

SIFY TECHNOLOGIES LTD

Form 20-F

October 13, 2011

**Table of Contents**

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

**FORM 20-F**

(Mark One)

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

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

**For the fiscal year ended March 31, 2011.**

**Or**

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

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

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

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

**Commission file number 000-27663**

**Sify Technologies Limited**

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

Not Applicable

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

Chennai, Tamil Nadu, India

*(Jurisdiction of incorporation or organization)*

Tidel Park, 2nd Floor

4, Rajiv Gandhi Salai

Taramani, Chennai 600 113 India

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

*(Address of principal executive office)*

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

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

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

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

Title of each class	Name of each Exchange on which registered
American Depositary Shares, each represented by one Equity Share, par value Rs.10 per share	Nasdaq Global Market
<b>Securities registered or to be registered pursuant to Section 12(g) of the Act</b>	

Title of each class	Name of each Exchange on which registered
None	Not Applicable
<b>Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act</b>	

Not Applicable  
(Title of class)

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

178,351,498 Equity Shares.

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

Yes  No

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

Yes  No

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

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

Yes  No

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

Yes  No

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

Large accelerated filer

**Accelerated filer**

Non-accelerated filer

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

US GAAP

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

Other

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

Yes  No

**Table of Contents**

<b>Item</b>	<b>Page</b>
<u>Currency of Presentation and Certain Defined Terms</u>	1
<u>Forward-Looking Statements</u>	2
<b><u>PART I</u></b>	
<u>Item 1. Identity of Directors, Senior Management and Advisers</u>	3
<u>Item 2. Offer Statistics and Expected Timetable</u>	3
<u>Item 3. Key Information</u>	3
<u>Item 4. Information on the Company</u>	24
<u>Item 4A. Unresolved Staff Comments</u>	39
<u>Item 5. Operating and Financial Review and Prospects</u>	39
<u>Item 6. Directors, Senior Management and Employees</u>	61
<u>Item 7. Major Shareholders and Related Party Transactions</u>	67
<u>Item 8. Financial Information</u>	70
<u>Item 9. The Offer and Listing</u>	72
<u>Item 10. Additional Information</u>	73
<u>Item 11. Quantitative and Qualitative Disclosures About Market Risk</u>	88
<u>Item 12. Description of Securities Other Than Equity Securities</u>	89
<b><u>PART II</u></b>	
<u>Item 13. Defaults, Dividend Arrearages and Delinquencies</u>	90
<u>Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	90
<u>Item 15. Controls and Procedures</u>	90
<u>Item 16A. Audit Committee Financial Expert</u>	93
<u>Item 16B. Code of Ethics</u>	93
<u>Item 16C. Principal Accountant Fees and Services</u>	94

<u>Item 16D. Exemptions from the Listing Standards for Audit Committees</u>	94
<u>Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	94
<u>Item 16F. Change in Registrant's Certifying Accountant</u>	94
<u>Item 16G. Corporate Governance</u>	95
<b><u>PART III</u></b>	
<u>Item 17. Financial Statements</u>	96
<u>Item 18. Financial Statements</u>	96
<u>Item 19. Exhibits</u>	198
<u>Exhibit 8.1</u>	
<u>Exhibit 12.1</u>	
<u>Exhibit 12.2</u>	
<u>Exhibit 13.1</u>	
<u>Exhibit 13.2</u>	
<u>Exhibit 15.1</u>	
<u>Exhibit 15.2</u>	
<u>Exhibit 15.3</u>	

---

**Table of Contents**

**Currency of Presentation and Certain Defined Terms**

Unless the context otherwise requires, references in this annual report to we, us, the Company, Sify or Sa Infoway are to Sify Technologies Limited, a limited liability Company organized under the laws of the Republic of India. References to U.S. or the United States are to the United States of America, its territories and its possessions. References to India are to the Republic of India. In January 2003, we changed the name of our Company from Satyam Infoway Limited to Sify Limited. In October 2007, we again changed our name from Sify Limited to Sify Technologies Limited. *Sify*, *SifyMax.in*, *Sify e-ports* and *Sify online* are trademarks used by us for which we have already obtained registration certificates in India. All other trademarks or trade names used in this Annual Report on Form 20-F for the year ended March 31, 2011 (the Annual Report) are the property of their respective owners. In this Annual Report, references to \$, Dollars or U.S. dollars are to the legal currency of the United States, and references to Rs., rupees or Indian rupees are to the legal currency of India. References to a particular fiscal year are to our fiscal year ended March 31 of such year. References to the Group mean Sify technologies Limited and its subsidiaries. References to equity shares refer to our Indian Equity Shares, which are not traded on an exchange in India or the United States. References to ADS s refer to our American Depositary Shares, which are traded on the Nasdaq Global Market under the symbol SIFY.

For your convenience, this Annual Report contains translations of some Indian rupee amounts into U.S. dollars which should not be construed as a representation that those Indian rupee or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Indian rupees, as the case may be, at any particular rate, the rate stated below, or at all. Except as otherwise stated in this Annual Report, all translations from Indian rupees to U.S. dollars contained in this Annual Report have been based on the reference rate in the City of Mumbai on March 31, 2011 for cable transfers in Indian rupees as published by the Reserve Bank of India (RBI), which was Rs. 44.65 per \$1.00.

Our financial statements are presented in Indian rupees and prepared in accordance with English version of International Financial Reporting Standards as issued by the International Accounts Standards Board, or IFRS. In this Annual Report, any discrepancies in any table between totals and the sums of the amounts listed are due to rounding. Information contained in our websites, including our corporate website, [www.sifycorp.com](http://www.sifycorp.com), is not part of this Annual Report.

**Table of Contents**

**Forward-Looking Statements**

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

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

**Table of Contents**

**PART I**

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

Not applicable.

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

Not applicable.

**Item 3. Key Information**

**Selected Financial Data**

**Summary of Consolidated Financial Data**

You should read the summary consolidated financial data below in conjunction with the Company's consolidated financial statements and the related notes, as well as the section entitled "Operating and Financial Review and Prospects," all of which are included elsewhere in this Annual Report. The summary consolidated statements of income data for the five years ended March 31, 2011, 2010, 2009, 2008 and 2007 and the summary consolidated Statement of Financial Position as of March 31, 2011, 2010, 2009, 2008 and 2007, has been derived from our audited consolidated financial statements and related notes to the consolidated financial statements which were prepared and presented in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB). Historical results are not necessarily indicative of future results.



**Table of Contents****Sify Technologies Limited  
Consolidated Statement of Income**

	<b>Year ended March 31,</b>					<b>2011 Convenience translation into US\$ in thousands, except share and per share data (See Note1)</b>
<b>(In thousands of Rupees, except share data and as otherwise stated)</b>	<b>2011 Rs</b>	<b>2010 Rs</b>	<b>2009 Rs</b>	<b>2008 Rs</b>	<b>2007 Rs</b>	
Revenue	6,886,629	6,710,188	6,162,161	6,006,215	5,447,347	154,236
Cost of goods sold and services rendered	(4,209,430)	(4,096,538)	(3,613,349)	(3,419,122)	2,939,329	(94,276)
Other income	72,693	131,789	89,105	46,152	66,320	1,628
Selling, general and administrative expenses	(2,441,799)	(2,482,415)	(2,813,425)	(2,434,715)	(2,094,971)	(54,688)
Depreciation and amortization	(685,836)	(656,797)	(498,872)	(394,337)	(463,780)	(15,360)
Impairment loss on intangibles including goodwill	(1,857)	(47,269)	(15,200)			(42)
Income from legal settlement		561,120				
<b>Profit / (loss) from operating activities</b>	<b>(379,600)</b>	<b>120,078</b>	<b>(689,580)</b>	<b>(195,807)</b>	<b>15,587</b>	<b>(8,502)</b>
Finance income	45,698	27,994	122,565	161,783	154,192	1,023
Finance expenses	(258,622)	(293,873)	(251,660)	(57,682)	(25,550)	(5,792)
<b>Net finance income / (expense)</b>	<b>(212,924)</b>	<b>(265,879)</b>	<b>(129,095)</b>	<b>104,101</b>	<b>128,642</b>	<b>(4,769)</b>
Share of profit of equity accounted investee (net of income tax)	73,032	91,135	64,091	181,127	61,030	1,636
<b>Profit / (loss) before tax</b>	<b>(519,492)</b>	<b>(54,666)</b>	<b>(754,584)</b>	<b>89,421</b>	<b>205,259</b>	<b>(11,635)</b>
Income tax (expense) / benefit		81,479	(97,049)	(63,975)	66,113	
<b>Profit / (loss) for the year</b>	<b>(519,492)</b>	<b>26,813</b>	<b>(851,633)</b>	<b>25,446</b>	<b>271,372</b>	<b>(11,635)</b>

**Attributable to:**

Equity holders of the Company	(519,492)	17,027	(900,574)	(4,696)	240,841	(11,635)
Non-controlling interest		9,786	48,941	30,142	30,531	
	<b>(519,492)</b>	<b>26,813</b>	<b>(851,633)</b>	<b>25,446</b>	<b>271,372</b>	<b>(11,635)</b>

**Earnings / (loss) per share**

Basic earnings /(loss) per share	(8.20)	0.33	(20.77)	(0.11)	5.64	(0.18)
Diluted earnings/(loss) per share	(8.20)	0.33	(20.77)	(0.11)	5.63	(0.18)

**Table of Contents****Particulars****(Rupees in thousands, except share and per share data)**

<b>(Rupees in thousands, except share and per share data)</b>	<b>2011</b>	<b>2010</b>	<b>March 31,</b>	<b>2008</b>	<b>2007</b>	<b>Convenience translation into US\$ in thousands, except share and per share data (see note 2) 2011</b>
	<b>Rs</b>	<b>Rs</b>	<b>2009</b>	<b>Rs</b>	<b>Rs</b>	
<b>Balance Sheet data:</b>						
Cash and cash equivalents including restricted cash	543,097	878,698	1,710,798	1,507,327	3,071,157	12,163
Net current assets	(36,354)	(46,814)	(175,993)	1,294,199	2,435,290	814
Total assets	9,238,371	9,345,824	9,145,555	7,710,760	7,321,891	206,906
Total equity attributable to equity shareholders of the Company	4,665,792	4,171,092	3,851,693	4,694,984	4,538,906	104,497
<b>Cash Flow Data</b>						
<b>Net cash provided by (used in):</b>						
Operating activities	225,359	759,802	(371,556)	(839,869)	116,262	5,047
Investing activities	(730,650)	(896,683)	(1,174,156)	(756,300)	(708,316)	(16,364)
Financing activities	551,700	(354,486)	968,797	(585,200)	847,939	(12,356)

**Notes**

1. The convenience translation to U.S. Dollars was performed at the reference rate in the City of Mumbai for cable transfers as published by Reserve Bank of India on March 31, 2011 of Rs.44.65 per \$1.00, which should not be construed as a representation that those Indian rupee or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Indian rupees, as the case may be, at this rate or at all.
2. Reference to shares and per share amounts refer to our equity shares. Our outstanding equity shares include equity shares held by a depository underlying our ADSs. Effective September 24, 2002, one ADS represented one equity share.



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

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

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

<b>Month</b>	<b>High Rs.</b>	<b>Low Rs.</b>
September 2011	49.67	45.90
August 2011	46.13	44.05
July 2011	44.69	43.95
June 2011	45.10	44.61
May 2011	45.38	44.30
April 2011	44.68	44.04

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

<b>Fiscal Year Ended March 31</b>	<b>Period end Rs.</b>	<b>Average Rs.</b>	<b>High Rs.</b>	<b>Low Rs.</b>
2011	44.65	45.58	47.57	44.03
2010	45.14	47.36	50.53	44.94
2009	50.95	45.91	52.06	39.89
2008	40.02	40.13	43.05	38.48
2007	43.10	45.12	46.83	42.78

On March 31, 2011, the reference rate in the City of Mumbai for cable transfers in Indian rupees as published by RBI was Rs.44.65.

On October 10, 2011, the reference rate in the City of Mumbai for cable transfers in Indian rupees as published by RBI was Rs.49.07.

**Capitalization and indebtedness**

Not applicable.

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

Not applicable.

**Table of Contents**

**Risk Factors**

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

**Risks Related to our Company and Industry**

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

We have a net loss of Rs. 519.49 million (\$11.64 million) for the year ended March 31, 2011 with an accumulated deficit of Rs.13,607 million (\$304.75 million) as at March 31, 2011. We may in the future incur additional net losses and suffer negative operating cash flows. We expect to increase our expenditures as we continue to expand our services, promote our brand, and invest in the expansion of our infrastructure. We have incurred and in the future may incur expenses in connection with investments in data centers and infrastructure. Accordingly, we will need to generate significant additional revenues in order to become profitable. Our business model is not yet proven in the consumer space, and we cannot assure you that we will improve our profitability or that we will not incur operating losses in the future. If we are unable to become profitable and continue to sustain losses, we will be unable to build a sustainable business and our results of operations will be adversely affected. In this event, the price of our ADSs and the value of your investment may decline.

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

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

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

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

The loss of credits from the above scheme may adversely impact the financial condition and operating results. Effective August 2009, this benefit was withdrawn for our exports under ILD/NLD license, which has adversely affected our results of operations.

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

Spending on technology products and services in most parts of the world has been rising for the past several years. However, there was a decline in the growth rate of global IT purchases due to the economic slowdown and we believe the market may not recover until 2012.

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

Overseas economic performance also has a bearing on our Infrastructure and e-Learning businesses segments. Currency fluctuations will also lead to variations in revenue. The NLD/ILD business and eLearning may be affected in terms of prices and growth.



**Table of Contents**

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

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

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

We use derivative financial instruments, such as foreign exchange forward and option contracts, to mitigate the risk of changes in foreign exchange rates on accounts receivable and payable and forecast cash flows denominated in US dollar. As of March 31, 2011, we do not have any outstanding option contracts. We may not purchase derivative instruments for a sufficient amount to adequately insulate ourselves from foreign currency exchange risks, and over the past year, we have incurred significant losses as a result of exchange rate fluctuations that have not been offset in full by our hedging strategy.

For the year ended March 31, 2011, we have recognized a gain of Rs.12.94 million (\$0.29 million) on foreign exchange translations and we have not recognized any gains on our forward and option contracts. If foreign exchange currency markets continue to be volatile, such fluctuations in foreign currency exchange rates could materially and adversely affect our results of operations in future periods. Also, the volatility in the foreign currency markets may make it difficult to hedge our foreign currency exposures effectively and make them expensive.

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

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

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

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

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

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



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

**Table of Contents**

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

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

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

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

***We have added a number of new lines of business in the past years, including the operation and licensing of public Internet cafés, as well as the provision of broadband services, security services, e-learning software development services, managed network services and infrastructure management services.***

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

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

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

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

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

- the range of corporate network/data services provided by us and the usage thereof by our customers;
- the number of subscribers to our ISP services and the prevailing prices charged.
- advertising revenue generated by our online portal services.

**Table of Contents**

the timing and nature of any agreements we enter into with strategic partners of our corporate network/data services division;

services, products or pricing policies introduced by our competitors;

capital expenditure and other costs relating to our operations;

the timing and nature of our marketing efforts;

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

the introduction of alternative technologies; and

technical difficulties or system failures affecting the telecommunication infrastructure in India, the Internet generally or the operation of our websites.

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

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

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

Our facilities and infrastructure must remain secure, and be perceived by our corporate and consumer customers to be secure, because we retain confidential customer information in our database. Despite the implementation of security measures, our infrastructure may be vulnerable to physical break-ins, computer hacking, computer viruses, programming errors or similar disruptive problems beyond our control. If a person circumvents our security measures, he or she could jeopardize the security of confidential information stored on our systems, misappropriate proprietary information or cause interruptions to our operations. We may be required to make significant additional investments and efforts to protect against or remedy security breaches. Unauthorized disclosure of sensitive or confidential client and customer data, whether through breach of our computer systems, systems failure or otherwise, could damage our reputation and adversely affect our business and results of operations.

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