirements.

Market risk: Market risk is the risk of loss of future earnings or fair values or future cash flows that may result from a change in the price of a financial instrument. The value of a financial instrument may change as a result of changes in the interest rates, foreign exchange rates and other market changes that affect market risk sensitive instruments. Market risk is attributable to all market risk sensitive financial instruments including foreign currency receivables and payables. The Group is exposed to market risk primarily related to foreign exchange rate risk (currency risk), interest rate risk and the market value of its investments. Thus the Group's exposure to market risk is a function of investing and borrowing activities and revenue generating and operating activities in foreign currencies.

Currency risk: The Group's exposure in USD, Euro and other foreign currency denominated transactions gives rise to Exchange Rate fluctuation risk. Group's policy in this regard incorporates:

- Forecasting inflows and outflows denominated in US$ for a twelve-month period
- Estimating the net-exposure in foreign currency, in terms of timing and amount
- Determining the extent to which exposure should be protected through one or more risk-mitigating instruments to maintain the permissible limits of uncovered exposures.
- Carrying out a variance analysis between estimate and actual on an ongoing basis, and taking stop-loss action when the adverse movements breaches the 5% barrier of deviation, subject to review by Audit Committee.

21. Issue of shares on a private placement basis to the existing promoter group

On August 4, 2010, the Board of Directors of the company approved the issuance, in a private placement, of upto an aggregate of 125,000,000 of the company's equity shares, par value Rs.10 per share ("Equity shares") at a discount compared to market value of , for an aggregate purchase price of 4,000,000, to a group of investors affiliated with the company's promoter group, including entities affiliated with Mr Raju Vegesna, the company's Chief Executive Officer and Managing Director and Mr Ananda Raju Vegesna, Executive Director and brother of Mr Raju Vegesna (the "Offering"). The company's shareholders approved the terms of the Offering at the Company's Annual General Meeting held on September 27, 2010.

On October 22 2010, the company entered into a Subscription Agreement with Mr Ananda Raju Vegesna, acting as representative (the "Representative") of the purchasers in connection with the Offering. In pursuance of the Agreement, the company issued and allotted 125,000,000 equity shares to M/s Raju Vegesna Infotech and Industries Private Limited ("RVIIPL"), a promoter group company. In accordance with Indian law, the purchase price is to be paid at such time as determined by Board of Directors of the company.

On August 14, 2011, the company received a letter from RVIIPL expressing its intention to transfer the above partly paid shares to its wholly owned subsidiary M/s Ramanand Core Investment Company Private limited ("RCICPL"). The company, on August 26, 2011, registered such transfer of partly paid shares in the name of RCICPL.

On September 7, 2011, the parties entered into an amendment to the Subscription Agreement (the "Amendment") extending the validity of the agreement period to September 26, 2013. This Amendment provides the Board of Directors of the Company with additional time to call upon the purchasers to pay the balance money, in accordance with the terms of the Subscription Agreement.

As at September 30, 2016, these shares were partly paid to the extent of 7 per share. Until the full purchase price is paid by the purchasers, the company retains a lien on the equity shares purchased in connection with the Offering. As at September 30, 2016, entities affiliated with our CEO, Chairman and Managing Director, Raju Vegesna, beneficially owned approximately 86.27% of our outstanding equity shares, which includes the 125,000,000 shares (partly paid with proportionate voting rights) issued in connection with the above Offering. Also, refer note 22 (ii) of the financial statements.

22. Subsequent events

i. Investment in Attala Systems LLC

The Board of Directors of the Company through its US subsidiary, Sify Technologies North America Corporation (‘Sify NA’) approved an investment of US $ 1.5 million in Attala Systems LLC (‘Attala’). Attala is incorporated in California, specializing in Cloud Solution incorporating Storage, Networking and Monitoring. The above investment will give Sify NA 17.23% stake in the Preferred Shares at status of ‘Series A’ of Attala. This will enable the Company to provide networking feasibility to Attala and the Company will have access to the technology developed by Attala. The first tranche of US $ 0.75 million has been invested in October 2016 and the balance US $ 0.75 million will be invested in two tranches.

ii. Call money on shares issued to the existing promoter group

Out of the uncalled share capital of 1,200,000, the Board of Directors have made a call amounting to 300,000 at their meeting held on October 19, 2016 and the said amount will be received by the Company by November 2016. The balance of the proceeds from the allotment of the equity shares to our existing promoter group, of 900,000, will take place in tranches as per the amended subscription agreement.

23. Group entities

The following are the entities that comprise the Group as at September 30, 2016 and March 31, 2016:

Particulars	**Country of incorporation**	% of Ownership interest	
Significant subsidiaries		September 30, 2016	March 31, 2016
Sify Technologies (Singapore) Pte. Ltd	Singapore	100	100
Sify Technologies North America Corporation	USA	100	100

Item 2. Information on the Company

Sify Business Model

Drawing from the Company's Vision statement, we endeavour to provide the entire eco-system of ICT services. In doing so, we have to accede to the demands of both the traditional Telecom and IT markets.

The first few years of growth of the IT and Telecom industries were driven primarily in garnering maximum market share and an enviable roster of blue chip clients. With changing dynamics and demands of the market, the two industries have to find a middle ground to retain and expand the market. It was the time of convergence and the perfect fertile ground for our services.

Until 2012, our primary strategy was to invest in infrastructure and being ready before the market cycle demanded our services. Once we attained critical mass, we shifted focus to packaging our products and practices as tangible offerings to the market.

In Sify 3.0, we have restructured our business segments into 5 distinct lines of business namely:

a) Telecom Services

Having invested heavily in building among India's best last mile network services, it was time to scale the utilization through cross alignment with traditional telecom players who were looking to expand our markets to Tier II and Tier III cities and towns and also to IT players who wished to leverage the cost benefits of relocating to Tier II towns.

We do this by leveraging our state-of-the art last mile wireless connectivity and the dense spread of network. Enterprise customers who seek to utilise the network have the choice of being connected to the Data Centre, of their choice or any one of our Tier III Data Centres. Today, this multi-mode, multi-mesh network connects 36 of India's Data Centres; a fact that endorses the quality of our offering and our network presence

Our network, reaches over 1,300 cities and towns with approximately 2600 Points of Presence.

b) Data Centre services

Right from our first Data Centre at Vashi, Mumbai in 2000, we have invested in the top of the line technologies across all our networks with every new data centre taking the game forward. The Sify SDA (Sify Data Centre Architecture) 4.0 is an IP that has found acceptance in the several Data Centres that we have built for our customers.

These DCs also offer a multitude of Value Added services over the traditional notion of basic collocation and Opex driven storage solutions.

c) Cloud and Managed services

The last few years saw the emergence of Cloud or virtual storage as a tangible product offering. Several Emerging Enterprises saw the benefits of buying-space-as-you-go as against investing in Capex loaded infrastructure. The advent of this business was the quality of high class networks and promise to remotely store your data immaterial of where it was connected from and plugging into it when the enterprises chose to. This eliminated the need for cumbersome server monitoring and the associated cost of ownership.

In order to offer the best-of-breed services, we chose to tie up with the leaders in the business like Hp and VMware. Our hosting services are also SAP Gold certified giving the much needed SLAs (Service Level Agreements) to our customers about the level of our offerings.

d) Technology Integration services

The nearly two decades spent maturing into India’s premier ICT player has led to building an enviable knowledge bank of integrating, monitoring, maintaining and upgrading every facet of service as demanded by a quickly converging market.

Sify offers turnkey solutions to clients who are new to both technology and technology refreshes. We do this by leveraging our homegrown expertise in design, implementation and maintenance to deliver end-to-end managed IT services across datacenter, network and security.

As described, this business takes the knowledge developed from building Network architecture, Unified Communication and Unified Access, Collaborative tools, Data Centre build, Virtualization, LAN and WAN Architecture and End Point Security and offers them as a complete solution package to customers.

This business is also responsible for Sify bringing in some of the biggest deals of the year, for grounds-up technology refresh for some of India's biggest private and Government clients.

e) Applications Integration services

As with every industry major who chose to offer IT and Managed services, Applications were also demanded by several of our clients. While we chose not to be a core Software player, we do enable the integration of multiple technologies and platforms and the cross breeding of existing ones.

This way, the clients can slowly transition the maturity cycle with their existing application before switching over to newer ones. That said on our services, some of our home grown applications, like Forum and iTest have found favour with a large number of our clientele.

We are looking to strengthen our bouquet of offerings in the years to come.

Strategy

Our vision statement is explicit on our strategy.

We are building a world in which our converged ICT eco-system and our bring-it-on attitude will be the competitive advantage to our customers.

To build a converged ICT eco-system calls for a multidisciplinary approach. While maintaining the tempo of investment in infrastructure, we will, in parallel, strengthen our current offerings of services. The description below provides an explanation on this approach.

• *Cover more of the country with our network, increase the bandwidth support and drive more customer usage.* 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. We are also the first IPv6 ready network having laid it down as early as 2000. In the fiscal year 2013-14, we implemented the proprietary CloudCover to connect Data Centres across India with a multi-mode, multi-mesh network. This builds redundancy at multiple levels across the network. This network connects 38 of India's Data Centres including 6 of our own. To ensure undisrupted high quality service and to achieve cost efficiencies, we have invested in a under sea cable consortium. The capacity went live during the Q1 of 2012-13. We have also leased intercity links from multiple suppliers including BSNL, Bharti, TATA, Railtel and Power Grid Corporation, such that each one of our nodes is accessible from at least two other nodes, if not by two long distance operators. We believe that as the size and capacity of our network infrastructure grows, its structure and national coverage will create economies of scale. Being vendor neutral, we are able to procure bandwidth in a cost effective manner. In January 2014, we launched India's truly Green Data Centre at Noida with an industry defining benchmark efficiency.

· *Increase penetration in our existing markets by expanding awareness of the "Sify" brand name to capitalize on our first mover advantage in India.* Over time, Sify as a brand has expanded it offerings from the retail broadband segment to the Enterprise buyer in India. But as with every brand's birth, our first offerings gave us the identity as India's most aggressive internet player. We built on those strengths and with time, have built a complete ecosystem of Enterprise offerings.

• *Create pull with newer more efficient technology and hence draw more customers into the Sify fold.* In order to transition to being an Enterprise player, we began by expanding our bouquet of services in line with market demand. A nascent retail broadband gave rise to data storage and hence our first Data Centre was born; at Vashi Mumbai in 2000. As a brand, we have consciously aligned with the best-of-breed technology and benchmarks. Hence, right from our first Data Centre, all our subsequent ones were also Tier III compliant. Our managed services bouquet has been a mix of home grown applications and offerings through tie ups with industry leaders like Hp, VMware, Akamai, SAP etc.

• *Expand the bouquet of services and cater to an audience that does not mind paying a premium and hence realise better margins.* As competition heats up in the IT and Telecom sector, there will be a squeeze on our margins for the traditional offerings. Hence it is imperative to create a segment of premium paying customers who see value in the differential on their services. We will also continuously expand our service offerings and expand into a broader geographical domain. We actively spread to Tier II and III cities much before we had customers there. This helped us to demonstrate a robust working model of our services in geographically challenged places as and when the demand arose.

• *Expand our customer distribution channels through strategic alliances to take advantage of the sales and marketing capabilities of our strategic partners.* Each of our business delivers a certain level of legitimacy when aligned with the industry leaders. Most MNCs see this as a comfort factor and a reassurance of global standards that they have enjoyed. So, whether it is Telecom business aligning with international carriers, our DC business being Tier III certified and assured by the best of the global standards, our Managed services having tied up with leaders like HP, VMware, SAP, Hitachi etc or Applications Integration services or our content delivery assurance with Akamai under our Technology Integration services ambit, the assurance is the same; global standards, local deliverance. On the delivery front, this doubles our marketing strength while allowing for a cross selling of products and services to both the partner's audiences.

• *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.* India's financial nerve centre, Mumbai has long been a focus of our expansion plans given the concentration of Enterprise players. That, along with a stable administration and power supply, well developed suburbs, and a native market was responsible for us launching our 6th Tier III DC at Rabale, near Navi Mumbai. All along, we have invested ahead of the demand curve across all our services. That said, the focus has also been to add value by partnering with the best of breed technology companies. Towards that, our hosting services are now SAP certified giving us the incentive/fillip to pitch it to discerning Enterprise customers. Content delivery for Enterprise customers was underlined with our partnership with the world leaders, Akamai. We will continue to pursue opportunities to grow both organically and inorganically, in our endeavor to spread into newer geographies.

• *Expand into international markets for providing managed network services.* We are now at a crucial phase in our growth. Over the years, we have built a substantial knowledge house of services and they are ready to be delivered to clients beyond India's borders. We are actively pursuing an agenda of tying up with international IT majors and taking these strengths to customer worldwide, starting with North America. Our inhouse IP services like eLearning are already being offered to multiple geographies in the US and Europe.

Service Offerings

Telecom Service . These primarily consist of network service which addresses the domestic connectivity needs of Indian enterprises and international inward and outward connectivity needs of International Enterprises. We do this by leveraging our national Tier 1 IPv6 network infrastructure. The services include a comprehensive range of Internet protocol based Virtual Private Network, offerings, including intranets, extranets and remote access applications to both small and large corporate customers. There is a strong focus on industry verticals such as IT/ITES (IT enabled services), banking and financial services industry (BFSI), Government, manufacturing, pharmaceutical and FMCG. We were one of the first service providers in India to provide MPLS-enabled IPVPN's on our entire network. We have entered into a strategic partnership with leading Telcos for providing last mile connectivity to customers. Our entire network is MPLS enabled with built in redundancy with world class design and service standards.

Our cable landing station and our investment in a submarine cable consortium are our other assets that we extend to our International partners for their international inward and outward connectivity needs. Our cable landing station currently lands 2 major submarine cables; namely Gulf Bridge International (GBI) and the Middle Eastern and North African cable (MENA).

Our connectivity clients can pick from a range of services; namely the following.

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

- SiteConnect (TM) which offers site-to-site managed MPLS-enabled IPVPN solutions for securely connecting regional and large branch offices within India to the corporate Intranet.

- GlobalSite Connect (TM) , an international site-to-site managed MPLS-enabled IPVPN solution, is used for securely connecting international branch offices to the corporate offices. It provides connectivity anywhere in the world through Sify’s alliances and partnerships with global overseas service providers such as Level 3, KDDI, and PCCW Global to name a few.

- ExpressConnect (TM) , which offers a premium range of high-performance Internet bandwidth solutions for connecting regional offices, branch offices and remote locations to the corporate network. These solutions complement our SiteConnect range of MPLS enabled IPVPN solutions, provide high-speed bandwidth in those situations where basic connectivity and cost are the top concerns.

- RoamConnect (TM) , is our national and international remote access VPN, which is used for securely connecting employees, while they are traveling, to the corporate intranet. Roam Connect features “single number access” to SifyNet from anywhere in the country and provides access from anywhere in the world through Sify’s alliances with overseas service providers.

- PartnerConnect (TM) is our remote access VPN offering, for providing secure and restricted dial-up access to business partners such as dealers, distributors and suppliers to the corporate extranet.

Our suite of conferencing tools consist of Audio and Video solutions; most differentiating among being that the video solution in partnership with a world leader, does not require a room conferencing solution thereby arming the modern enterprise with real time data straight from the markets.

Data Centre Services . We operate 6 Tier III Data Centres of which three are located in Mumbai (Bombay), one each at Noida (Delhi), Chennai (Madras) and Bengaluru, which are designed to act as reliable, secure and scalable facilities to host mission-critical applications. We offer co-location services which allow customers to bring in their own rack-mountable servers and house them in shared racks or hire complete racks, and even rent ‘secure cages’ at the hosting facility as per their application requirements. We also offer a wide variety of managed hosting services, such as storage, back-up and restoration, performance monitoring and reporting hardware and software procurement and configuration and network configuration.

Cloud and Managed Services. Our on-demand hosting (cloud) services offers end-customers with the best in class solutions to Enterprises. We have joined the global program of two world majors and offer their suite of on-demand cloud services giving them the option to “rent” software licenses on a monthly “pay as you go” basis. This model is aimed at helping Indian companies, both large and small, to safely tap computing capacity inside and outside their firewalls to help ensure quality of service for any application they want to run..

Our Remote and Onsite Infrastructure Management services provides continuous proactive management and support of customer operating systems, applications and database layers through deploying specialized monitoring tools and infrastructure experts to ensure that our customers’ infrastructure is performing optimally.

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

Technology Integration services: Our myriad mix of solutions gives us the scope to band and extend any or all of these services in multiple formats and scales for client who wish to rest their entire infrastructure with us. Clients get the benefit of our accumulated knowledge base and technical expertise across all points of the ICT spectrum. In terms of cost, these translate into better cost efficiencies. In terms of monitoring, the client interacts with a singular service provider saving them both implementation and documentation efforts.

Applications Integration services: Our range of web-applications include sales force automation, supply chain management, intranet and extranets, workflow engine and knowledge management systems.

Our Applications Integration services operates two of India's biggest online portals, www.sify.com and www.samachar.com, that function as principal entry points and gateway for accessing the Internet by providing useful web-related services and links. We also offer related content sites specifically tailored to Indian interests worldwide.

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

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

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

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

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

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

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

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

We offer value-added services to organizations such as website design, development, content management, Online assessment tools, search engine optimization, including domain name management, secure socket layer (SSL) certificate for websites, digital certification services nd server space in required operating system and database. We provide state of the art messaging and collaboration services and solutions such as e-mail servers, LAN mail solutions, anti-spam appliances, bulk mail services, instant messaging, and also offer solutions and services to enable data & access security over the Internet. We also provide infrastructure-based services on demand, including on-line testing engine and network management. On-line testing services include test management software, required servers and proctored examination facilities at Sify's franchisee points. On-line exam engine offered allows a secure and flexible way of conducting examinations involving a wide range of question patterns.

Corporate Customers

Our base of corporate customers spread across information technology enabled services (ITES), banking financial services and Insurance (BFSI), publishing, retail, pharmaceuticals and manufacturing. The reorganisation of our business has helped us expand our customer base to over 5,000 customers to date. This is not inclusive of customers who have brought piece-meal services from us. A good number of these customers have matured from our initial set of offerings like Network and Data centre services. With the launch of our cable landing station, we are able to cater to international carriers as well as domestic voice and data players. Our alliance with world leaders across our other services is giving us the opportunity to extend our services to customers of our alliance partners.

The Company does not currently anticipate that it will serve markets in, or have any contacts with, Sudan, Iran or Syria, or any other countries which are designated as state sponsors of terrorism by the U.S. Department of State. As

of the date of this Report, the Company has not provided into Iran, Sudan, or Syria, or any other countries which are designated as state sponsors of terrorism by the U.S. Department of State directly or indirectly, any products, equipment, software, technology, information or support, and has no agreements, arrangements, or other contacts with the governments of those countries or entities they control.

Customer Service and Technical Support

The implementation of the single UAN for all Enterprise customers across India has centralised all customer enquiries to one point, thus enabling us to pour resources and efforts into a single minded endeavour. We support both telephonic and email interactions from our clients and support for Enterprises services is 24x7x365.

Sales and Marketing

From a business standpoint, we have 5 different lines of business. But on the sales front, the entire team is trained to upsell and cross sell across the entire bandwidth of services. We believe this is essential and imperative given the space for bundling of our services. The 270 person Sales team caters to the demand of Enterprises and the growing SMB market.

Technology and Network Infrastructure

Geographic coverage: Our network today reaches more than 1,300 towns and cities and between them have more than 85,000 links. This network is completely owned giving us complete control on the technology, traffic and speed over them. These points of presence, or primary nodes, reside at the core of a larger Internet protocol network with a Star and meshed topology architecture thereby building in redundancy at every point and translating into minimum or no downtime for customers.

Today we offer the following services to our Enterprise and consumer customers using our network.

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

Each point of presence contains data communications equipment housed in a secure facility owned, leased or operated on an infrastructure co-location basis by our Company. The last mile connecting to the customer can be a leased line, ISDN or point-to-multipoint radio link which we have licensed from the Wireless Planning Commission. We also use certain frequency radios, which do not require an operating license, in some locations. Our larger corporate customers access the point of presence directly through leased lines or wireless links.

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

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

In addition to a fundamental emphasis on reliability and security, our network design philosophy has focused on compatibility, interoperability, scalability and quality of service. We use Internet protocol with Multi Protocol Label

Switching, or MPLS, to transmit data, thus ensuring that our network is completely interoperable with other networks and systems and that we may port any application onto our network. The modular design of our network is fully scalable, allowing us to expand without changing the network design or architecture.

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

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

Competition

Given our wide spread of services, our competition is also long and varied. As the markets in India for corporate network/data services, Internet access services and online content develop and expand, we will continue to see the entry of newer competitors and those with deeper pockets.

Individually, we will see competition intensify from established players like Reliance, TATA Communications and Bharti for Telecom services, Ctrl S, Reliance and Net Magic for Data Centres, proprietary leaders like IBM and localized players like Ramco for Cloud services, traditional software majors like Infosys, HP, Wipro and TCS for Applications Integration services and large entities like Reliance and TCS for our Technology Integration services.

Item 3. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion of the financial condition and results of operations of our Company should be read in conjunction with the Unaudited Condensed Consolidated Interim Financial Statements and the related condensed notes included elsewhere in this report and the audited financial statements and the related notes contained in our Annual Report on Form 20-F for the fiscal year ended March 31, 2016. This discussion contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please see the section in our Annual report captioned "Risk Factors."

Overview

We are among the largest integrated ICT Solutions and Services companies in India, offering end-to-end solutions with a comprehensive range of products delivered over a common telecom data network infrastructure reaching more than 1,300 cities and towns in India. This telecom network also connects 38 Data Centres across India including Sify's 6 Tier III Data Centres across the cities of Chennai, Mumbai, Delhi and Bengaluru and customer data centres.

In late 2012, we reorganised our Business to enable scale, flexibility and the ability to cross pollinate our business across multiple verticals. The focus of the business shifted to Solutions and Services from a hitherto infrastructure focus. This, we call Sify 3.0.

After the re- organization along service lines, a significant part of the our revenue is derived from Enterprise Services, comprising Telecom services, Data Centre services, Cloud and Managed services, Applications Integration services and Technology Integration services. Sify also provides services that cater to the burgeoning demands of the SMB community, much of it on its Cloud services platform.

a) Telecom services

The Core service in the portfolio is the Telecom Services which is also among the most mature, tracing its legacy back to earlier years as India's first Private Internet Service Provider. The slower pace of use of private computers led a midway diverge to build networks that could be used by large Enterprises for their business needs. The early start has helped us to leverage the market potential; we are today India's leading network provider offering the highest wireless endpoints and an equal number of wired terminations.

Forecasting the explosive growth that the telecom market will see, we were the first in the country to offer an IPv6 ready network; a fact underscored by the Telecom policy of 2012. This network reaches around 1,300 towns and cities and gives a prospect of approximately 2600 points of presence.

The focus of the Telecom Services is on the following lines:-

- **India Data Business** – Addressing the Data Communication needs of Large and Emerging Enterprises in India across each of their distributed points of business. We do this by leveraging our network span across 1,300 towns and cities.

- **Global Network Business** – Addressing the connectivity needs of Enterprises and Carriers to connect in and out of India. Our partnerships with multiple international carriers provides for a seamless integration into and out of the India network.

- **Wholesale Voice** – Addressing the 'India termination' and several other countries for Hubbing. Our cable landing station is our strategic investment to address this business need and currently facilitates three international cables servicing the Middle East and a majority of Europe. Investments into strategic global assets will continue to address the opportunity in-and-out of India.

b) Data Centre services

We are among the earliest to invest in the Data Centre landscape in the country with our first Data Centre in Vashi, Mumbai in the year 2000. Even in the early days of the IT revolutions, we set very high benchmarks with each of our subsequent data being Tier III compliant. We currently have 6 Tier III Data Centres across various geographical locations in India. This business offers services such as co-location, regular backup, server load balancing, remote backup; Managed Services like Messaging, shared Hosting, network and security; Storage and Virtualization and Managed Voice services to all resident Enterprises.

c) Cloud and Managed services

The Data explosion witnessed by the country opened up many opportunities and challenges. This has driven Indian Enterprises towards asset light solutions aiming at lower Total Cost of Ownership (TCO). Foremost among them were for Managed services, Data Security and cloud services. Cloud services was a product of the market demand from Enterprises who sought to de-focus themselves from operating cumbersome IT infrastructure and moving towards an Opex based computing practice. Today, this practice follows both a collaborative and standalone approach offering Cloud services from industry leaders like HP and VMware, and also through home grown solutions.

This business provides On-Demand, anywhere, Flexible, Multi-tenant and Dedicated storage solutions, Public, Private and Hybrid cloud platforms and IaaS, Paas and DR as services. We are also the only company offering Cloud Delivery solutions on a home grown tool with an objective of reducing the TCO offering value to customers, on a completely automated platform called Cloudinfinit.

d) Technology Integration services

Strategic investment of time and focus over a decade to build India's premier ICT network has resulted in an admirable knowledge base of products and technologies. With Sify 3.0, we chose to package this into a knowledge offering to the market and thus, emergence of Technology Integration services. Technology Integration Services (TIS) combines Sify's IT capabilities with its core telecom and Data Centre products to provide a converged turn-key ICT solution to the customer.

TIS leverages Sify's homegrown expertise in design, implementation and maintenance to deliver end-to-end managed IT services across datacenter, network and security.

Major focuses are as follows:

- Service Desks and Command Centers
- Voice and Video Conferencing
- Hosted Contact Centers
- Unified Communication and Unified Access
- Virtualization
- Data Centre Build
- Campus/LAN/Data Centre Networking
- WAN Architectures
- Enterprise and End Point Security

e) Applications Integration services

The third layer of the Sify business is the Applications Integration services. Aligning to the market opportunity and expectations from our customers on high end value chain services, Sify's in house team of application developers have designed and developed a full suite of applications to ride on top of our network infrastructure. Some of these have been trailblazers like the Supply Chain management application, Forum and the online assessment tool, iTest. We had invested early on, in the sunrise business eLearning recognizing the demand of Enterprises to take forward a uniform training platform to all branches and subsidiaries.

Today, this business caters to various verticals with offerings like Talent management, and automated platform that enables multi city, multiple point recruitments and test platform, Sales and Distribution platform, eLearning platform primarily for Enterprises outside of India for local and Internet based training, Web solutions like portals and a SAP integration practice.

There are numerous risks and challenges affecting the business. These risks and challenges are discussed in detail in the section entitled 'Risk Factors' in our Annual Report on Form 20-F for the year ended March 31, 2016 and elsewhere in this Report.

Revenues

Telecom Services

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

Data Center services

Revenue from Data Centre services include, revenue from co-location of space, racks, caged racks and on usage of power from large contracts. The contracts are mainly fixed rate for a period of time based on the space or the racks used and usage revenue is based on consumption of power on large contracts.

Cloud and Managed Services

Revenue from Cloud and Managed services, are primarily from " Cloud and On demand storage", " Domestic managed services and "International managed services". Contracts from Cloud and on demand storage , are primarily fixed and for a period of time. Revenues from Domestic and International manage services, comprises of value added services, operations and maintenance of projects and from remote infrastructure management. Contracts from this segment are fixed and could also be based on Time and Material (T&M).

Technology Integration Service (TIS)

Revenues from TIS comprises of DC build services and Security services. Contracts under TIS are based on completion of projects and could also be based on T & M.

Applications Integration Services

Revenue from Applications Integration Services (Apps SI) comprises of Online Assessment, Web development, supply chain solutions, content management and from sale of Digital certificates. Contracts are primarily fixed in nature for a period of time and also could be based on T & M.

Expenses

Cost of goods sold and services rendered

Telecom Services

Cost of goods sold and services rendered for the corporate network/data services division consists of telecommunications costs necessary to provide services and cost of goods in respect of communication hardware and security services sold, commission paid to franchisees and cable television operators, the cost of voice termination for voice and VoIP services and other direct costs. Telecommunications costs include the costs of international bandwidth procured from TELCOs and are required for access to the Internet, providing local telephone lines to our points of presence, the costs of using third-party networks pursuant to service agreements, leased line costs and costs towards spectrum fees payable to the Wireless Planning Commission or WPC for provision of spectrum to enable connectivity to be provided on the wireless mode for the last mile. Other costs include cost incurred towards our Annual Maintenance Contract (AMC), the cost of installation in connectivity business and the costs incurred in providing Hosting services. In addition, the Government of India levies an annual license fee of 8% of the adjusted gross revenue generated from IP-VPN services and Voice services under the NLD/ILD license.

Data Centre Services

Cost of goods sold and services rendered for the Data Centre services consists of cost of electrical power consumed , cost of rental servers offered to customers and cost of licences used to provide services.

Cloud and Managed Services

Cost of goods sold and services rendered for the Cloud and Managed services consists of cost of licences in providing services, cost of billable resources in case of International Managed services, Third party professionals engaged in providing services, associate costs of the delivery teams and cost of operations of DC build BOT projects.

Technology Integration Services

Cost of goods sold and services rendered consists of cost of hardware and software supplied for DC build projects, cost of security hardware and software supplied and cost of hardware and software procured for System integration projects .

Applications Integration Services

Cost of goods sold and services rendered consists of professionals charges payable to domain specialists and subject matter experts, cost of billable associates of e-learning business, cost of digital certificates and platform usage, cost of operating in third party facility for online assessment including invigilator costs and cost of procuring and managing content for the websites and other direct costs for the revenue streams.

Selling, general and administrative expenses

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

Depreciation and amortization

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

Impairment

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of

other assets or groups of assets (the “cash-generating unit”). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination. Corporate assets for the purpose of impairment testing are allocated to the cash generating units on a reasonable and consistent basis.

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

Inventories

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

Deferred tax

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

Deferred taxation arising on investments in subsidiaries and associates is recognized except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred taxation arising on the temporary differences arising out of undistributed earnings of the equity method accounted investee is recorded based on the management's intention. If the intention is to realize the undistributed earnings through sale, deferred tax is measured at the capital gains tax rates that are expected to be applied to temporary differences when they reverse. However, when the intention is to realize the undistributed earnings through dividend, the Group’s share of the income and expenses of the equity method accounted investee is recorded in the statement of income, after considering any taxes on dividend payable by the equity method accounted investee and no deferred tax is set up in the Group's books as the tax liability is not with the group.

Results of Operations

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

	Quarter ended September		half year ended September	
	2016	2015	2016	2015
	%	%	%	%
Revenues	100	100	100	100
Cost of goods sold and services rendered	63	58	64	59
Other income/(expense)	1		1	
Selling, general and administrative expenses	22	23	22	24
Depreciation and amortization expenses	10	10	10	10
Profit from operating activities	5	8	5	7
Finance income			1	1
Finance expenses	2	5	3	5
Net finance income/(expense)	(2)	(5)	(2)	(4)
Net profit for the year	4	4	3	3

The company has re-grouped the revenue and costs associated with digital certification services from Technology Integration Services to Applications Integration Services from April 1, 2016. Consequently, the revenue and costs associated are re-grouped for the comparative periods presented in this Report. Refer Note 15 of the financial statements.

Results of quarter ended September 30, 2016 compared to quarter ended September 30, 2015

The growth in our revenues in fiscal 2016 from fiscal 2015 is given below:

(Rupees in million)

	Quarter ended September 30, 2016	Quarter ended September 30, 2015	Change	% Change
Revenues	4,392	3,715	677	18 %

We have achieved a Revenue of 4,392 Million ($ 66 Million), an increase in revenue of 677 Millions ($ 10 Millions) over same quarter previous year. The increase is primarily contributed by Technology Integration Services, supported by growth in Applications Integration services, Data Centre services and Telecom Services.

The revenue by operating segments is as follows:

(Rupees in million)

	Revenue		Percentage of revenue		
	Quarter ended September 2016	**Quarter ended September 2015**	**Quarter ended September 2016**	**Quarter ended September 2015**	Growth
Telecom Services	2,571	2,493	59 %	67 %	3 %
Data Centre Services	490	365	11 %	10 %	34 %
Cloud and Managed Services	229	234	5 %	6 %	(2)%
Technology Integration Services	397	242	9 %	7 %	64 %
Applications Services	705	381	16 %	10 %	85 %
Total	4,392	3,715	100 %	100 %	

Revenue from Telecom Services has increased by 78 Million ($1.17 Million) contributed by Data services 283 Million ($4.25 Million) and offset by decrease in voice services by 205 Million ($3.08 Million). Revenue increase of 283 Million ($4.25 Million) from Data Services is on account of increase in number of customer links. Revenue from voice services decreased by 205 Million ($3.08 Million) on account of lesser realisation and minutes.

Revenue from Data Centre services has increased by 125 Million ($1.9 Million) on account of higher capacity utilisation.

Revenue from Cloud and Managed Services has decreased by 5 Million ($0.08 Million) where increase in domestic services by 10 Million ($0.15 Million) was offset by decrease in infrastructure managed services revenue by 15 Million ($0.23 Million).

Revenue from Technology Integration services has increased by 155 Million ($2.33 Million). This is on account of increase in projects in Systems Integration and Security services.

Revenue from Applications Integration Services has increased by 324 Million ($4.86Million), primarily on account of increase in application services by 395 Million ($ 5.92 Million) due to execution of a large online examination project, which was partially offset by decrease of 47 Million ($0.71 Million) in e-Learning business and 12 Million ($0.18 Million) in digital certification services on account of decrease in customer engagements. Revenue from Portal business and other business decreased by 12 Million ($0.18 Million).

Other income

The change in other income is as follows:

(Rupees in million)

	Quarter ended September 30, 2016	Quarter ended September 30, 2015	Change	% Change
Other Income	36	12	24	200 %

Increase in other income is on account of increase in other miscellaneous and rental income.

Cost of goods sold and services rendered (COGS)

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

(Rupees in million)

	Quarter ended September 30, 2016	Quarter ended September 30, 2015	Change	% Change	
Telecom services	1,642	1,514	128	8	%
Data Centre Services	249	197	52	26	%
Cloud and Managed Services	119	90	29	32	%
Technology Integration Services	277	152	125	82	%
Applications Integration Services	500	213	287	135	%
Total	2,787	2,166			

The cost of goods sold increased by 29% on overall basis, the movement in COGS is explained in detail below:

(Rupees in million)

	Quarter ended September 30, 2016	Quarter ended September 30, 2015	Change	% Change	
Network Costs	1,318	1,302	16	1	%
Revenue share	134	116	18	16	%
Cost of goods sold	354	215	139	65	%
Power costs	233	194	39	20	%
Direct Resources costs	234	233	1	-	
Others	514	106	408	385	%
Total	2,787	2,166			

Network cost comprises cost of Bandwidth leased out from TELCOS, Inter connect charges and IP termination costs payable to carriers. Bandwidth costs increased by 90 Million ($ 1.34 Million) due to capacity upgradation and newer links, Inter Connect charges reduced by 72 Million ($ 1.08 Million) on account of reduction in minutes and rates.

Revenue share cost comprises of Revenue share payable to DOT on ILD, NLD and other services. Increase in Revenue share is on account increase in revenue from licensed services.

The increase in Cost of Hardware and Software is on account of higher number of System integration projects and related hardware opportunities during the quarter.

Power costs comprises of electricity cost incurred in our data center. Increase in the cost is on account of more usage.

Direct resources costs comprises of (i) the cost of resources deployed on the Network Infrastructure Delivery and resources involved in delivery of application services (ii) cost of billable resources associated with the e Learning and Infrastructure Managed services. Resource costs has remained flat compared to previous period.

Other Direct costs, comprises of Link implementation and maintenance charges for the Telecom services, Direct cost of Application services, digital certificate platform , content costs , delivery costs of application services, subject matter experts for international business. The increase in Other Direct costs is due to increase in (i) 53 Million ($0.80 Million) in Cloud & Managed services due to higher usage, (ii) 295 Million ($ 4.43 Million) on account of increase in number of online assessment services conducted during the period, 62 Million ($ 0.93 Million) on account of increase in costs of Link implementation and maintenance charges in Telecom Services.

We are continuously seeking cost efficiencies and process optimization to maximize the return.

Selling, General and Administrative expenses

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

(Rupees in million)

	Quarter ended September 30, 2016	Quarter ended September 30, 2015	Change	Change (%)
Operating Expenses	263	240	23	10 %
Selling & Marketing Expenses	35	43	(8)	-19 %
Associate Expenses	383	333	50	15 %
Other Indirect Expenses	273	214	59	28 %
Provision for doubtful debts and advances	44	40	4	10 %
Forex (gain) / loss	(29)	17	(46)	
Total	969	887		

Operating expenses have increased by 10%, on account of higher implementation cost on network expansion for large projects and also on account of increase in Operating and maintenance cost of Data centers.

Selling and Marketing costs consist of, selling commission payable to sales partners, discounts payable to customers, incentive to salesmen and marketing and promotion costs. Selling & Marketing cost has decreased on account of decrease in advertisement costs and decrease in channel partner commission.

Associate expenses, consists of the annual cost of the employees who are part of the Sales and marketing function, Business development, General management and support services. Associate expenses increased due to increase in number of associates recruited during the period and also on account of pay revision.

Other Indirect expense consist of cost of facilities, electricity charges incurred on facilities, travel cost, Legal charges, professional charges, communication and others. Increase in other indirect costs is on account of one time higher statutory levy incurred during the same period previous year.

Provision for Doubtful debts consists of the charge on account of the provisions created during the year against doubtful debtors. The marginal increase in Provision for Doubtful debts are on account of prudent provisioning of debtors.

Depreciation and amortization

Depreciation and amortization is set forth in the table below:

(Rupees in million)

	Quarter ended September 30, 2016		Quarter ended September 30, 2015		Change	% Change	
Depreciation and amortization	432		369		63	17	%
As a percentage of carrying value	6	%	6	%			

As the business is continuing to expand, the amount of depreciation is increasing on account of contructing and deploying new facilities by the Company. Increase in depreciation is on account of commissioning of new data center at Rabale during fiscal 2016 and field assets deployment for large projects.

Profit from operating activities

(Rupees in million)

	Quarter ended September 30, 2016	Quarter ended September 30, 2015	Change	% Change
Operating profit	239	306	(67)	-22%
As a percentage of revenue	5%	8%		

Decrease in operating profit is on account of increase in operating costs during the current period. The Company is taking steps to decrease the costs with revenue mix and scaling.

Finance income/expense

(Rupees in million)

	Quarter ended September 30, 2016	Quarter ended September 30, 2015	Change	% Change
Finance Income	16	13	3	23%
Finance expense	(98)	(186)	88	-47%
Net finance expense	(82)	(173)	91	-53%

The increase in finance income is majorly due to interest on income tax refund received during the current period. The decrease in finance expenses is on account of gain on mark to market valuation of interest rate swaps amounting to 6.8 million ($ 0.1 million) recognised during current period, compared to mark to market loss of 34.2 million ($ 0.51 million) in corresponding quarter of previous year. Also, during previous period higher interest cost amounting to 35.7 million ($ 0.54 million) was on account of adverse foreign exchange movement.

Net Profit

(Rupees in million)

	Quarter ended September 30, 2016	Quarter ended September 30, 2015	Change	% Change
Net Profit	157	133	24	18 %
As a percentage of revenue	4 %	4 %		

The increase is on account of increase in margin arising from incremental revenue and decrease in finance expenses which was offset by increase in operating costs during the current period.

Results of half year ended September 30, 2016 compared to half year ended September 30, 2015

Revenues

The growth in our revenues in fiscal 2016 from fiscal 2015 is given below

(Rupees in million)

	Half year ended September 30, 2016	Half year ended September 30, 2015	Change	% Change
Revenues	8,562	7,122	1,440	20 %

We have achieved a Revenue of 8,562 Million ($128.44 Million), an increase of 1,440 Million ($21.60 Million) over same quarter previous year. The increase is primarily contributed by Technology Integration Services, supported by growth in Applications Integration services, Data Centre services and Telecom Services.

The revenue by operating segments is as follows:

(Rupees in million)

	Revenue		Percentage of revenue		
	Half year ended September 30, 2016	Half year ended September 30, 2015	Half year ended September 30, 2016	Half year ended September 30, 2015	Growth
Telecom Services	5,106	4,715	60 %	66 %	8 %
Data Centre Services	931	742	11 %	10 %	25 %
Cloud and Managed Services	471	439	6 %	6 %	7 %
Technology Integration Services	950	549	11 %	8 %	73 %
Applications Integration Services	1,104	677	13 %	10 %	63 %
Total	8,562	7,122	100 %	100 %	

Revenue from Telecom Services has increased by 391 Million ($5.9 Million) contributed by Data services 502 Million ($7.53 Million) and offset by voice services by 111 Million ($1.66 Million). Revenue increase of 502 Million ($7.53 Million) from Data Services is on account of increase in number of customer links. Revenue from voice services decreased by 111 Million ($1.66 Million) on account of lesser realisation and minutes.

Revenue from Data Centre services has increased by 189 Million ($2.8 Million) on account of higher capacity utilisation.

Revenue from Cloud and Managed Services has increased by 32 Million ($0.5 Million) where domestic services increased by 25 Million ($0.38 Million) and infrastructure managed services revenue increased by 7 Million ($0.11 Million).

Revenue from Technology Integration services has increased by 401 Million ($6 Million). This is on account of increase in projects in Systems Integration and Security services.

Revenue from Applications Integration Services has increased by 427 Million ($6.4Million), primarily on account of increase in application services by 460 Million ($ 6.90 Million) due to execution of a large online examination project, which was partially offset by decrease of 32 Million ($0.48 Million) in e-Learning business and 20 Million ($0.30 Million) in digital certification services on account of decrease in customer engagements. Revenue from Portal business and other business increased by 18 Million ($0.27 Million).

Other income

The change in other income is as follows:

(Rupees in million)

	Half year ended September 30, 2016	Half year ended September 30, 2015	Change	% Change	
Other Income	62	22	40	181	%

Increase in other income is on account of increase in other miscellaneous and rental income.

Cost of goods sold and services rendered (COGS)

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

(Rupees in million)

	Half year ended September 30, 2016	Half year ended September 30, 2015	Change	% Change	
Telecom services	3,276	2,901	375	13	%
Data Centre Services	501	377	124	33	%
Cloud and Managed Services	198	157	41	26	%
Technology Integration Services	716	342	374	109	%
Applications Integration Services	762	392	370	94	%
Total	5,453	4,169			

The cost of goods sold has increased by 30% on overall basis, the movement in COGS is explained in detail below:

(Rupees in million)

	Half year ended September 30, 2016	Half year ended September 30, 2015	Change	% Change	
Network Costs	2,708	2,501	207	8	%
Revenue share	256	223	33	15	%
Cost of goods sold	871	432	439	102	%
Power costs	476	359	117	33	%
Direct Resources costs	440	432	8	2	%
Others	702	222	480	217	%
Total	5,453	4,169			

Network cost comprises of cost of Bandwidth leased out from TELCOS, Inter connect charges and IP termination costs payable to carriers. Bandwidth costs increased by 192 Million ($ 2.88 Million) due to capacity upgradation and newer links, Inter Connect charges increased marginally by 15 Million ($ 0.22 Million) on account of reduction in minutes and rates.

Revenue share cost comprises of Revenue share payable to DOT on ILD, NLD and other services. Increase in Revenue share is on account increase in revenue from licensed services.

The increase in Cost of Hardware and Software is on account of higher number of System integration projects and related hardware opportunities during the quarter.

Power costs comprises of electricity cost incurred in our data center. Increase in the cost is on account of more usage.

Direct resources costs comprises of (i) the cost of resources deployed on the Network Infrastructure Delivery and resources involved in delivery of application services (ii) cost of billable resources associated with the e Learning and Infrastructure Managed services. Resource costs has remained flat compared to previous period.

Other Direct costs, comprises of Link implementation and maintenance charges for the Telecom services, Direct cost of Application services, digital certificate platform , content costs , delivery costs of application services, subject matter experts for international business. The increase in Other Direct costs is due to increase in (i) 79 Million ($1.18 Million) in Cloud & Managed services due to higher usage, (ii) 333 Million ($ 5.00 Million) on account of increase in number of online assessment services conducted during the period, 85 Million ($ 1.28 Million) on account of increase in costs of Link implementation and maintenance charges in Telecom Services.

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

Selling, General and Administrative expenses

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

(Rupees in million)

	Half year ended September 30, 2016	Half year ended September 30, 2015	Change	Change (%)
Operating Expenses	478	471	7	1 %
Selling & Marketing Expenses	61	76	(15)	-20 %
Associate Expenses	720	629	91	14 %
Other Indirect Expenses	525	447	78	17 %
Provision for doubtful debts and advances	84	80	4	5 %
Forex (gain) / loss	(16)	4	(20)	
Total	1,852	1,707		

Operating expenses have increased by 1%, on account of higher implementation cost on network expansion for large projects and also on account of increase in Operating and maintenance cost of Data centers.

Selling and Marketing costs consist of, selling commission payable to sales partners, discounts payable to customers , incentive to salesmen and marketing and promotion costs. Selling & Marketing cost has decreased on account of decrease in advertisement costs and decrease in channel partner commission.

Associate expenses, consists of the annual cost of the employees who are part of the Sales and marketing function, Business development, General management and support services. Associate expenses increased due to increase in number of associates recruited during the period and also on account of pay revision.

Other Indirect expense consist of , cost of Facilities , electricity charges incurred on facilities, travel cost , Legal charges , professional charges, communication and others. Increase in other indirect costs is on account of one time higher statutory levy incurred during the same period previous year.

Provision for Doubtful debts consists of the charge on account of the provisions created during the year against doubtful debtors. The marginal increase in Provision for Doubtful debts are on account of prudent provisioning of debtors.

Depreciation and amortization

Depreciation and amortization is set forth in the table below:

(Rupees in million)

	Half year ended September 30, 2016	Half year ended September 30, 2015	Change	% Change
Depreciation and amortization	873	745	128	17 %
As a percentage of carrying value	13 %	12 %		

As the business is continuing to expand, the amount of depreciation is increasing on account of contructing and deploying new facilities by the Company. Increase in depreciation is on account of commissioning of new data center at Rabale during fiscal 2016 and field assets deployment for large projects.

Profit from operating activities

(Rupees in million)

	Half year ended September 30, 2016	Half year ended September 30, 2015	Change	% Change
Operating profit	445	524	(79)	(15)%
As a percentage of revenue	5 %	7 %		

Decrease in operating profit is on account of increase in operating costs during the current period. The Company is taking steps to decrease the costs with revenue mix and scaling.

Finance income/expense

(Rupees in million)

	Half year ended September 30, 2016	Half year ended September 30, 2015	Change	% Change
Finance Income	85	18	67	372 %
Finance expense	(249)	(324)	75	(23)%
Net finance expense	(164)	(306)	142	(46)%

The increase in finance income is majorly due to interest on income tax refund received during the current period. The decrease in finance expenses is on account of gain on mark to market valuation of interest rate swaps amounting to 7.3 million ($ 0.1 million) recognised during current period, compared to mark to market loss of 34.2 million ($ 0.51 million) in corresponding period of previous year. Also, during current period interest cost amounting to 28.4 million ($ 0.42 million) was on account of adverse foreign currency movement compared to 52 million ($ 0.78 million) during previous period.

Net Profit

(Rupees in million)

	Half year ended September 30, 2016		Half year ended September 30, 2015		Change	% Change	
Net Profit	282		218		64	29	%
As a percentage of revenue	3	%	3	%			

The increase is on account of increase in margin arising from incremental revenue and decrease in finance expenses which was offset by increase in operating costs during the current period.

Liquidity and Capital Resources

We have financed our operations largely through cash generated from operations, equity issuance and bank borrowings. Our liquidity requirements are for meeting working capital needs and capital expenditure required to upgrade and maintain our existing infrastructure.

The following table summarises our cash flows for periods presented:

	Half year ended September 30, 2016 In million		Half year ended September 30, 2015 in million		Half year ended September 30, 2016 US $ in million	
Net cash from / (used in) operating activities	906		1,437		13	
Net cash from / (used in) investing activities	(545	)	(745	)	(8	)
Net cash from / (used in) financing activities	(231	)	(304	)	(3	)
Effect of exchange rate changes on cash and cash equivalents	(2	)	2		-	
Net increase / (decrease) in cash and cash equivalents	130		388		2	

As at September 30, 2016 and 2015 we had working capital of 948 million and 1,047 million which includes cash and cash equivalents of 1,144 million and 1,111 million respectively. Our working capital net of cash and cash equivalents is 196 million (negative) and 64 million (negative) as at September 30, 2016 and 2015. We believe that cash from operations, existing lines of credit and capital availability from promotor group, we have sufficient resources to meet our liquidity requirements.

Our short term borrowings to finance working capital requirements are primarily financed by cash credit facilities with banks. Borrowings for capital expenditures are financed through capital leases and long term loans. We have foreign currency demand loans and cross currency swap for our term loan in Indian Rupee, which carry lower interest rates compared to Indian Rupee loans, but are subject to exchange fluctuations, due to which there could be an adverse impact on cash outflows.

On October 22 2010, the company entered into a subscription agreement with Mr Ananda Raju Vegesna, acting as representative (the “Representative”) of the purchasers in connection with the offering. Pursuant to the terms of this subscription agreement, the company issued and allotted 125,000,000 equity shares to an entity affiliated and controlled by Mr. Raju Vegesna, our CEO, Chairman and Managing Director. In accordance with Indian law, the purchase price is to be paid at such time as determined by Board of Directors of the company. During the fiscal year 2014, the Company has received an aggregate of 300 million, in connection with this private placement, resulting in an aggregate of 2,800 million received to date. Although all 125,000,000 shares are deemed issued and outstanding, the unpaid portion of the equity shares issued pursuant to the subscription agreement do not have any voting rights and are not entitled to dividends, if declared. As of the date of this Report, Mr. Vegesna has paid for 70% of the shares of the subscription**.** From out of the uncalled amount of 1,200 million, the Board of Directors have made a call amounting to 300 million at their meeting held in October 2016 and the said amount will be received by the Company by November 2016. The balance of the proceeds from the allotment of the equity shares to our promoter group, of 900 million, will take place in tranches as per the amended subscription agreement and the Board of Directors assessment from time to time of the Company’s capital requirements, with respect to both timing and amount.

We have borrowings of 4,812 million as of September 30, 2016 out of which 3,757 million will be repaid within a period of 12 months. Interest outflow on existing borrowings for next year is expected to be 335 million. We have utilized working capital facility of 1,748 million out of limit of 1,750 million as on September 30, 2016. We have unutilized funded limit of 2 million as on September 30, 2016.

Our ongoing working capital requirements are significantly affected by the profitability of our operations and we continue to periodically evaluate existing and new sources of liquidity and financing. We are taking steps to improve the cash position to meet our currently known requirements at least over the next twelve months. In light of the highly dynamic nature of our business, however, we cannot assure you that our capital requirements and sources will not change significantly in the future.

Cash and cash equivalents:

Cash and cash equivalents comprise of 1,259 million, 1,283 million, in bank accounts and 582 million, 501 million in the form of bank deposits as of September 30, 2016 and 2015, respectively, out of which cash deposits in the form of margin money is restricted for use by us amounting to 292 million, 270 million. Balances in foreign currency amount to 462 million, 86 million as of September 30, 2016 and 2015, respectively.

Net cash generated from operating activities for the half year ended September 30, 2016 was 906 million ($ 13.6 million), 531 million ($ 8 million) lower than previous period. This is mainly attributable to increase in trade and other receivables of 715 million ($ 10.7 million), and increase in inventories of 244 million ($ 3.7 million). The increase is partially offset by increase in trade and other payables of 198 million ($ 2.9 million).

Net cash generated from operating activities for the half year ended September 30, 2015 was 1,437 million ($ 21.9 million). This is mainly attributable to increase in trade and other payables by 544 million ($ 8.27 million), and increase in deferred revenue of 160 million ($ 2.43 million) on account of increase in progress billing in long term projects. The increase is partially offset by increase in trade and other receivables by 327 million ($ 4.97 million), increase in other assets by 72 million ($ 1.1 million).

Net cash used in investing activities for the half year ended September 30, 2016 was 545 million ($ 8.18 million) primarily on account of additional expenditure on property, plant and equipment amounting to 608 million ($ 9.12 million). Also, expenditure on intangibles amounted to 28 million ($ 0.43 million). The increase was partly offset by increase in finance income by 91 million ($1.36 million).

Net cash used in investing activities for the half year ended September 30, 2015 was 745 million ($ 11.33 million) primarily on account of additional expenditure on data centre in Rabale. Also expenditure on intangibles amounted to 19 million ($ 0.29 million). The increase was partly offset by increase in finance income by 22 million ($0.33 million).

Net cash used in financing activities for half year ended September 30, 2016 was 231 million ($ 3.47 million). The increase is mainly due to repayment of lease liabilities of 353 million ($ 5.2 million), also finance expenses amounting to 232 million ($ 3.5 million) and dividend of 170 million ($ 2.5 million) was paid during the period. The increase is partly offset by increase in borrowing by 523 million ($ 7.8 million).

Net cash used in financing activities for half year ended September 30, 2015 was 304 million ($ 4.6 million). The increase is mainly due to repayment of lease liabilities of 402 million ($ 6.1 million), also increase in finance expenses by 322 million ($ 4.9 million). Also dividend of 170 million ($ 2.6 million) was paid during the period. The increase is partly offset by increase in borrowing by 590 million ($ 8.9 million).

Tax Matters

(a) Income tax matters

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 fiscal year 2016, the corporate income tax rate is 30%, subject to a surcharge of 12% where the taxable total income exceeds 10 crores and education cess of 2 % and 1% secondary and higher education cess, resulting in an effective tax rate of 34.61%. 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 shareholders 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 Act, 2003 proposed that after April 1, 2003, dividend income will be exempt from tax for shareholders and those domestic companies will be liable to pay a dividend distribution tax at the rate of 12.5% plus a surcharge and education cess at the time of the distribution. The Finance Act 2014 has increased the rate of dividend distribution tax to 15% plus applicable surcharge and education cess resulting in an effective rate of 20.358%.

Provisions of the Income Tax Act have been amended effective April 1, 2016 for determination of place of effective management (POEM) of a Company. Accordingly, Section 6(3) was amended to provide that a Company is said to be resident in India in any financial year if it is an Indian Company or its POEM in that year is in India. POEM has been defined to mean a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are, in substance, made. The effective date of these amendments have been postponed to fiscal year commencing April 2017.

(b) Service tax matters

Effective June 1, 2016, the service tax rate has been increased from 14.50% to 15%, which includes Krishi Kalyan Cess of 0.5% levied by Finance Act 2016.

Off-Balance Sheet Arrangement

We have not entered into any off balance sheet arrangement other than contractual obligations such as operating lease arrangements disclosed below as defined by SEC final rule 67 (FR-67) "Disclosures in Management's Discussion and Analysis" about off balance sheet arrangements and aggregate contractual obligations.

Contractual obligations

Set forth below are our contractual obligations as at September 30, 2016:

Payments due by period (000s)

Contractual obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long term debt obligations	2,102,663	1,209,477	719,893	173,293	-
Short term borrowings	2,140,719	2,140,719	-	-	-
Finance lease obligations	851,815	584,083	216,238	51,494	-
Non-cancellable operating lease obligations	1,152,108	105,069	224,716	245,472	576,851
Purchase obligations	889,791	889,791	-	-	-

Item 4. Quantitative And Qualitative Disclosures About Market Risk

General

Market risk is the risk of loss of future earnings, to fair values or to future cash flows that may result from a change in the price of a financial instrument. The value of a financial instrument may change as a result of changes in the interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market risk sensitive instruments. Market risk is attributable to all market risk sensitive financial instruments including investments, foreign currency receivables, payables and debt. Our exposure to market risk is a function of our investment and borrowing activities and our revenue generating activities in foreign currency. The objective of market risk management is to avoid excessive exposure of our earnings and equity to loss.

Please see Note 36 to the financial statements included in our Annual Report on Form 20-F for the year ended March 31, 2016.

Risk Management Procedures

We manage market risk through a corporate treasury department, which evaluates and exercises independent control over the entire process of market risk management. Our corporate treasury department recommends risk management objectives and policies which are approved by senior management and our Audit Committee. The activities of this department include management of cash resources, implementing hedging strategies for foreign currency exposures, borrowing strategies, and ensuring compliance with market risk limits and policies on a daily basis.

Recent Accounting Pronouncements

(i) **IFRS 15 Revenue from Contract from Customers:** In May 2014, the International Accounting Standards Board (IASB) issued IFRS 15, Revenue from Contracts with Customers. The core principle of the new standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Further the new standard requires enhanced disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The standard permits the use of either the retrospective or cumulative effect transition method. The effective date for adoption of IFRS 15 is annual periods beginning on or after January 1, 2017, though early adoption is permitted. In September 2015, the IASB issued an amendment to IFRS 15, deferring the adoption of the standard to periods beginning on or after January 1, 2018 instead of January 1, 2017.

The Group is evaluating the effect of IFRS 15 on the consolidated financial statements including the transition method to be adopted and the related disclosures. The group continues to evaluate the effect of the standard on ongoing financial reporting.

(ii) **IFRS 16 Leases :** IFRS 16 on lease was issued on January 13, 2016 and is effective from the year January 1, 2019, though early adoption is permitted for companies applying IFRS 15 Revenue from Contracts with Customers . The standard replaces all existing lease accounting requirements and represents a significant change in accounting and reporting of leases, with more assets and liabilities to be reported on the Statement of Financial Position and a different recognition of lease costs.

The Group is currently evaluating the impact of the standard on the consolidated financial statements.

Critical accounting policies

The accounting policies applied by the group in these Unaudited Condensed Consolidated Interim Financial Statements are the same as those applied by the Group in its Consolidated Financial Statements as at and for the year ended March 31 2016 except as disclosed in Note 3.a in unaudited condensed consolidated interim financial statements included with this Report. The changes did not have any material impact on the Company.

Item 5. Controls and Procedures

Disclosure Controls and Procedures

As at September 30, 2016, our management, with the participation of our chief executive officer and chief financial officer, has carried out an evaluation of the effectiveness of our disclosure controls and procedures. The term "disclosure controls and procedures" means controls and other procedures that are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding our required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well conceived and operated, can only provide reasonable assurance that the objectives of the disclosure controls and procedures are met.

Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2016, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed in filings and submissions under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified by the SEC's rules and forms, and that material information related to us is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions about required disclosure.

Changes in internal control over financial reporting

During the half year ended September 30, 2016, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

The company is subject to legal proceedings and claims, which have arisen in the ordinary course of its business. These legal actions, when ultimately concluded and determined, will not, in the opinion of management, have a material effect on the results of operations or the financial position of the Company.

See Note 17 of notes to Unaudited Condensed Consolidated Interim Financial Statements in Part I above and Note 33 of the financial statements included in our Annual Report on Form 20-F for the year ended March 31, 2016.

Item 1A. Risk Factors

For information regarding factors that could affect the Company's results of operations, financial condition and liquidity, see the risk factors discussion set forth in Item 1A of our Annual Report on Form 20-F for the fiscal year ended March 31, 2016 and the information under "Forward-Looking Statements" included in this Report. There have been no material changes to our Risk Factors from those disclosed in our Annual Report on Form 20-F for the fiscal year ended March 31, 2016.

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

None.

Items 3. Defaults upon Senior Securities

None.

Item 4. Mine safety Disclosure

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Signatures

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

Date: November 3, 2016

SIFY TECHNOLOGIES LIMITED

By: /s/ MP Vijay Kumar
Name: MP Vijay Kumar
Title: Chief Financial Officer