

With the global acceptance



...India really is going places!



One of the few Indian software product companies to succeed at an International level, Subex has grown from strength to strength in the past couple of years. In times of prosperity, revenue assurance/ maximization is perceived, at best, as an annoying overhead and revenue leakage is perceived as the cost of doing business. However, competitive market conditions resulting in dropping prices and shrinking profit margins have forced a closer look at revenue assurance/ maximization. Operators view today's uncertain business environment as a significant opportunity to seal the damaging money leaks that occur throughout their processes and systems.

The Revenue Maximization suite from Subex, RevMax™, with products like Ranger™ Fraud Management System and INcharge™ Revenue Assurance Solution are viewed by carriers across the globe as a technically advanced solution to tackle the menace that is revenue leakage. The global acceptance of the RevMax suite bears testimony to this fact.



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BOARD OF DIRECTORS

Subash Menon	<i>Chairman and Managing Director</i>
Alex J. Puthenchira	<i>Executive Director</i>
Sudeesh Yezhuvath	<i>Wholetime Director</i>
V. Balaji Bhat	<i>Director</i>
K. Bala Chandran	<i>Director</i>
Vinod R. Sethi	<i>Director</i>
S. N. Rajesh	<i>Director</i>

Company Secretary & Legal Counsel

Raj Kumar. C

Bankers

State Bank of India
ICICI Banking Corporation Limited
Corporation Bank
First Union Bank, Piscataway, New Jersey
Royal Bank of Canada, Ottawa
Hellinic Bank, Cyprus

Auditors

M/s. Deloitte Haskins & Sells
Chartered Accountants

Internal Auditors

M/s. P. Chandrasekar
Chartered Accountants

Registrars & Transfer Agents

Canbank Computer Services Ltd.,
R & T Centre, Hotel Broadway Complex,
No. 19, K.G. Road, Bangalore - 560 009.
Tel : 2872461, 2872462
Fax : 2872804
E-mail : ccslrnt@vsnl.com
ccslrnt@bgl.vsnl.net.in

Registered Office

721, 7th Main Mahalaxmi Layout,
Bangalore - 560 086
Tel : +91-80-349 7581
Fax : +91-80-349 1490
E-mail : subex@subexgroup.com

BOARD OF DIRECTORS



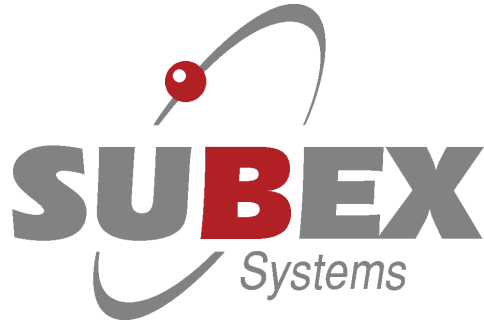
Subash Menon



Alex J. Puthenchira



Sudeesh Yezhuvath



V. Balaji Bhat



K. Bala Chandran

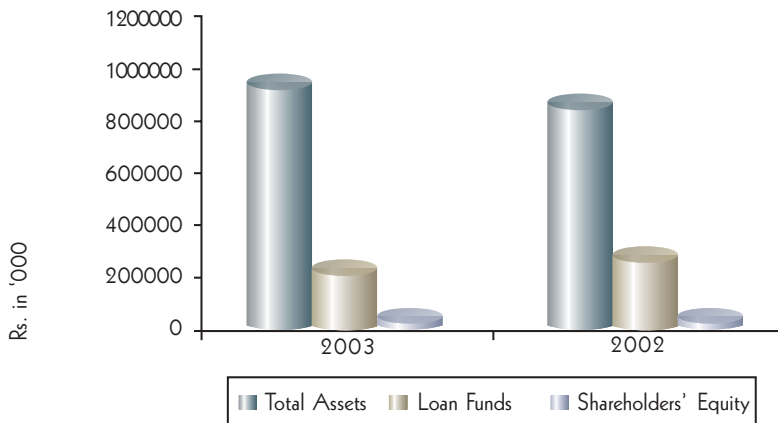
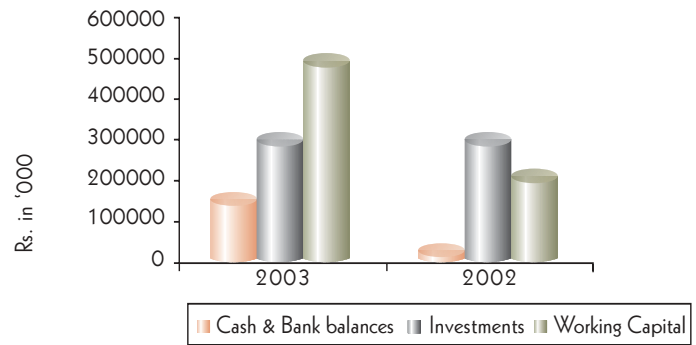
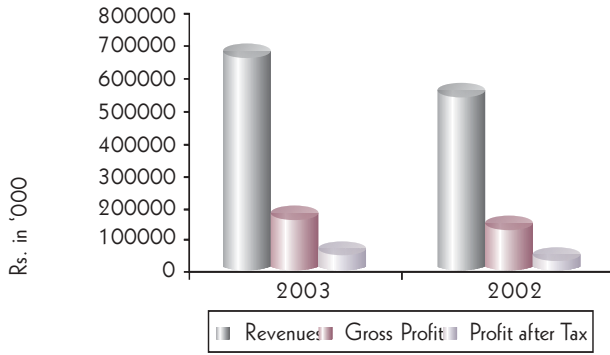


Vinod R. Sethi



S. N. Rajesh

FINANCIAL HIGHLIGHTS



Year ended March 31

Particulars (Rs. '000)	2003	2002
Revenues	706,414	592,508
Gross profit	226,506	173,659
Profit after tax	96,120	41,843
Basic earnings per share (Rs.)	13.12	5.87
Cash and bank balances	162,355	18,828
Investments	328,686	330,184
Working capital	505,640	232,026
Total assets	997,674	896,164
Loan funds	283,320	304,633
Shareholders' equity	73,438	71,257

MISSION STATEMENT

Ensure creation of value by providing a differentiating edge to the activities of our customers, investors, vendors and Subexians through technnovative solutions while fulfilling our social obligations and maintaining high professional and ethical standards.



client speak

"We were impressed with Subex's overall approach and the kind of support they extended to us in helping us decide on a FMS. Moreover, the level of involvement from Subex's senior management convinced us about the necessity of an FMS in our network. The post-implementation support has been very good too, with Subex extending us all the required help to ensure that the product is functioning at its optimum level"

-- Mr Wan Zaidan Wan Mahyudin,
General Manager - Finance,
MTN Sri Lanka

CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholder,

Five years ago, in April 1998, your company set out to chart a unique course - a course that the software industry in the country was not familiar with - to be a software product company. Today, after having traversed a long distance, your company is on the threshold of realizing its' cherished dream. Financial year 2003 was yet another eventful year. Let us look at the year in detail. The winds of change that have been buffeting the telecom industry worldwide attained terrible proportions during the year. The industry shed several hundreds of thousands of jobs and capex slid to abysmal levels coupled with an ever lengthening decision making timeframe. Pessimism ruled high in the telecom industry leading to a wait and watch stance at every telco. These true believers of technologies and tools turned skeptics and cynics. The industry is now littered with the remains of carriers and vendors that had failed in their respective businesses. The once blue chip industry had changed beyond recognition.

Despite these frightening odds, your company recorded a growth of 138% in PAT, which grew from Rs. 4.2 crores in FY02 to Rs. 10 crores in FY03. Revenue grew at a modest pace of 16% from Rs. 60.18 crores to Rs. 70.01 crores. The share of products in the overall business now stands at 36%, up from 30% in FY02. Profitability has increased from a low 6.9% to 14.3%.

Making of a Software Products Company

The evolution of a software products company happens in many stages. They are, conceptualization of a product, development, product management, launch, successful implementation, acceptance of the product and the company by the market and finally, repetition of these steps with other products. All along, the company has to continuously learn from the mistakes committed and assess the changing dynamics of the marketplace. Course corrections to adapt to the ever changing environment are critical to the success of the company. While a software services company need to attach more importance to the development activity, a software products company has to accord equal significance to both development and sales & marketing. Conceptualization of the products and management of the same also are extremely critical factors.

Your company, having started on this route five years ago, has today demonstrated its' understanding of this complex business environment and its' ability to navigate the treacherous waters of international products business. Our flagship product Ranger™ has gone through multiple versions and has matured into a stable product that meets the needs of the wireless and wireline carriers. The product has been following a detailed road map that future proofs Ranger™. I am glad to report that Ranger™, after being installed in 54 networks globally, today has the second largest installation among all fraud management systems. The installations are spread over 13 countries, in 4 continents, among 22 customers. Out of these, 28 were gained during FY03!!! Further, Ranger™ is one of the top three fraud management systems in the world, in terms of features and functionalities. We expect this positioning to further improve our stature in the coming years.

Having comprehended the nuances of software products business, we embarked on defining our business space - revenue maximization for telecom carriers. We branded our suite of products as RevMax™ after conceptualizing the second product, INcharge™. This has resulted in a clear definition of our business and that is, identifying and plugging leakages in the revenue chain of a carrier. This revenue chain encompasses subscription, provisioning, servicing, rating, billing, invoicing and collection. With the addition of INcharge™, a revenue assurance solution, our suite covers a wide variety of problems faced by the carriers in this area. The evolution of the suite will continue in the years to come through the addition of more products that are complementary to Ranger™ and INcharge™.



Subash Menon

Chairman & Managing Director

The strategy of defining a space and launching products within that defined space is paying us rich dividends. While the acceptance of Ranger™, by the carriers, took a fairly long time, that of INcharge™ is happening at a quick pace as the customer segment is the same. The credibility that has been built up through the successful implementation of Ranger™ at various sites and the referenceability of these customers is being leveraged to gain a quick entry and acceptance for INcharge™. This has resulted in a beta site and one customer for INcharge™ within months of its' launch, during FY03. This proven strategy will be resorted to in the future, while identifying and launching new products.

This strategy of embedding ourselves deeper in the space of revenue maximization has also led to our acceptance as a specialist in this area, by our customers in particular and by the industry, in general. I expect that positioning to yield us excellent results in the coming years. On the whole, I feel confident that your company has taken several strategic initiatives in a holistic manner, thereby laying a strong foundation for the creation of a scalable business model in the telecom software products space of our choice. We are, most certainly, building a sturdy edifice that will serve us well in the future.

Software Services - Onsite Consulting

Despite a downturn in the US, this business which operates exclusively in that geography, has not only maintained stability, but also has recorded improved results. Revenue grew at a modest pace and margins increased substantially during FY03. While the dependence of this business area on telecom customers is a cause for concern, our strategy has effectively nullified this aspect. Over the years, we have specialised in providing high quality services alongwith considerable value add to our customers. This has assisted us in achieving the position of a reliable and dependable partner to our customers. We intend to continue on the same path and thereby further strengthen our customer relationships.

Strategic Investment

During the year, your company decided to raise additional funds to support and expand its' sales & marketing activities on the products front. It is a well known fact that products require substantial investments for both development and marketing. This assumes even greater significance as we are operating in overseas markets that call for a high level of sales & marketing costs by way of offices, personnel, promotional costs etc. Yet another aspect is product development cycle, time to market and sales cycle. Our products take anywhere from 15 to 18 months from conceptualization to launch of the first commercial version. This results in a long gestation period during which investments have to be made in the products without any return. Subsequent to the launch, it takes another 8 to 10 months to bag a commercial contract. Thus, investments have to be made in development, sales & marketing over a span of 2 years before returns commence. These investments being absolutely essential and critical for the ongoing growth of your company, we decided to tap external sources for these funds.

Apart from accessing funds, we had another objective - that of bringing in investors who can provide strategic inputs for the growth of the business. Consequent to our efforts to raise additional funds from such strategic investors, we placed preferential shares (Redeemable Optionally Convertible Cumulative Preference Shares - ROCCPS) with Intel Capital, UTI Venture Funds and Toronto Dominion Bank. Out of these, Toronto Dominion Bank was an existing investor. The total quantum raised was Rs. 18.50 crores and upon conversion, Intel Capital, UTI Venture Funds and TD Bank will collectively hold 22.77% i.e. 10.39%, 6.64% and 5.74% respectively. While furthering our ability to invest in more products in the future, in an extensive manner, the induction of the new investors will assist us in improving our strategic direction. This will help us to extend our reach in the market, leading to a deeper penetration and growth at a quicker pace.

Business Outlook

The telecom industry continues to be in a tailspin. While there have been several predictions on a turn around, such a phenomenon has been eluding the industry for quite some time. On the contrary, investments in the sector are contracting every year, bankruptcies are mounting, job losses are increasing and consolidation is active. With this background, your company is squarely positioned in an industry that has been gasping for breath. However, every cloud has a silver lining just as every coin has two sides. The severe downturn that has resulted in considerable financial difficulties for the carriers has spurred an unprecedented interest in tools and technologies to squeeze out as much profits as possible from the existing investments in the network and other infrastructure. This keen interest is the catalyst behind the growth witnessed by the revenue maximization space.

A recent study conducted by Technology Research Institute of the US identified revenue assurance as one of the high growth areas with a CAGR of about 18% for the next few years. Please refer Chart 1.

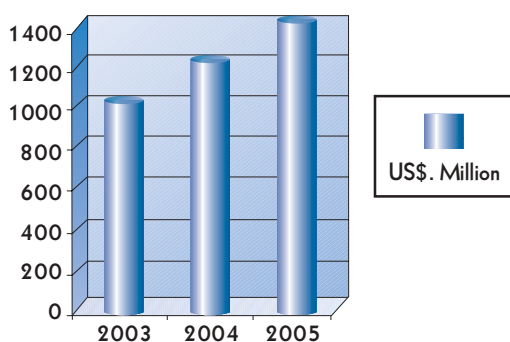


Chart 1:
Global Revenue Assurance Market Size
(Source : TRI)

A study conducted by Gartner Dataquest in 2002 has identified fraud management as one of the 3 hot areas in telecom along with provisioning and outsourcing. The emergence of revenue assurance or revenue maximization as a significant market opportunity is amply justified by the losses or revenue leakages experienced by the carriers worldwide. It is estimated that the carriers lose between 8% and 12% of their gross revenues to a variety of causes, collectively known as revenue leakages. In an industry which recorded a revenue of US\$ 1 Trillion for the top 100 carriers, this translates to a whopping

US\$ 80 to 120 Billion, an astronomical figure by any standard. Given the enormity of the problem, evident from the quantum of loss, the future for revenue maximization solutions seems to be quite bright. On the basis of the specialization achieved by your company in this area, and owing to the strategic initiatives discussed above, we are confident of garnering a large portion of this market.

I take this opportunity to thank all the stakeholders of the company for extending their support in the creation of a profitable software products company. I give all of you my personal commitment that your company will propel itself to be the global leader in revenue maximization within the next few years.

Subash Menon

VISION STATEMENT

To be the leader in our areas of business through:

Total Customer Satisfaction,

Commitment to Excellence and

Determination to Succeed.



client speak

“The support extended by Subex was excellent”

-- Virat Jaruchoktaweechai,
Director Department Group,
TAC Thailand

REVENUE MAXIMIZATION - RELEVANCE IN TELECOM

Introduction

The telecom world is yet to recover from the deep recession it has plunged into and executives world over are desperately trying to find solutions for their problems. The over-optimism and the thrust from the stock market to focus on growth, at times growth at any cost, has been replaced by an urgent need to trim debt and get back into profitability. Hitherto, senior management was interested in and rated only on top-line growth and customer acquisition. The thrust was on products and solutions that would help telcos achieve these targets. Now, it is back to basics. Telcos have understood and accepted the fundamental tenet of business that profitability and cash flow are of supreme importance. As a result, there has been a lot of interest and activity on the revenue assurance / maximization area.

Revenue Maximization

Revenue Maximization consists of three parts:

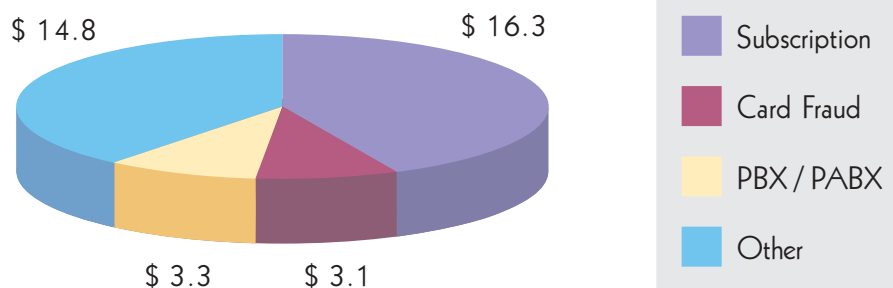
- Assurance of earned revenue
- Cost optimization
- Enhancement of revenue

Assurance of earned revenue

It is most important for any business to be able to account accurately for all its transactions and collect the monies owed to it. This becomes a very important and complex task for a telco given the nature of its business. Telcos have innumerable transactions with its' customers and all these small value transactions have to be accurately recorded, invoiced and collected. This is no easy task when one takes cognizance of the fact that the average transaction volume in a Tier-1 telco could be of the order of 200 – 300 million Call Detail Records (CDR) a day. To compound the problem you have unethical customers, associates and at times even employees who are out to cheat the telco and make money. Areas such as fraud management, billing integrity management, network integrity management is of relevance here. Recent studies among telcos have indicated the following:

- Forum for Irregular International Network Access (FIINA), an international body of wire line telcos, conducted a study in 2001 and declared that the annual fraud loss experienced by telcos is to the tune of US \$ 55 Billion.
- Communication Fraud Control Association (CFCA), another telco association focused in fraud management, conducted a study on fraud losses in telcos in May 2003 and determined that worldwide fraud losses could be in the region of US \$ 35-40 Billion per annum. The graph below shows the categorization of these losses under various types of fraud.

(In Billion US\$)



Source: CFCA



Sudeesh Yezhuvath

Wholetime Director and
Chief Operating Officer

- It has been reported from various sources that telcos may be losing 10-12% of their revenue due to billing and network integrity issues- a very huge number considering the fact that worldwide telecom revenue is in the region of US\$ 1 Trillion.

From the above, it is obvious that the problem is indeed of significant magnitude. Telcos in their quest for profitability have realized that they need to plug these leaks.

Cost Optimization

In the last decade, telecom market has witnessed unprecedented improvement in network quality and availability along with a huge reduction in cost for telecommunication services. The major driver for these has been the liberalization of telecom market and the subsequent breakdown of monopolies. Competition has forced telcos to improve network availability and reduce costs. This meant increasing capital expenditure on one hand and reduced profitability on the other. Obviously, this required a sea change in business practice and strategy.

With the introduction of competition the interconnectivity options between telcos increased manifold. Mobile telephony with its ability to provide roaming to subscribers also helped to increase the number of interconnects that a telco has. Today, approximately half of the operational costs of any telco are interconnect costs. Any increase in this has a drastic and direct impact on profitability.

For example, assume that a carrier is generating US\$ 1.2 Billion in annual revenue of which half, or US\$ 600 Million comes from inter-connect revenues. On a monthly basis, this would translate into US\$ 50 Million of inter-carrier revenue. Using industry figures of a 10% revenue leakage as found in studies conducted by firms like PwC and KPMG, this would only represent 90% of the revenue actually owed which means that US\$ 5.6 Million is not being collected monthly or US\$ 66.7 Million annually, representing 5.6% of the annual revenue. The impact on the EBITDA and net earnings is even more significant. Assume that the carrier is generating about 5% EBITDA which would result in US\$ 60 Million annually. By collecting this revenue, EBITDA would increase by 100% since there are no additional costs associated with generating this revenue.

Revenue Enhancement

Along with these changes in the telecom world, telcos are faced with the need for improved market and business intelligence. Intimate awareness of what goes on in the network and understanding of traffic patterns are very important. When telcos started focusing on the two areas mentioned above, they realized that they were collecting a large amount of relevant information, which through intelligent analysis could provide revenue enhancement opportunities. Hence there is a need for solutions in this area and this is a field that is developing fast.

Conclusion

In a study conducted by Philips Group, it was identified that the top three challenges facing telcos are as given below:

- Create or improve a revenue assurance department
- Manage fraud
- Establish or improve measurement and reconciliation

Telcos have understood this reality and are reported to have commented that lack of error correction resources, provisioning being out of sync with billing data and fraud are among their top concerns. From our research, we have established that the top challenges in the Revenue Maximization area are:

- Poorly designed products and services
- Order entry errors
- Network or IT systems errors that prevent the creation of billing records
- Incorrect or incomplete bills
- Fraud management
- Badly designed business processes
- Inter-carrier billing issues
- Churn management

The RevMax™ suite of products and services with the Ranger™ Fraud Management System and the INcharge™ Revenue Assurance Solution is well positioned to help telcos address these needs.

QUALITY STATEMENT

To meet the demanding needs of the customers through strict adherence to superior quality in every branch and level of the organization and in all products and services provided by Subex.



client speak

"Our requirement is for a partner and a system that can meet the demands of this market and we believe we have found the right choice in Subex and its product, Ranger™"

--Douglas Mboweni,
Chief Information Officer,
Econet Wireless, Nigeria

INTEGRATED REVENUE ASSURANCE SYSTEM

Introduction

The challenges faced by service providers in reducing revenue leakages and maximizing revenues can be best met by introducing and streamlining processes to quickly identify the revenue leakages both at the customer level and at the network operations level. Most of the service providers realize this requirement and have deployed appropriate solutions in their networks. However, most of these solutions are stand-alone and do not provide complete coverage for end-to-end revenue assurance. The operators lose the advantage of using the intelligence information garnered by one system, in other systems.

This article delves into the basis of Subex's RevMax™ suite of products – an Integrated Revenue Assurance System – that provides revenue assurance at customer, service and network levels. RevMax™ consists of various modules – Subscriber Management Module, Call Detail Record analysis module, Interconnect billing verification module, Switch to bill verification module etc. – bundled into two products: Ranger™ Fraud Management System and INcharge™ Revenue Assurance Solution. Various other products are also on the anvil and will be added to the RevMax™ suite in future. At each of the customer, network and service levels, RevMax™ provides facilities to monitor the usage and reconcile with the invoices generated or received by the service provider.

Advantages of Integrated Architecture

By integrating various modules, the service providers gain in terms of value in correlation of intelligence. For example, when a subscriber is declared as fraudulent, the usage information from the system can be used to update the hotlist entries; the demographic information can be used to update the blacklist/ greylist of subscribers.

A common workflow engine provides for single-logon facilities to all the users of the system for using various modules. The user will be able to make use of information from various modules for taking decisions.

The hardware requirements will be reduced considerably on the storage front since all the raw input data need not be replicated. Considering the volume of data processed by each of the revenue assurance modules, this assumes immense significance.

Requirements for Integrated Architecture

An Integrated Revenue Assurance System should be flexible so that new modules can be added as and when needed. As new technologies proliferate in the market place, the system should be able to cope with new types of data records and protocols. An addition of a new module should not destabilize the existing functionality.

The system should be scalable. Multiple deployment options should be available to the service providers – to mix and match various modules. Deploying the solution on different server machines should not preclude the interactions among various modules.

Reliability and availability will be of paramount importance as the revenue assurance modules provide support to the daily operation of the network. As the data volumes grow, the system should be able to gracefully adapt to the data loads.



Dakshinamurthy K.

Chief Technology Officer

System Architecture

The System architecture consists of multiple layers with well-defined interfaces. Each module can be deployed as a stand-alone or together with other modules that require the same data conversion layers. However, all modules can access the data repository using direct access (if co-located) or through the standard interfaces that are available from the other modules.

Data Acquisition Layer

This layer will be responsible for accessing various network elements like switches, mediation devices, IN platforms, provisioning systems to collect the data that needs to be processed by the individual revenue assurance modules. The interfaces provided supports both push and pull mechanisms to access the data from these network elements. Various network protocols like FTP, FTAM can be used to access the data from network elements. It is possible to access the data using custom network protocols.

Data Translation Layer

The data acquired by the acquisition layer needs to be converted into internal formats that can be used by various modules. The Data Translation layer is responsible for converting the raw data acquired from the network elements.

Data Correlation Layer

The translated data from some devices might not be usable directly by the revenue assurance modules. Consider the case of SS7 signaling unit. It is necessary to correlate various fragments to generate a complete CDR. The data correlation layer undertakes the responsibility of correlating various fragments, re-time stamping, ordering the records that arrive in different order.

Data Repository

Data Repository is the central repository that is used by various modules to keep the published information. For each item in the repository a single module will be responsible for creation, updation and deletion. However, the repository will be available for all other modules on a read-only basis.

Report Engine

One of the major advantages of having a data repository is that various intelligence information gathered by different modules is available for the reporting engine. The reporting engine is responsible for accessing this information to provide the most important part of revenue assurance – MIS Reports.

Workflow Engine

The workflow engine layer provides the functionality to maintain the lifetime for various alerts generated by the revenue assurance system. The Client Service Engine layer makes use of the services of the workflow engine.

Client Service Engine

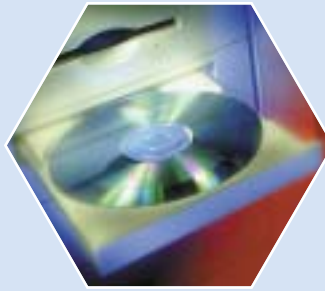
The CSE module is responsible for providing interfaces to various clients to access the data repository. The CSE makes use of the ubiquitous TCP/IP protocol.

Revenue Assurance Modules

Each of the revenue assurance module supports a single function in the network. The modules can either be deployed together or on separate machines. Multiple deployment options will be available for deploying the modules on a service provider's network. Each module provides a set of standard interfaces for accessing it's public repository and makes use of the interfaces provided by other modules in the network.

Conclusion

As new technologies proliferate in the market and data volumes grow, the revenue assurance products deployed currently in the network might not be sufficient to meet the requirements of a service provider. A system that provides an end-to-end revenue assurance and integrated architecture will be the norm in the future.



RevMax™



MUTUAL FUNDS	INSURANCE	DEBT & MONEY	...
...

Subex to launch INcharge soon

BANGALORE: The Bangalore-based telecom software company, Subex Systems Ltd, will launch its inter-carrier billing verification system, INcharge at the IIR conference 'Optimising end-to-end revenue assurance strategies' to be held from July 8-10 in Lisbon, Portugal.

Subex Systems to launch 'INcharge'

SUBEX Systems announced that it would launch its inter-carrier billing verification system, 'INcharge', at the IIR conference 'Optimising end-to-end revenue assurance strategies', to be held from July 8-10 in Lisbon, Portugal. INcharge is part of Subex's revenue maximisation suite 'RevMax', which was recently showcased at the IIR conference in Cannes, France.

Subex Systems bags contract from RPG Cellular

Subex Systems has won the order to install its fraud management software in Soratel's wireless network. The deal is worth \$0.5 million.

Subex to launch INcharge inter-carrier in Lisbon

BANGALORE: City-based telecom software company Subex Systems Ltd. will launch its inter-carrier billing verification system, INcharge, at the 'IIR conference - Optimising end-to-end revenue assurance strategies' in Lisbon, Portugal. INcharge is part of Subex's revenue maximisation suite RevMax which was showcased at the IIR conference in Cannes in February.

Subex to deploy Ranger FMS at RPG Cellular

Bangalore-based software supplier, Subex Systems Ltd, has won a contract from RPG Cellular Services Pvt. Ltd., India to deploy its Fraud Management System, Ranger, in all BPL mobile networks.

Subex to deploy Ranger in all BPL mobile networks

BY OUR CORRESPONDENT

Bangalore, April 6: City-based telecom software company, Subex Systems Limited, has bagged a contract from BPL Mobile, to deploy its Fraud Management System, Ranger, in all BPL mobile networks.

According to an official release, Ranger will help operators curb fraud through the use of innovative subscriber profiling techniques and advanced analytical capabilities. Ranger will also address fraud in emerging areas like GRPS and 3G technologies.

demonstrate fraudulent behaviour. With this, we expect our current business processes to become more optimised, delivering greater efficiency and profitability." BPL

Ranger will help operators curb fraud through the use of innovative subscriber profiling techniques and advanced analytical capabilities. Ranger will also address fraud in emerging areas like GRPS and 3G technologies.

RevMax helps operators address issues like poorly designed products and services, order errors, network errors that prevent creation of billing records, incomplete bills and inter carrier issues among others. The solution addresses vital areas like subscriber billing, customer support, collection management, visioning and order entry in its products.

"With the BPL order, Subex will receive about \$0.5 million from India with almost 100,000 subscribers as our first client and this is a significant milestone for us."

Product focus to help boost Subex profits

REUTERS [FRIDAY, 11:43:32 AM] After a long but worthy wait, software companies are finally reaping the rewards of a rare but cluttered market.

Subex wins \$0.5 mn African order

REUTERS [TUESDAY, 12:14:36 PM]

BANGALORE: Subex Systems, which provides software for the telecommunications sector, said that it had won an order worth \$0.5 million from an African telecom services provider.

Subex INcharge At Lisbon Conference

Bangalore: Subex Systems would launch its inter-carrier billing verification system 'INcharge' at the IIR conference on optimising end-to-end revenue assurance strategies to be held at Lisbon, Portugal on July 8-10. INcharge, a part of Subex's revenue maximisation suite RevMax, was showcased earlier at the 3GSM World Congress at Cannes.

SUBEXIAN

Subexian is a leader and a thorough professional who perseveres to execute a well defined business strategy, in a committed manner, to achieve superior quality in providing excellent overall support to all our customers.



Financial Statements

for the year ended March 31, 2003

client *speak*

Subex's Ranger™ Fraud Management System will not only help us with our current subscriber base, in postpaid as well as prepaid, but also in anticipating a prospective subscriber who is likely to demonstrate fraudulent behavior. We therefore expect our current business processes to become more optimized, delivering greater efficiency as well as profitability”

*F.B. Cardoso,
President & CEO,
BPL Mobile, India*

Directors' Report to the Members of Subex Systems Limited

Your directors have pleasure in presenting the Ninth Annual Report together with the Audited Accounts of the Company for the year ended March 31, 2003.

FINANCIAL RESULTS:

	2002-03 (Rs. in lacs)	2001-02 (Rs. in lacs)
Total Revenue	7064.14	5925.09
Profit before Interest, Depreciation & Amortisation	1621.90	956.67
Interest, Depreciation & Amortisation	604.40	477.52
Profit before tax	1017.50	479.15
Provision for taxes	53.15	32.00
Profit after tax	964.35	447.15
Prior year taxes	3.15	28.72
Profit for the year	961.20	418.43

APPROPRIATIONS :

Dividend proposed		
a) on equity shares	73.44	71.26
b) on preference shares	0.51	-
Provision for tax on Dividends	9.48	-
Transfer to General Reserve	20.00	15.00
Surplus carried to Balance Sheet	1376.95	519.17

OVERVIEW:

During the year your company has recorded a healthy growth in both revenues and profits, despite the backdrop of a global economic slowdown and a tougher, more competitive, business environment. Total revenues from operations for the year ended March 31, 2003 increased by 19.23% to Rs. 7064.14 Lakhs, over the previous reporting period. The company has posted a net profit of Rs. 961.20 Lakhs during the year as against Rs. 418.43 Lakhs during the corresponding previous year.

DIVIDEND:

Your Directors recommend a dividend of 10% for the year ended March 31, 2003 (previous year 10%) on the Equity Share Capital of the Company. Dividend will be paid to those shareholders whose names appear in the Register of Members of the Bank as on 9th September 2003. The Company has also made a provision for dividend @ 12.25% on the Preference Share Capital of the Company for the year ended March 31, 2003.

BUSINESS :

The Company is engaged in the design, development, implementation and support of Revenue Maximization solutions for the Telecom Domain. The Company maintained its focus on the "Telecommunication Application Software Products". Subex's unique business model aims to create value through ownership of intellectual property from telecom software products. An ISO 9001 certified company, Subex has a global presence across North America, Europe, Africa and Asia. RevMax™, the Revenue Maximization suite from Subex includes Ranger™ - a Fraud Management System and INcharge™ - a Revenue Assurance Solution. The very fact that your Company has successfully implemented its products in the networks of CYTA, AmericaTel, GlobalCrossing, Sprint, Bharti Mobile, Escotel, Birla AT&T Tata, Sonatel, Econet Wireless, among others, shows the inherent strength of the company to compete and win orders even amongst stiff competition. Several large carriers were added as the customers for the "RevMax™" suite of products. Since the key challenge before a telecom carrier today is to maximize on revenue, retain customers and optimize on the infrastructure, the response for RevMax™ suite has been excellent.

SHARE CAPITAL :

During the year, the Company restructured its Authorised Share Capital to accommodate the preferential issue of Redeemable Optionally Convertible Cumulative Preference Shares (ROCCPS). As on March 31, 2003, the Authorized Share capital stood at Rs. 307,800,000 comprising Rs. 111,800,000 of Equity Share Capital and Rs. 196,000,000 of Preference Share Capital. The Paid Up Share Capital as on March 31, 2003 stood at Rs. 227,322,260 comprising 73,43,825 equity shares of Rs. 10 each for Rs. 73,438,250 and 15,70,245 Redeemable Optionally Convertible Cumulative Preference Shares (ROCCPS) of Rs. 98 each for Rs. 153,884,010.

The Company made two preferential issue of shares during the year. 2,13,770 Equity shares of Rs. 10 each at a premium of Rs. 90 each were allotted to Toronto Dominion Bank for cash during April 2002. 1,000 Equity Shares of Rs.10 each at a premium of Rs.88 per share to Intel Capital Corporation and 1,570,245 Redeemable Optionally Convertible Cumulative Preference Shares (ROCCPS) of Rs. 98 each for cash at par were allotted on March 31, 2003 to the following investors:

Intel Capital Corporation	958,000
Unit Trust of India A/c ITVUS	612,245
Total	1,570,245

The Company also allotted 3,375 Equity shares of Rs. 10/- each to various employees on the exercise of Stock options granted to them under the Employee Stock Options Plan – II.

The Company's proposal to write off Rs. 158,956,637, being the cost of Intellectual Property Rights acquired from Magardi, Inc., in 2001-02, against the Share Premium Account, under section 78 and 100 of the Companies Act, 1956, was approved by the Shareholders in an Extraordinary General Meeting on 27th June 2002, and was subsequently confirmed by the Honourable High Court of Karnataka. Accordingly the said amount has been reduced from the balance in the Share Premium Account during the year.

SUBSIDIARIES – SUBEX TECHNOLOGIES, INC :

For the year ended March 31, 2003, Subex Technologies, Inc., earned an income of US\$ 8,331,483 and a net profit of US\$ 125,208. The subsidiary provides consultancy for the contracts of the company and as such, the subsidiary's income is reflected in the books of the parent. The consolidated accounts are separately appended to this report. The management has obtained an independent valuation of the subsidiary, according to which, there has been no impairment in the carrying cost of the investment.

EMPLOYEE STOCK OPTION PLAN:

Your Company has instituted two Employee Stock Option Schemes (ESOP) to enhance employee commitment, reward performance and reduce attrition. The details of the scheme are.

EMPLOYEE STOCK OPTION PLAN (ESOP – I)

Instituted during 1999, ESOP – I is operated through Subex Foundation and was vested with 1,20,000 Equity Shares originally. Subsequent to the issue of Bonus Shares, the number of shares available under the scheme has increased to 2,40,000 Equity Shares of which 1,54,745 shares have been allotted to 37 employees. The original shares allotted under the scheme are subject to a minimum lock-in of three years and Bonus Shares, subject to minimum lock-in of one year. The shares under the scheme are allotted at a price, which is not less than 50% of the market value of the shares as on the date of grant.

EMPLOYEE STOCK OPTION PLAN (ESOP – II)

Under this scheme, 5,00,000 options have been allocated for grant to the employees and each option is convertible into one equity share of Rs. 10/- each, fully paid. This scheme has been formulated in accordance with the SEBI guidelines on ESOP & ESPS dated 19th June 1999. As per the scheme, the compensatory committee grants the option to these employees deemed eligible by the Advisory Board constituted for the purpose. The options are granted at a price, which is not less than 85% of the average market price of the underlying shares, based on the quotation on the Bombay Stock Exchange for 15 days prior to the date of grant. The options granted vest over a period of 1 to 4 years and can be exercised over a period of 4 years from the date of vesting.

Additional information as per SEBI guidelines;

	ESOP I	ESOP II
1. Number of shares / options, allotted / granted during the year	Nil	79,550
2. Grant price – percentage of discount to the market price of the shares on the date allotted / granted	N.A.	85% of average market price for 15 days prior to the date of grant.
3. Shares / options issued to during the year		
A. Directors	N.A.	22,500
V. Balaji Bhat - 7,500		
K. Bala Chandran - 7,500		
Vinod R. Sethi - 7,500		
B. Senior Management	N.A.	6,000
P. Vinod Kumar - 6,000		
4. No. of employees to whom more than 5% of the shares / options issued during the year	N.A.	Nil
5. No. of employees who were issued shares exceeding 1% of the issued capital of the Company.	None	None
6. Diluted earning per share	N.A.	Rs. 12.77

CORPORATE GOVERNANCE:

Subex is committed to building long-term shareholder value with full emphasis on Corporate Governance. In achieving this objective, the Company has always endeavored to operate as a responsible and law abiding corporate citizen. Your Company strives to implement the best Corporate Governance Model at par with the best Companies. In line with the recommendations of the Securities and Exchange Board of India (SEBI) on Corporate Governance, your Company has various committees in place. Your Company has 7 (Seven) Directors including the Chairman and Managing Director. None of the Directors on the Board is a member on more than 10 Committees and Chairman of more than 5 Committees, across all the Companies in which he is a Director. The Directors have made the necessary disclosures regarding Committee positions. During the year the Company has not been subjected to any penalties or strictures imposed by any statutory authorities in the administration of the Companies Act, 1956. A separate report on Corporate Governance and Management Discussion & Analysis is annexed as a part of this Annual Report.

The Company's shares have been listed on The Stock Exchange, Mumbai, Bangalore Stock Exchange and Hyderabad Stock Exchange. Accordingly, provisions of the Listing Agreement become applicable to the Company. Your Company has been complying with the listing agreement of these Stock Exchanges.

Audit Committee

The Audit Committee comprises Mr. Balaji Bhat, Mr. K. Bala Chandran, Mr. Vinod R Sethi and Mr. Subash Menon; all except Mr. Subash Menon are non-executive Directors, with Mr. Balaji Bhat as its Chairman. The role, terms of reference, the authority and power of the Audit Committee are in conformity to the requirements of the Companies Act, 1956.

DIRECTORS :

During the year Mr. S.N. Rajesh has been inducted into the Board as an additional Director. Mr. Vinod R Sethi and Mr. Sudeesh Yezhuvath, Directors, retire by rotation and are eligible for reappointment. Your Directors recommend reappointment of above Directors.

FIXED DEPOSITS :

The Company has not accepted any fixed deposits from the public during the year.

PARTICULARS OF EMPLOYEES :

As required under the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, the names and other particulars of employees are set out in the annexure included in this report.

4.0 Information under Section 217 (1)(e) of the Companies Act, 1956, read with Companies (Disclosures of Particulars in the Report of Board of Directors) Rules, 1988

4.1 Particulars of Conservation Energy

The Company is not a major consumer of power. However adequate measures have been taken to conserve the energy consumption.

4.2 Technology Absorption, Adoption and Innovation.

The Company has not imported any technology. However, the telecommunications domain, in which your Company operates, is subject to high level of obsolescence and rapid technological changes. Your Company has developed inherent skills to keep pace with these changes. Software products being a significant line of business, the Company incurs expenses on product Research and Development on a continuous basis. These expenses are charged to revenue under the respective heads and are not segregated and accounted separately.

4.3 Foreign Exchange Earning and Outgo.

Your Company has, over the years shifted its focus from software services to software products. This has resulted in substantial foreign exchange earnings as compared to previous years. During the year 2002-03 total foreign exchange inflow and outflow is as follows:

- i) Foreign Exchange earnings of Rs. 3,401.11 lacs (previous year Rs.5,108.59 lacs)
- ii) Foreign Exchange outgo of Rs. 2,662.12 lacs (previous year Rs.5,365.41 lacs)

AUDITORS :

The term of office of M/s. Deloitte Haskins & Sells, Chartered Accountants, as Auditors of the company expires at the conclusion of the Annual General Meeting and they are eligible for re-appointment.

SOCIAL RESPONSIBILITIES - SUBEX CHARITABLE TRUST

The trust was set up with a corpus of Rs. 5.00 lacs to provide for welfare activities for underprivileged and the needy in the society. The trust is managed by Trustees elected from amongst the Subexians. The following are the trust activities during the year;

- a. Rs. 0.29 lacs towards medical expenses.
- b. Rs. 0.18 lacs towards school fees of needy children.
- c. Rs. 1.00 lacs donation to Handicapped & Blind children's trust.
- d. Rs. 0.20 lacs donation to Health workers of Tribal Health Initiative

DIRECTORS' RESPONSIBILITY STATEMENT :

In accordance with the provision of Section 217(2AA) of the Companies Act 1956, the Board of Directors affirms;

- a) That in the preparation of the accounts for the year ending 31st March 2003, the applicable accounting standards have been followed and there are no material departures there from.
- b) That the accounting policies have been selected and applied consistently (except with respect to change in provision for depreciation) and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at March 31, 2003 and of the profit of the Company for the year ended on that date.
- c) That proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provision of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- d) That the account for the year ended March 31, 2003 has been prepared on a going concern basis.

ACKNOWLEDGEMENT :

Your Directors wish to express their gratitude and thanks to the Customers, Suppliers, Investors and Bankers for their continued support for the Company's growth. Your Directors place on record the appreciation of the contribution made by Subexians at all levels, enabling the Company to achieve an excellent growth. Your Company also thanks the Government of India, Department of Telecom, Central Excise and Customs Department, Software Technology Parks of India, Bangalore, Ministry of Commerce, Foreign Investment Promotion Board, Reserve Bank of India, State Government and other Governmental Agencies for their support during the year and look forward for their continued support.

For and On Behalf of the Board

Place : Bangalore
Date : June 9, 2003

Subash Menon
Chairman & Managing Director

ANNEXURE TO THE DIRECTORS' REPORT :

Information as per Section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended March 31, 2003.

Name	Designation	Qualification	Age	Experience (No. of Years)	Date of Commencement of Employment	Remuneration received Rs.	Previous Employment
P. Vinod Kumar	Director – Sales	B.Tech	33	11	October 15, 1997	4,190,332	Marketing Executive Crompton Greaves Ltd
Bruce Jones*	VP Sales & Marketing	Degree	54	15	June 1, 2001	1,550,790	C.E.O, Magardi, Inc
Martin Gomez*	Area Sales Manager	Degree	35	3	June 1, 2001	464,062	Sales Manager, Magardi, Inc.
Lorne Oickle	Manager – Software Support	Diploma in Electronics Engineering Technology	29	11	October 18, 2001	2,465,919	Manager-Software Support, Nortel
Paul Valois	Application Specialist	Business Administration Degree, IT Diploma	41	5	June 1, 2001	2,518,087	Analyst, Trainer and Support Specialist, Magardi, Inc.

* Employed for part of the year.

Report on Corporate Governance

I. COMPANY'S PHILOSOPHY ON CODE OF CORPORATE GOVERNANCE

Subex Systems Limited is committed to good Corporate Governance. Consistent with this commitment, Subex seeks to achieve a high level of responsibility and accountability in the internal systems and policies. Subex respects the inalienable rights of the shareholders to information on the performance of the Company. The Company's Corporate Governance policies ensure, among others, the accountability of the Board of Directors and the importance of its decisions to all its participants viz., customers, employees, investors, regulatory bodies etc. Subex's Code of Corporate Governance has been drafted in compliance with the code of "Corporate Governance" as promulgated by the Securities and Exchange Board of India (SEBI) on 25th January 2000.

II. BOARD OF DIRECTORS

The Board of Directors of Subex is comprised of 7 Directors. Details of Composition of Board of Directors and their attendance and other particulars are given below:

A. Composition and category of Directors as on March 31, 2003

Category	No. of directors	%
Promoter Directors	2	29%
Non Executive Independent Directors	4	57%
Other Executive Directors	1	14%
Total	7	100%

B. Attendance of Directors at the Board meetings and the last AGM and details about Directorships and membership in committees.

Director	No. of Board Meetings held	No. of Board Meetings Attended	Last AGM attendance	No. of Directorships in other companies	No. of Committees in which the Director is Chairman	No. of Committees in which the Director is a member
Mr. Subash Menon	10	9	Yes	-	-	1
Mr. Alex J. Puthenchira	10	10	No	-	-	1
Mr. K. Bala Chandran	10	5	No	1	1	4
Mr. V. Balaji Bhat	10	9	Yes	2	2	1
Mr. Vinod R. Sethi	10	4	Yes	6	-	1
Mr. Sudeesh Yezhuvath	10	5	No	-	-	-
Mr. S N Rajesh *	10	1	No	-	-	-

* Inducted at the Board of Directors meeting held on March 31, 2003

Excluding Private Limited Companies & Overseas companies.

C. Number and dates of Board Meetings

10 (ten) Board meetings were held during the year. The dates on which the meetings were held are as follows:

27-04-2002	22-05-2002	27-06-2002	29-07-2002	17-09-2002
28-10-2002	20-01-2003	07-02-2003	05-03-2003	31-03-2003

D. Brief details of directors seeking re-appointment:

1. **Mr. Vinod R Sethi** is a graduate in Chemical Engineering and also holds a degree in B.Tech from IIT, Mumbai and an MBA in Finance from Stern School of Business, NY University. His earlier assignments include a stint with Morgan Stanley as Chief Investment Officer and Portfolio Manager of Morgan Stanley Asset Management managing over US\$2.4 Billion of investments in India..

He is also a Director on the Board of following companies:

Chandamama India Limited, Axsys Health Tech Limited, Green Power Management Services Limited, Vasishta Ventures, Inc., Shanta Biotechnics Limited, Shanta West Limited, IndusAge Advisors Private Limited, Asia Bio-Energy Limited

2. **Mr. Sudeesh Yezhuvath**, B. Tech, Chief Operating Officer. Mr. Sudeesh has been with Subex since 1993 and has considerable experience in the telecom industry. Mr. Sudeesh, who joined Subex as Manager Sales & Marketing, was promoted to his current position in 2001.
3. **Mr. S.N.Rajesh** is a Bachelor of Technology (Honours) degree from Indian Institute of Technology (IIT) Kharagpur and is an M.B.A from XLRI Jamshedpur. Mr S N Rajesh is currently a Vice President at UTI Venture Funds. Mr.Rajesh has been with UTI Venture Funds since its inception and has played an active part in identification and evaluation of Investment opportunities, due diligence and transaction structuring for Investments committed by UTI Venture Funds. Mr.Rajesh represents UTI Venture Funds on the Boards of Portfolio Companies.

III. AUDIT COMMITTEE

A. Terms of Reference

The Audit Committee has, inter alia, the following mandate:

- Oversight of Company's financial reporting process and disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible
- Recommendation of appointment and removal of external auditor, fixation of audit fee and also approval for payment for any other services
- Review of annual financial statements before submission to the Board
- Review of adequacy of internal control systems
- Review of adequacy of internal audit function, including the reporting structure coverage and frequency of internal audit
- Review of Company's financial and risk management policies

The current charter of the Audit Committee is in line with international best practices and the regulatory changes formulated by SEBI and the listing agreements with the Stock Exchanges in which Subex is listed.

B. Composition of Audit Committee.

Composition

Mr. Balaji Bhat	Chairman
Mr. K.Bala Chandran	Non-Executive Director
Mr. Vinod R Sethi	Non-Executive Director
Mr. Subash Menon	Managing Director

The Company Secretary is the secretary of the Audit Committee.

C. Meetings and attendance during the year.

During the financial year 2002-03, the Audit Committee meetings were held three times, i.e., on April 27, 2002, September 17, 2002 and October 28, 2002 and the un-audited Accounts for the year ending March 31, 2002, Audited results for the year ending March 31, 2002 and half-yearly unaudited accounts for the period ending September 30, 2002 were adopted at these meetings respectively.

Attendance of committee members at the Audit Committee meetings held during the year:

Member	No. of Audit Committee Meetings held	No. of Audit Committee Meetings Attended
Mr. V. Balaji Bhat	3	3
Mr. K. Bala Chandran	3	2
Mr. Subash Menon	3	3
Mr. Vinod R. Sethi	3	1

IV. REMUNERATION COMMITTEE

Composition of Remuneration Committee

Mr. S.N.Rajesh- Chairman
Mr. Vinod R Sethi
Mr. K.Bala Chandran

The committee held their first meeting on 9th June 2003

A. Details of Remuneration to Directors.

Name	Designation	Remuneration Rs.
Mr. Subash Menon	Chairman & Managing Director	14,37,790
Mr. Alex P. J.	Executive Director	13,26,895
Mr. Sudeesh Yezhuvath	Wholetime Director	18,38,185

In the case of Mr. Subash Menon and Mr. Alex P. J., there is no Performance incentive, commission or notice period / severance fee other than gratuity benefit. No stock options have been granted to the Directors except to Mr. Sudeesh Yezhuvath.

During the year, the three Non executive Directors, Mr. Balaji Bhat, Mr. Vinod Sethi and Mr. K. Bala Chandran were granted 7500 stock options each at an exercise price of Rs.60/- per option. The options are granted under the Employee Stock Option Plan II.

V. SHARE TRANSFER COMMITTEE

The Company holds Share Transfer Committee Meetings two / three times a month as may be required, for approving the transfers/transmissions of equity shares. The Company has appointed M/s. Canbank Computer Services Limited, a SEBI recognised transfer agent, as its Share Transfer Agent with effect from 6th November 2001. The Share Transfer Committee has met 24 (Twenty Four) times during the financial year 2002-03 on these days:

15-04-2002	30-04-2002	15-05-2002	31-05-2002	15-06-2002	01-07-2002
15-07-2002	31-07-2002	16-08-2002	31-08-2002	16-09-2002	30-09-2002
15-10-2002	31-10-2002	16-11-2002	30-11-2002	15-12-2002	31-12-2002
15-01-2003	31-01-2003	15-02-2003	28-02-2003	15-03-2003	31-03-2003

The Company ensures that the share transfers are effected within one month of their lodgement.

VI. INVESTOR GRIEVANCE COMMITTEE

A. This Committee looks into redressal of shareholder and investor complaints.

The members of the Company's Investor Grievance Committee are:

Mr. K. Bala Chandran, Chairman

Mr. Alex J. Puthenchira

B. Investors Complaints

The details are provided in the "Shareholders Information" section of this report.

VII. COMPENSATION COMMITTEE

The Company has instituted Employees Stock Options Scheme in line with the SEBI Guidelines. In order to grant options under the scheme to eligible employees, Compensation Committee has been formed.

A. Members of the Committee.

The committee comprises of following members:

Mr. V. Balaji Bhat, Chairman

Mr. K. Bala Chandran

Mr. Subash Menon

B. Meetings and attendance during the year.

The committee has met 5 times during the current financial year on these dates:

01-04-2002 01-07-2002 01-10-2002 02-12-2002 01-01-2003

Mr. V. Balaji Bhat has chaired the Meetings on all these days.

VIII. GENERAL BODY MEETINGS

A. Location and time of the last three AGMs.

Year	Date of AGM	Venue	Time
1999-2000	June 19, 2000	Le Meridian – Bangalore	3.00 p.m.
2000-2001	June 13, 2001	Le Meridian – Bangalore	3.00 p.m.
2001-2002	November 15, 2002	Le Meridian – Bangalore	3.00 p.m.

B. Postal Ballot

No special resolutions were put through the postal ballot last year.

IX. DISCLOSURES

A. There are no materially significant related party transactions of the company of material nature, with the promoters, the directors or the management, their subsidiaries or relatives etc that may have potential conflict with the interests of the company at large.

B. The Company has not been subjected to any penalties, strictures by stock exchange(s)/SEBI or any statutory authorities on any matter related to capital markets, during the last three years. The Company has been complying with the listing conditions.

X. MEANS OF COMMUNICATION

A. Quarterly results

The quarterly audited results are generally published in all editions of The Financial Express and Udayavani. The entire quarterly financial statements as well as the annual financial statements are posted on the Company's website <http://www.subexgroup.com>. Subex also regularly provides information to the Stock Exchanges as per the requirements of the Listing Agreements and updates the website periodically to include information on new developments and business opportunities.

B. Management discussion and analysis section is part of the annual report.

XI. General shareholder information is provided in the "Shareholders Information Section" of the Annual Report.

XII. Auditors' Certificate in respect of Compliance of conditions of Corporate Governance as per Clause 49 of the Listing agreement with Stock Exchanges is enclosed in this Annual Report.

For Subex Systems Limited

Place : Bangalore

Dated : 9th June 2003

Subash Menon

Chairman & Managing Director

Auditors' Certificate

To the Members of Subex Systems Limited

1. We have examined the compliance of conditions of corporate governance by **Subex Systems Limited**, for the year ended March 31, 2003, as stipulated in Clause 49 of the Listing Agreement of the said Company with the Stock Exchanges.
2. The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination has been limited to procedures and implementation thereof, adopted by the Company for ensuring compliance with the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.
3. In our opinion and to the best of our information and according to the explanations given to us, and the representations made by the Directors and the management, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the above mentioned Listing Agreement.
4. As required by the Guidance Note issued by the Institute of Chartered Accountants of India, we have to state that based on the report given by the Registrars of the Company to the Investors' Grievances Committee, as on March 31, 2003, there were no investor grievance matters against the Company remaining unattended/pending for more than 30 days.
5. We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For Deloitte Haskins & Sells
Chartered Accountants

Place : Bangalore
Date : June 9, 2003

V. Srikumar
Partner
M.No.84494

Additional Information to Shareholders

The management of Subex is committed to improving the levels of transparency and disclosure. Pursuant to this philosophy, an attempt has been made to disclose hereunder, information about Subex, its Business, Operations, Outlook and Risks.

1. Company

- 1.1. Subex Systems Limited (Subex) was incorporated in 1994 as a Private Limited Company under the Companies Act, 1956 at Bangalore, Karnataka. Subex was converted into a Public Limited Company in 1996. Subex made an Initial Public Offer during July 1999 and the equity shares are listed on Bangalore, Hyderabad and Mumbai Stock Exchanges.
- 1.2. Subex's applications for registration of the trade mark "SUBEX" and "Ranger" with the authorities in India have been accepted and is under process. Applications for trade mark registrations for "Ranger", "INcharge" and "RevMax" in the US have also been accepted by the authorities and are in various stages of completion.
- 1.3. Subex is uniquely positioned as a software products company from India unlike most other software companies which operate in the services sector. Subex conceptualizes and develops software products at its facilities in Bangalore and is focused on the telecom business segment. Subex has sales and support offices in Canada, Cyprus and United States. Subex's vision is to be a global leader in its' chosen area of operation – namely revenue maximization for telcos. Towards this, the business strategy is focused on :
 - 1.3.1. Promotion of a master brand RevMax™ which forms the platform for all the products. RevMax™ is squarely positioned in the revenue maximization space.
 - 1.3.2. Conceptualizing, designing and developing products for telecom applications in the revenue maximization segment with a special emphasis on fraud management, revenue assurance, cost management etc. for both circuit switched and packet switched networks.
 - 1.3.3. Creating value through ownership of intellectual property with respect to software products.
 - 1.3.4. Achieving inorganic growth through the acquisition of businesses that are strategic and complementary to the existing lines of activities.

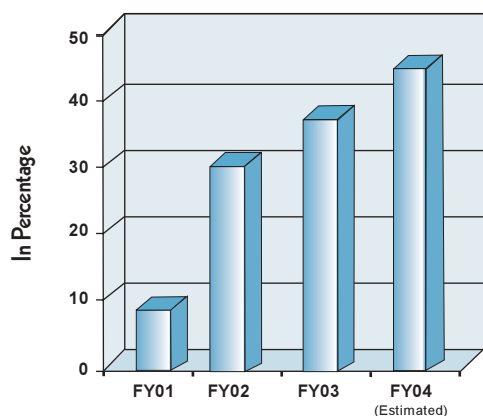
2. Business and Operations

2.1. Business Segments

- 2.1.1. Subex operates in two major business segments.

- 2.1.1.1. **Telecom Software Products** – Subex's defined space of operation for products is Revenue Maximization for telcos. The objective is to develop and market products that belong to this category. Towards this end, Subex has developed and is marketing Ranger™, a Fraud Management System and INcharge™, a Revenue Assurance Solution. Further, Subex is in the process of developing more products for the same market segment. These products form a suite in the Revenue Maximization space, called RevMax™. The customers for these products are voice, data, internet and such other communications service providers.
- 2.1.1.2. **Telecom Software Consulting** - Subex serves telcos and vendors (in the telecom space) for their software development requirements in the Operations Support Systems (OSS) space. The focus is on application development for billing, customer care, inventory management, performance monitoring etc. AT&T continues to be the largest customer for this business unit.

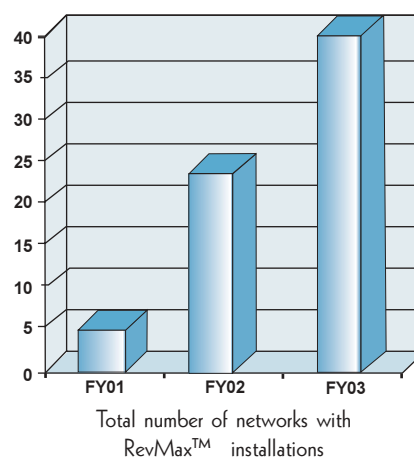
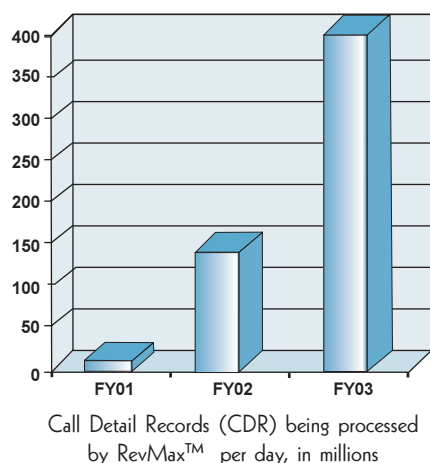
Business Mix – Subex aims to be the leader in revenue maximization solutions for telcos globally and has taken several strategic initiatives to fulfill its' ambition. Over the years, the business mix has tilted in favour of software products as against software consulting. Over the past 3 years, software products have increased their contribution in the overall revenue from a low figure of 7% in FY01 to 36% in FY03. This is expected to move upto 44% in FY04 and increase further in the years ahead.



Share of Product Revenue in Total Revenue

2.2. Sales & Marketing, Customers & Growth :

- 2.2.1. Subex has been building its' brand systematically over the past few years. Today, its' brands, Subex, RevMax™ and Ranger™ are very well positioned among the carriers. Ranger™ has achieved excellent brand recall and has been installed in over 40 networks by March 2003. Further, Ranger™ is acknowledged as one of the top five fraud management systems globally.
- 2.2.2. Trade shows - Subex participates in a variety of tradeshow around the world and Subexians present papers at several of these. Subex's focus is on industry and sector specific tradeshow.
- 2.2.3. Partnerships - Subex has both sales and technology partners. These include Tekelec, HP, IBM, Microsoft, Intel, Sun Microsystems etc.
- 2.2.4. Direct Marketing - Subex regularly produces white papers and technology documents that are distributed worldwide to the industry professionals. This effort helps position Subex as an organization in the forefront of technology. Further, it leads to a consulting relationship with customers who look up towards Subex for guidance and recommendations on benchmarking, good practices etc.
- 2.2.5. Memberships – In order to stay on the leading edge of technology, Subex actively participates in the deliberations of industry bodies. Such association also provides an opportunity for Subex to play a key role in formulating specifications and guidelines for the industry. Subex is a member of the GSM Association, FIINA, CFCA, TUFF and NASSCOM.
- 2.2.6. Subex has been constantly expanding its' customer base while growing deeper into each relationship. An increasing number of installations have been achieved during FY03. This is expected to result in an increased annuity base for the years to come. Key statistics about customer acquisition and the growth of the same are given below graphically.



2.3. Quality

- 2.3.1. Subex is dedicated to maintain the highest levels of quality standards throughout its operations. Towards this, Subex has been accredited ISO 9001 certification.

2.4. Employees

- 2.4.1. Subex had 184 employees and 20 consultants as at March 31, 2003 located at its offices at India, Canada, USA and Cyprus. Subex provides excellent opportunities for professionals to be involved in leading edge technologies with a view to solve complex technical problems. This has resulted in an ability to attract and retain highly qualified professionals. Subex has Employee Stock Option Plans to reward performance. On the whole, Subex has been able to achieve a high level of retention. Subex empowers its personnel extensively and provides continuous training and upgradation of skills. During the financial year 2003, Subex launched a performance programme, called **Technical Team Rewards and Improvement Programme (TTRIP)**, to create avenues for high performers. TTRIP is an initiative for performance enhancement.

2.5. Properties

- 2.5.1. Subex operates from about 27,000 Sq. Ft. of leased premises at various locations in India and US. Subex is in the process of identifying and moving to new leased premises in Bangalore.

3. Outlook – Issues & Risks

3.1. Technology & Trends

- 3.1.1. Given the high rate of obsolescence and rapid technological changes in the domain that Subex operates in, it is essential to be pro-active to stay ahead of the technological curve. Subex has set up processes and methodologies to address this threat

and to turn it into a strategic advantage by being in the forefront of technological evolution. Regular skill upgradation programs and training sessions that include attending global conferences, employing specialized consultants etc. are undertaken.

3.1.2. The severe downturn that has resulted in considerable financial difficulties for the carriers has spurred an unprecedented interest in tools and technologies to squeeze out as much profits as possible from the existing investments in the network and other infrastructure. This keen interest is the catalyst behind the growth witnessed by the revenue maximization space. We expect this trend to continue in the years ahead.

3.1.3. Retention of software personnel is another major risk being faced by Subex. Towards this, it provides an empowered atmosphere with extensive mentoring, career counseling and constant learning opportunities in cutting edge and challenging technologies.

3.2. Market

3.2.1. The telecom industry continues to be in a downturn. However, the focus of Subex is in the high margin business of telecom software applications that assist carriers to improve their profitability. This focus is expected to overcome the impact of the downturn.

3.2.2. Certain markets in which Subex sells its products are subject to foreign exchange repatriation and economic risks, which may result in either delayed recoverability or even non-realizability of revenue. Subex conducts adequate due diligence while venturing into such markets.

3.2.3. On the consulting front, Subex has a high client concentration in AT&T. However, this risk has been mitigated by expanding the base to many disparate business units of AT&T and through continuous expansion of the client base outside this entity.

3.3. Statutory Obligations

3.3.1. Subex has registered with Software Technology Parks of India for software development activities and has availed Customs Duties, Sales Tax and Central Excise exemptions. The non-fulfillment of export obligations may result in penalties as stipulated by the Government and this may have an impact on future profitability.

3.3.2. Subex has completed an acquisition in the US after obtaining necessary approvals. Since this involved substantial foreign exchange outlay, there are export obligations and repatriation conditions imposed by the authorities in India. The non-fulfillment of these stipulations may have an impact on the future profitability and growth.

3.4. Environmental Matter

3.4.1. Software development, being a pollution-free industry, is not subject to any environmental regulations.

3.5. Legal Proceedings

3.5.1. There are no material legal proceedings pending against Subex .

3.6. Foreign Exchange

3.6.1. Subex has substantial exposure to foreign exchange related risks on account of import of hardware & related software for integration and revenue earnings & expenses relating to export of software. The Indian Rupee has depreciated against the US dollar during the year and it is difficult to predict the future exchange rates. Subex intends to improve Foreign Exchange management with the help of outside professionals.

3.7. Taxation

3.7.1. Significant tax benefits have been given to the software companies in India. These benefits are presently available to Subex. However, with frequent changes in the Government, the policies are also subject to change. Any changes may adversely affect its' post tax profits.

3.7.2. India, having been among the signatories to the World Trade Organization, there exists a commitment to reducing the import tariff levels, thereby exposing the Indian entrepreneurs to global competition.

3.8. Litigation

3.8.1. There is an increasing trend in litigation regarding intellectual property rights, patents and copyrights in the software industry. There also exists other corporate legal risks. Subex has no material litigation pending against it in any court in India or abroad.

3.9. Contractual Obligation

3.9.1. In terms of the contract entered into by Subex with its customers in the ordinary course of business, it is obliged to perform

and act according to the contractual terms and regulations. Failure to fulfill the contractual obligations arising out of such contracts may expose Subex to financial and other risks.

3.9.2. The management has taken sufficient measures to cover all of its contractual risks and does not foresee any major liability due to its non - fulfillment of any contractual terms and conditions.

4. **In addition to the afore-mentioned issues and risks, the management believes that the following risks may also impact the operations of Subex adversely :**

4.1. **Risk relating to Acquisition:** A key element of Subex's growth strategy is acquisition of business with activities that are complementary to those offered by it. Acquisition and merger of an enterprise has associated risks in the form of personnel, clients and regulatory issues. The success of the acquisition will depend upon the ability to retain the employees and the clients and further leverage the business of the existing clients of the acquiree Company. Timely handling of regulatory issues is also a key factor to the success of an acquisition. The management believes that it has the capability and expertise to manage this risk.

4.2. **Risk relating to Management of Growth:** Subex has been experiencing significant growth. Coupled with acquisitions, this growth is expected to place a significant demand on the management and resources. Subex has developed and improved upon the operational, financial and internal controls & reporting systems to mitigate this risk.

4.3. **Variability of Quarterly Operating Results:** The quarterly operating results of Subex have varied in the past due to reasons like seasonal pattern of hardware and software capital spending by customers, information technology outsourcing trends, timing, size & stage of projects, hiring of additional staff, changes in billing and employee utilisations and timing and integration of acquired businesses. Hence, the past operating results and period to period comparisons may not indicate future performance. The management is attempting to mitigate this risk through expansion of client base geographically.

5. **Key Financials and Ratio Analysis**

Rs in lacs except the key indicators

Financial Highlights / Year ending 31st March	2003	2002	2001	2000	1999
Total Income	7064.14	5925.09	5,578.84	3,158.58	1,183.32
Export Sales	6760.09	5737.92	4,795.94	1,341.97	156.21
Operating Profits (EBDIT)	1621.90	956.67	1,269.01	654.52	173.22
Depreciation & Amortisation	379.77	356.76	208.00	37.70	11.80
Profit before tax	1017.5	479.15	1,039.44	562.58	115.77
Profit after tax	961.20	418.43	1,027.72	502.58	102.51
Equity Dividend %	10.00%	10.00%	20.00%	40.00%	30.00%
Share Capital					
Equity	734.38	712.57	712.57	356.24	106.41
Preferential	1538.84	-	-	-	-
Reserves & Surplus	4032.57	4580.12	4,218.17	3,690.52	214.53
Net Worth	6288.47	3671.06	4,883.93	3,998.05	320.79
Gross Fixed Assets	1615.56	1638.05	1,098.24	507.43	242.79
Net Fixed Assets	778.40	1095.28	855.03	450.11	209.20
Total Assets	9976.74	8961.64	6,720.57	6,355.11	1,005.16
Key Indicators					
Earning per Share	13.12	5.87	14.42	14.11	9.63
Cash Earning per Share	18.26	10.88	17.34	15.17	10.74
Book value per Share	64.90	51.52	68.54	112.23	30.15
Debt (including Working Capital) Equity Ratio	0.32	0.46	0.01	0.01	0.53
EBDIT / Sales - %	22.96%	16.15%	22.75%	20.72%	14.63%
Net Profit Margin - %	13.61%	7.06%	18.42%	15.91%	8.66%
Return on year end Net Worth %	15.29%	11.40%	21.04%	12.57%	31.96%
Return on year end Capital Employed %	19.59%	17.90%	25.62%	16.22%	31.81%

Auditors' Report

To the Members of Subex Systems Limited

We have audited the attached Balance Sheet of Subex Systems Limited, as at March 31, 2003, and also the Profit and Loss Account and the Cash Flow Statement of the Company for the year ended on that date annexed thereto. These financial statements are the responsibility of the management of the company. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in India. These Standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatements. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statements. We believe that our audit provides a reasonable basis for our opinion.

As required by the Manufacturing and Other Companies (Auditors' Report) Order, 1988, issued by the Company Law Board in terms of Section 227 (4A) of the Companies Act 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order, to the extent applicable to this Company.

Further, to our comments in the Annexure referred to above, we report that:

- (i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.
- (ii) In our opinion proper books of account as required by law have been kept by the Company, so far as appears from our examination of the books and proper returns adequate for the purpose of our audit have been received from the US branch not visited by us.
- (iii) The report on the accounts of the US Branch audited by the Branch Auditors' has been forwarded to us and has been dealt with by us in preparing this report.
- (iv) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are prepared in accordance with the Accounting Standards referred to in Section 211 (3C) of the Companies Act, 1956.
- (v) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account and the audited branch returns.
- (vi) On the basis of written representations received from the Directors of the Company, as at March 31, 2003 and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on March 31, 2003 from being appointed as a Director in terms of Clause (g) of sub-section (1) of Section 274 of the Companies Act 1956.
- (vii) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the notes and accounting policies give the information required by the Companies Act 1956, in the manner so required, give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2003; and
 - (b) in the case of the Profit and Loss Account of the profit for the year ended on that date.
 - (c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For Deloitte Haskins & Sells
Chartered Accountants

Place : Bangalore
Date : June 9, 2003

V. Srikumar
Partner
M.No.84494

AUDITORS' CERTIFICATE TO THE CASH FLOW STATEMENT OF SUBEX SYSTEMS LIMITED

We have examined the Cash Flow Statement of Subex Systems Limited for the year ended March 31, 2003. The statement has been prepared by the Company in accordance with the requirements of Clause 32 of the listing agreement with the Stock Exchanges and is based on and in agreement with the corresponding Profit & Loss Account and the Balance Sheet of the Company covered by our report of even date to the members of the Company.

For Deloitte Haskins & Sells
Chartered Accountants

Place : Bangalore
Date : June 9, 2003

V. Srikumar
Partner
M.No. 84494

Annexure to the Auditors' Report

(Referred to in our Report of even date)

1. The Company has maintained proper records showing full particulars including quantitative details and situation of Fixed Assets. The programme of physical verification of fixed assets by the Management provide for such verification in a phased manner over a period. The verification carried out by the Management, in our opinion, is reasonable having regard to the size of the Company and nature and location of its assets.
2. The Fixed Assets of the Company have not been revalued during the year.
3. The stocks of finished goods, stores and spare parts and raw materials have been physically verified during the year by the management. In our opinion, the frequency of verification is reasonable.
4. The procedures of physical verification of stock followed are reasonable and adequate in relation to the size of the company and the nature of its business.
5. The discrepancies noticed on verification between the physical stocks and the book records have been properly dealt with in the books of accounts.
6. On the basis of our examination of stock and other records, we are of the opinion that the valuation of stocks is fair and proper in accordance with the normally accepted accounting principles and is on the same basis as in the preceding year.
7. The Company has taken inter corporate deposits from companies under the same management within the meaning of Section 370(1B) of the Companies Act, 1956, the terms of which are not prima facie prejudicial to the interests of the Company. The Company has not taken any loans from Companies, Firms or other parties listed in the Register maintained under Section 301 of the Companies Act 1956.
8. The Company has not granted any loans to Companies, Firms or other parties listed in the Register maintained under Section 301 of the Companies Act 1956 and companies under the same management within the meaning of Section 370(1B) of the Companies Act, 1956.
9. Loans and advances in the nature of loans have been given to employees and others who are repaying the principal amount as stipulated and are also regular in payment of interest where applicable.
10. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchase of stores, raw materials including components, plant and machinery, equipment, other assets and for the sale of services. With respect to the sale of software products, the Company is in the process of strengthening it's documentation procedures for the delivery of its products to customers.
11. In our opinion, and according to the information and explanations given to us, the transaction of purchase of goods and materials and services made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956 and aggregating during the year to Rs. 50,000/- or more in respect of each party have generally been made at prices which are reasonable having regard to the prevailing market prices as available with the Company or prices at which transactions for similar goods or services have been made with other parties. In our opinion, and according to the information and explanations given to us, there are no transactions of sale of goods and materials and services made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956.
12. As explained to us, the Company has a regular procedure for determination of unserviceable or damaged stores, raw materials and finished goods. Adequate provision has been made in the accounts for the loss arising on the items so determined.
13. As explained to us, the Company has not accepted any deposits from the public.
14. As explained to us, the Company does not generate any scrap and does not have any by products.
15. In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
16. We are informed that the Central Government has not prescribed the maintenance of cost records under section 209(1)(d) of the Companies Act 1956, for the products of the Company.
17. According to the records of the Company, the Company has been regular in depositing Provident Fund and Employees State Insurance dues with the appropriate authorities during the year.

18. According to the information and explanations given to us, no undisputed amounts payable in respect of Income Tax, Wealth Tax, Sales Tax, Customs Duty and Excise Duty were outstanding as at March 31, 2003, for a period of more than 6 months from the date they became payable.
19. According to the information and explanations given to us, no personal expenses have been charged to revenue other than those payable under contractual obligations or in accordance with generally accepted business practice.
20. In our opinion, the Company is not a sick industrial company within the meaning of Clause (O) of subsection (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act 1985.
21. In respect of services rendered, in our opinion and according to the information and explanations given to us:
- (i) The Company has a reasonable system of allocation of man-hours utilized to the relative jobs, commensurate with the size of the Company and the nature of its business.
 - (ii) There is a reasonable system of authorisation at proper levels, with necessary controls on the allocation of labour to its services and the related system of internal control of the Company is commensurate with the size of the Company and the nature of its activity.

For Deloitte Haskins & Sells
Chartered Accountants

Place :Bangalore
Date : June 9, 2003

V. Srikumar
Partner
M.No.84494

Balance Sheet

As at March 31, 2003

	SCH	As at March 31, 2003		As at March 31, 2002	
		Rs.	Rs.	Rs.	Rs.
SOURCES OF FUNDS :					
SHAREHOLDERS FUNDS :					
Share Capital	A	227,322,260		71,256,800	
Reserve and Surplus	B	403,256,612	630,578,872	458,011,936	529,268,736
LOAN FUNDS					
Secured Loans	C	156,020,508		131,801,044	
Unsecured Loans	D	43,078,500		35,475,000	
Deferred payment consideration towards acquisition of a subsidiary and Intellectual Property Rights		84,220,955	283,319,963	137,356,629	304,632,673
TOTAL			913,898,835		833,901,409
APPLICATION OF FUNDS :					
FIXED ASSETS :					
Gross Block	E	161,556,188		163,773,960	
Less : Depreciation		83,716,023		54,277,502	
Net Block		77,840,165		109,496,458	
Capital work in progress		—		31,304	
			77,840,165		109,527,762
INVESTMENTS :	F		328,686,613		330,184,287
DEFERRED TAX ASSET (NET):			2,050,000		1,550,000
CURRENT ASSETS, LOANS & ADVANCES :					
Inventories	G	198,023		2,830,132	
Sundry Debtors	H	399,679,803		237,004,355	
Cash & Bank balances	I	162,355,299		18,828,451	
Loans & Advances	J	25,132,316		36,212,617	
		587,365,441		294,875,555	
Less: Current liabilities & Provisions	K	83,775,050		64,399,222	
Net Current Assets			503,590,391		230,476,333
MISCELLANEOUS EXPENDITURE :					
(To the extent not written off or adjusted)	L		1,731,666		162,163,027
TOTAL			913,898,835		833,901,409
NOTES ON ACCOUNTS :					
	R				

The Schedules referred to above form an integral part of the Balance Sheet

In terms of our report of even date

For Deloitte Haskins & Sells
Chartered Accountants

Subash Menon
Chairman & Managing Director

Alex J. Puthenchira
Executive Director

V. Srikumar
Partner

V. Balaji Bhat
Director

Vinod R. Sethi
Director

Place : Bangalore
Date : June 9, 2003

Raj Kumar C.
Company Secretary & Legal Counsel

Profit and Loss Account

For the period ended March 31, 2003

	SCH	2002-2003		2001-2002	
		Rs.	Rs.	Rs.	Rs.
INCOME :					
Sales & Services			700,102,094		591,826,924
Other Income	M		6,312,205		681,763
TOTAL			706,414,299		592,508,687
EXPENDITURE :					
Materials Consumed	N		2,645,712		1,337,136
Personnel Costs	O		477,261,726		417,512,724
Other Operating, Selling and Administrative Expenses	P		64,316,473		77,992,144
Financial Costs	Q		22,463,136		12,075,645
Miscellaneous Expenses amortised			1,474,724		1,474,724
Depreciation	E		36,502,496		34,200,824
TOTAL			604,664,267		544,593,197
Profit Before Taxation			101,750,032		47,915,490
Provision for taxation					
- Current		5,814,509		4,350,000	
- Deferred		(500,000)	5,314,509	(1,150,000)	3,200,000
Profit After Taxation			96,435,523		44,715,490
Prior period taxes			315,500		2,872,540
			96,120,023		41,842,950
Add: Balance brought forward from Previous Year			51,917,638		18,700,368
Profit Available for Appropriation			148,037,661		60,543,318
APPROPRIATION :					
Transfer to General Reserve			2,000,000		1,500,000
Proposed dividend					
- Equity Shares		7,343,825		7,125,680	
- Preference Shares		51,646	7,395,471	-	7,125,680
Tax on distributed profits			947,545		-
Surplus carried to Balance Sheet			137,694,645		51,917,638
			148,037,661		60,543,318
Earnings per Share - Basic			13.12		5.87
Earnings per Share - Diluted			12.77		5.68

NOTES ON ACCOUNTS :

R

The Schedules referred to above form an integral part of the Profit & Loss Account

In terms of our report of even date

For Deloitte Haskins & Sells
Chartered Accountants

Subash Menon
Chairman & Managing Director

Alex J. Puthenchira
Executive Director

V. Srikumar
Partner

V. Balaji Bhat
Director

Vinod R. Sethi
Director

Place : Bangalore
Date : June 9, 2003

Raj Kumar C.
Company Secretary & Legal Counsel

Cash Flow Statement

For the period / year ended March 31, 2003

		2002 - 2003 Rs.	2001 - 2002 Rs.
Cash flow from Operating Activities			
Net Profit before Tax and before Extraordinary items		101,750,032	47,915,490
Adjustments for :			
a) Depreciation and amortization		37,977,220	35,675,548
b) Interest / Dividend Income		(301,220)	(514,515)
c) Interest on borrowings		22,463,136	12,075,645
d) Assets written off / Loss on sale		1,100,347	993,074
e) Profit on sale of assets		(510,328)	(122,482)
f) Employee compensation Expenses		(203,172)	1,077,311
g) Provision for doubtful debts		3,472,789	20,572,800
h) Direct Taxes paid		(1,803,585)	(6,069,105)
Operating Profit before Working Capital Changes		<u>163,945,220</u>	<u>111,603,766</u>
Adjustments for :			
a) Trade and other receivables		(166,148,237)	(78,128,161)
b) Loans and Advances		3,967,567	5,982,506
c) Inventories		2,632,109	877,219
d) Trade and other payables		20,814,601	(18,729,509)
Cash generated from operations	A	<u>25,211,259</u>	<u>21,605,821</u>
Cash Flow from Investing activities			
a) Purchase of Fixed Assets		(8,964,721)	(59,836,132)
b) Sale / disposal of Fixed Assets		3,559,804	740,343
c) Sale / Purchase of Investments		250	600
d) Payment towards Acquisition of Subsidiary/ IPR		(53,135,674)	(115,647,954)
e) Exchange fluctuation on investment carrying value		1,497,424	(3,964,040)
Net Cash from Investing Activities	B	<u>(57,042,917)</u>	<u>(178,707,183)</u>
Cash Flow from Financing Activities			
a) Proceeds from issue of Share Capital		172,692,938	-
b) Proceeds from Borrowings		31,822,964	165,608,183
c) Repayments towards borrowings		-	(5,301,673)
d) Dividends paid		(6,995,479)	(15,704,999)
e) Interest paid on Borrowings		(22,463,136)	(12,075,645)
f) Interest received		301,220	514,515
Net Cash from Financing Activities	C	<u>175,358,507</u>	<u>133,040,381</u>

Cash Flow Statement

For the period / year ended March 31, 2003

	2002 - 2003 Rs.	2001 - 2002 Rs.
Net increase in Cash or Cash equivalents [A + B + C]	143,526,848	(24,060,981)
Cash or Cash equivalents at the start of the year	18,828,451	42,889,432
Cash or Cash equivalents at the close of the year	162,355,299	18,828,451

Note : Cash & cash equivalents include balances with Scheduled Banks on Dividend Account & G I C Deposit Account of Rs.1,126,948/-, which are not available for use by the Company.

In terms of our report of even date

For Deloitte Haskins & Sells
Chartered Accountants

Subash Menon
Chairman & Managing Director

Alex J. Puthenchira
Executive Director

V. Srikumar
Partner

V. Balaji Bhat
Director

Vinod R. Sethi
Director

Place : Bangalore
Date : June 9, 2003

Raj Kumar C.
Company Secretary & Legal Counsel

Schedules to Balance Sheet

As at March 31, 2003

SCH	As at March 31, 2003		As at March 31, 2002	
	Rs.	Rs.	Rs.	Rs.
SCHEDULE - A :				
SHARE CAPITAL :				
AUTHORISED :				
1,11,80,000 Equity Shares of Rs. 10/- each		111,800,000		200,000,000
20,00,000 Redeemable Optionally Convertible Cumulative Preference Shares (ROCCPS) of Rs.98/- each		196,000,000		—
TOTAL		307,800,000		200,000,000
ISSUED, SUBSCRIBED AND PAID UP:				
A) EQUITY :				
7,343,825 (PY- 7,125,680) Equity Shares of Rs. 10/- each		73,438,250		71,256,800
Of the above:				
a) 115,000 shares of Rs.10/- each were allotted for consideration otherwise than for cash;				
b) 4,626,940 shares of Rs.10/- each are allotted as Bonus shares by capitalisation of General Reserve;				
c) 12,840 shares of Rs.10/- each are allotted in part settlement of cost of acquisition of subsidiary;				
B) PREFERENCE:				
15,70,245 Redeemable Optionally Convertible Cumulative Preference Shares (ROCCPS) of Rs.98/- each (PY-Nil)		153,884,010		—
TOTAL		227,322,260		71,256,800
SCHEDULE - B :				
RESERVES AND SURPLUS :				
Capital Reserve		13,006,920		13,006,920
General Reserve - Opening Balance	82,802,608		80,902,608	
Add : Additions during the year	2,000,000		1,500,000	
	84,802,608		82,402,608	
Add: Adjustment for Deferred Tax Asset as at 1.04.2001	—	84,802,608	400,000	82,802,608
Share Premium Account - Opening Balance	307,907,000		307,907,000	
Less : Miscellaneous expenses written off as per High Court Order (Refer Note II.4 of Schedule R)	158,956,637		—	
	148,950,363		307,907,000	
Add : Additions during the year (Net of Share issue exps)	16,627,478	165,577,841	—	307,907,000
Employees Stock Options Outstanding	2,959,834		3,877,098	
Deferred Employees Compensation Exps. A/C	785,236	2,174,598	1,499,328	2,377,770
Profit & Loss Account		137,694,645		51,917,638
TOTAL		403,256,612		458,011,936
SCHEDULE - C :				
SECURED LOANS :				
State Bank of India - MTL		1,003,400		29,698,327
State Bank of India - Cash Credit (First charge on all fixed assets of the company, both present and future, book debts, stock, personal guarantee of two Directors and equitable mortgage of industrial land)		9,977,358		
State Bank of India - FCNB Loan (First charge on all fixed assets of the company, both present and future, book debts, stock, personal guarantee of two Directors and equitable mortgage of industrial land) [Amount repayable within one year: Rs.134,893,300 (Previous Year: Rs.101,830,100)]		134,893,300		91,810,100
Hire Purchase (Hypothecation of Motor Cars and Server) [Amount repayable within one year: Rs.4,807,401 (Previous Year: Rs.3,311,062)]		10,146,450		10,292,617
TOTAL		156,020,508		131,801,044
SCHEDULE - D :				
UNSECURED LOANS :				
Inter Corporate Deposits		43,078,500		35,475,000
		43,078,500		35,475,000

SCHEDULE - E :

FIXED ASSETS

Sl. No.	Particulars	GROSS BLOCK			DEPRECIATION				NET BLOCK		
		As at April 1, 2002	Additions during the Year	Deletion during Year	As at March 31, 2003	Upto April 1, 2002	For the Year	On deletion	Upto March 31, 2003	As at March 31, 2003	As at March 31, 2002
1	Freehold Land	5,819,103	—	—	5,819,103	—	—	—	—	5,819,103	5,819,103
2	Plant & Machinery	4,540,760	—	(3,007,561)	1,533,199	3,543,612	320,940	(2,852,793)	1,011,759	521,440	997,148
3	Furniture & Fixtures	15,719,808	252,098	(377,038)	15,594,868	7,728,541	2,740,614	(57,434)	10,411,721	5,183,147	7,991,267
4	Computers	116,381,159	1,819,887	(1,025,699)	117,175,347	34,306,621	29,120,878	(711,375)	62,716,124	54,459,223	82,074,538
5	Office Equipments	6,698,404	232,050	(1,761,975)	5,168,479	2,839,476	1,218,050	(1,125,437)	2,932,089	2,236,390	3,858,928
6	Electrical Installations	2,163,206	—	(133,273)	2,029,933	1,191,830	375,517	(126,797)	1,440,550	589,383	971,376
7	Motor Car	11,677,058	6,574,496	(4,299,361)	13,952,193	4,368,387	2,606,285	(1,879,473)	5,095,199	8,856,994	7,308,671
8	Other Fixed Assets	774,463	86,190	(577,587)	283,066	299,035	120,212	(310,666)	108,581	174,485	475,428
		163,773,961	8,964,721	(11,182,494)	161,556,188	54,277,502	36,502,496	(7,063,975)	83,716,023	77,840,165	109,496,459
	PREVIOUS YEAR	109,764,300	59,864,576	(5,854,915)	163,773,961	24,320,658	34,200,824	(4,243,980)	54,277,502	109,496,459	85,443,641

Computers and Motor Cars include assets acquired under Hire Purchase of Rs. 16,830,714 (Previous year Rs. 15,138,000)

Schedules to Balance Sheet

As at March 31, 2003

SCH	As at March 31, 2003		As at March 31, 2002	
	Rs.	Rs.	Rs.	Rs.
SCHEDULE - F :				
INVESTMENTS :				
(Unquoted at Cost)				
Long Term - Non Trade		2,000		2,250
In Government Securities - I.V.P				
Long Term - Trade		328,684,613		330,182,037
Subex Technologies, Inc (Wholly Owned Subsidiary, incorporated in U.S.A, common stock 3000 shares, fully paid up, of no par value) [Refer note II.3 of Schedule R]				
TOTAL		328,686,613		330,184,287
SCHEDULE - G :				
INVENTORIES :				
(At cost)				
Traded Goods		198,023		2,830,132
TOTAL		198,023		2,830,132
SCHEDULE - H :				
SUNDRY DEBTORS :				
(Unsecured)				
Outstanding for more than six months				
Considered Good	160,196,356		53,973,341	
Considered Doubtful	24,045,589		20,572,800	
	184,241,945		74,546,141	
Less: Provision for Doubtful Debts	24,045,589	160,196,356	20,572,800	53,973,341
Others		239,483,447		183,031,014
TOTAL		399,679,803		237,004,355
SCHEDULE - I :				
CASH & BANK BALANCES :				
Cash on hand		66,867		119,729
Balance with Scheduled Banks				
- in Current Account in Indian Rupees*		156,029,056		2,764,266
- in Deposit Account in Indian Rupees		1,672,856		13,477,151
- in EEFC Account in Foreign Currency		2,310,681		1,334,764
Balance with Non Scheduled Banks				
- Deposit with Royal Bank of Canada		806,000		-
(Maximum outstanding during the year Rs. 806,000)				
- in Current Account with Royal Bank of Canada, Canada		917,637		462,659
(Maximum outstanding during the year Rs. 2,734,455)				
- in CAP Account with First Union Bank, New Jersey		182,830		669,882
(Maximum outstanding during the year Rs. 22,338,251)				
- in Hellenic Bank, Cyprus		143,119		-
(Maximum outstanding during the year Rs. 464,960)				
- in Hellenic Bank - USD Account - Cyprus		226,253		-
(Maximum outstanding during the year Rs. 972,191)				
TOTAL		162,355,299		18,828,451

* Balance in Current Account with Scheduled Bank includes amount of Rs.153,982,010 (PY - Nil) received for allotment of Rs.1000 Equity Shares of Rs.10/- each and 958,000 ROCCPS of Rs.98/- each to Intel and 612,245 ROCCPS of Rs.98/- each to UTI on preferential basis. The entire proceeds from such preferential allotment remain unutilised at March 31, 2003

Schedules to Balance Sheet

As at March 31, 2003

SCH	As at March 31, 2003		As at March 31, 2002	
	Rs.	Rs.	Rs.	Rs.
SCHEDULE - J :				
LOANS & ADVANCES :				
(Unsecured, considered good, subject to confirmation)				
Loans and advances recoverable in cash				
or in kind or for value to be received	4,161,298			3,962,417
Advance Income Tax including TDS	4,795,745			11,908,479
Other Deposits	16,175,273			20,341,721
TOTAL	25,132,316			36,212,617
SCHEDULE - K :				
CURRENT LIABILITIES & PROVISIONS :				
SUNDRY CREDITORS :				
Sundry Creditors	47,069,953		41,481,338	
(other than Small Scale Industrial Undertaking)				
Duties & Taxes	2,288,273		1,826,119	
Subex Technologies, Inc., (Net)	16,900,111		2,136,280	
Unclaimed Dividends (Refer Note II. 13.3 of Schedule R)	293,958	66,552,295	163,757	45,607,494
PROVISIONS :				
Taxation	8,879,739		11,666,048	
Dividends	7,395,471		7,125,680	
Tax on proposed dividends	947,545	17,222,755	-	18,791,728
TOTAL		83,775,050		64,399,222
SCHEDULE - L :				
MISCELLANEOUS EXPENDITURE :				
(To the extent not written off or adjusted)				
Share Issue Expenses		1,731,666		3,206,390
Intellectual Property Rights [Refer Note II. 4 of Schedule R]-		-		158,956,637
TOTAL		1,731,666		162,163,027

Schedules to Profit and Loss Account

For the year ended March 31, 2003

	2002 - 2003		2001 - 2002	
	Rs.	Rs.	Rs.	Rs.
SCHEDULE - M :				
OTHER INCOME :				
Interest Received (Gross - TDS Rs. 33,096/-, Previous Year Rs.59,091/-)		301,220		262,867
Other Income Received		2,066,817		374,130
Creditors no longer required written back		2,216,783		—
Exchange Fluctuation		—		44,766
Rent Received		1,727,385		—
TOTAL		6,312,205		681,763
SCHEDULE - N :				
MATERIALS, FINISHED GOODS CONSUMED :				
Consumption of raw materials and bought out components				
Opening Stock as at 01-04-2002	—		730	
ADD : Purchases	—		—	
LESS : Closing Stock	—	—	730	730
Purchase of Systems & Solutions		13,603		459,917
(Increase)/Decrease in finished goods				
Opening Stock - Finished Goods	2,830,132		3,706,621	
Closing Stock - Finished Goods	198,023	2,632,109	2,830,132	876,489
TOTAL		2,645,712		1,337,136
SCHEDULE - O				
PERSONNEL COSTS :				
Salaries, Wages & Allowances		66,249,949		67,726,392
Contribution to Provident Fund and Other Funds		2,099,497		2,321,376
Other staff related costs		9,068,586		10,734,960
Sub Contract Charges		399,843,694		336,729,996
TOTAL		477,261,726		417,512,724

Schedules to Profit and Loss Account

For the year ended March 31, 2003

	2002 - 2003	2001 - 2002
	Rs.	Rs.
SCHEDULE - P :		
OTHER OPERATING, SELLING AND ADMINISTRATIVE EXPENSES :		
Software Purchases	458,821	4,769,437
Rent	6,779,365	5,361,946
Power, Fuel and Water Charges	1,640,396	1,618,125
Repairs & Maintenance - Others	2,559,207	1,429,191
Insurance	525,964	425,727
Communication Costs	3,978,370	4,444,347
Printing & Stationery	805,033	966,803
Travelling & Conveyance	19,846,188	23,135,051
Directors' Sitting Fees	9,000	5,000
Rates & Taxes Including Filing Fees	321,790	1,167,914
Advertisement & Business Promotion	7,192,773	6,070,062
Consultancy Charges	2,034,212	2,353,824
Bad Debts Written Off	515,613	1,204,966
Warranty Expenses	795,731	-
Provision for Doubtful Debts	3,472,789	20,572,800
Loss on sale of Asset & Assets Written Off	1,069,043	3,574
Exchange Fluctuation Account	8,244,168	-
Miscellaneous Expenses	4,068,009	3,473,877
TOTAL	<u>64,316,473</u>	<u>77,002,644</u>
SCHEDULE - Q :		
FINANCIAL COSTS :		
Interest on Fixed Loans	4,163,810	5,147,413
Other Interest & Bank Charges	18,299,326	6,928,232
TOTAL	<u>22,463,136</u>	<u>12,075,645</u>

SCHEDULE - R

I. SIGNIFICANT ACCOUNTING POLICIES

I.1. Basis for preparation of financial statements

The financial statements have been prepared under the historical cost convention in accordance with the applicable Accounting Principles in India, the Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956, as adopted consistently by the Company. Revenues are recognised and expenses accounted on their accrual, including provisions / adjustments for committed obligations and amounts determined as payable or receivable during the year.

I.2. Use of Estimates

The preparation of the financial statements in conformity with India GAAP requires that management makes estimates and assumption that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities as at the date of the financial statements and the reported amount of revenue and expenses during the reported period. Actual results could differ from those estimates.

I.3. Revenue recognition

Sales are recognised on the dispatch of goods to customers and are recorded net of discounts, rebates for price adjustment, rejections, shortages in transit, taxes and duties but include wherever applicable, export incentives.

Revenue from software development is recognised on the basis of chargeable time or achievement of prescribed milestones as relevant to each contract.

Contracts for sale of software licences include fees for transfer of software licences (which normally coincides with delivery), installation and commissioning. Activities relating to installation and commissioning involve minimal time and cost and are not subject to uncertainties. Revenues from composite contracts wherein fees for software licenses and implementation/commissioning fees are not identifiable separately are recognized on transfer of the software licenses and a provision is made for the estimated costs relating to the installation and commissioning. In the case of contracts, where the fees for software licenses and implementation costs are identified separately, revenues from software licenses are recognized on transfer of software licenses and revenues from implementation are recognized on completion of implementation and commissioning.

Interest on investments and deposits are booked on a time proportion basis taking into account the amounts invested and the rate of interest.

Agency commission is accrued on shipment of consignment by principal.

Maintenance and service income is recognised on accrual basis.

I.4. Fixed Assets

Fixed assets are stated at cost of acquisition inclusive of freight, duties, taxes and interest on borrowed money allocated to and utilised for fixed assets up to the date of capitalisation and other direct expenditure incurred on ongoing projects. Assets acquired on hire purchase are capitalised at gross value and interest thereon is charged to revenue.

I.5. Depreciation

Fixed assets are depreciated using the straight-line method over the useful lives of assets. Depreciation is charged on pro-rata basis for assets purchased/sold during the year.

The rates of depreciation adopted on the assets of the Company is as under ;

Particulars	Depreciation Rates
Plant & Machinery	20.00 %
Computers	25.00 %
Vehicles	20.00 %
Furniture & Fixtures	20.00 %

Individual assets costing less than Rs. 5,000 are depreciated in full, in the year of purchase.

I.6. Inventories

Inventories are valued at lower of cost or net realizable value, after providing for cost of obsolescence and other anticipated losses, wherever considered necessary. Cost includes the aggregate of all expenditure incurred in bringing the inventories to the present condition and situation.

I.7. Employee Stock Option

For the shares granted /allocated under Employee Stock Option Plan - I (ESOP-I), the Securities Exchange Board of India (SEBI) guidelines are not followed, since the scheme was formulated prior to the promulgation of the guidelines.

Employee Stock Option under Employees Stock Option - II are accounted in accordance with the guidelines stipulated by SEBI. The

difference between the market price of the shares underlying the options granted on the date of grant of option and the option price is expensed as "Employees Compensation" over the period of vesting.

I.8. Retirement benefits to employees

The Company's liability towards retirement benefits in the form of provident fund is fully provided and charged to expenditure. The Company has entered into an agreement with LIC of India for managing the gratuity liability through a fund, the premium for which is funded by the Company and charged to expenditure on accrual basis. Leave encashment benefits is accounted for an estimated liability as at the date of the balance sheet.

I.9. Research and Development

Expenses incurred on research and developments are charged to revenue in the same year. Fixed assets purchases for research and development purposes are capitalized and depreciated as per the Company's policy.

I.10. Foreign Currency Transactions and Translation

Transactions denominated in foreign currencies are recorded at the exchange rates prevailing on the date of the transaction. Monetary items denominated in foreign currencies at year end are translated at the exchange rate prevailing on the date of the Balance Sheet. Non-monetary items denominated in foreign currencies are carried at cost. Exchange differences on settlement or restatement are adjusted in the profit & loss account/related asset account.

Assets and Liabilities of the foreign branches are translated into Indian rupees at the rate of exchange prevailing as at the Balance Sheet date. Revenue and Expenses are translated into Indian rupees at yearly average exchange rates prevailing during the year.

I.11. Investments

Long-term Investments are stated at cost. Diminution in the value of investments other than temporary in nature is provided for.

I.12. Income Taxes

Income Tax comprises the current tax provision under the tax payable method and the net change in the Deferred Tax Asset or Liability in the year. Deferred Tax Assets and Liabilities are recognized for the future tax consequences of temporary differences between the carrying values of the Assets and Liabilities and their respective tax bases. Deferred tax assets are recognized subject to management's judgment that realization is virtually certain. Deferred Tax Assets and Liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be received or settled. The effect on Deferred Tax Assets and Liabilities of a change in tax rates is recognized in the income statement in the period of enactment of the change.

I.13. Cash Flow Statement

Cash Flow Statements has been prepared in accordance with the indirect method prescribed in Accounting Standard 3, issued by the Institute of Chartered Accountants of India.

I.14. Share Issue Expenses

Expenses incurred during the Initial Public Offer, follow-on offer and issue of Bonus Shares are amortised over 5 years. Other share issue expenses are charged to the share premium account.

II. NOTES TO ACCOUNTS

II.1. Deferred Income Taxes

a) Provision for income taxes has been made in terms of Accounting Standard 22 "Accounting for Taxes on Income". Deferred tax assets are subject to a valuation allowance that reduces the amount recognized to that which is more likely than not to be realized.

b) Movement in Deferred Tax Asset:	2002-03	2001-02
Net Deferred tax Assets at April 1, 2002	1,550,000	400,000
Add: Tax benefits for the year ended March 31, 2003	500,000	1,150,000
Net Deferred Tax Assets at March 31, 2003	2,050,000	1,550,000

c) The net Deferred Tax Asset as at March 31, 2003 comprises the tax impact arising from the timing differences on account of:

	2002-03	2001-02
Depreciation	(3,124,053)	(4,514,116)
Business loss	8,702,151	8,702,151
Net Deferred asset relating to above	2,050,000	1,550,000

II.2. Contingent Liabilities

Disputed taxes on appeal net of advance tax paid is - Nil (Previous Year Rs. 577,000)

II.3. Acquisition of Wholly owned subsidiary - IVth Generation, Inc.

During 1999-2000, the Company acquired the whole of the outstanding shares of the IVth Generation, Inc. New Jersey, USA, from its three owners. To reflect the true and correct state of affairs, the acquisition was accounted at the full value of Rs.335,795,161 including advisory, syndication fees and other costs although a part of the amount payable is contingent upon the future performance of the acquiree Company. During 2000-2001, the cost of acquisition was reduced in accordance with the final purchase consideration as per the Definitive Purchase Agreement and accordingly the cost was stated at Rs.326,217,997. The amount of investment at March 31, 2003 stands at Rs.328,684,613 after adjusting for the exchange fluctuation on the deferred consideration as at the year end. The amount of Rs.54,962,287 payable over the next one year has been accounted as Deferred Consideration. Exchange Fluctuation arising on the amount payable is added to the liability with the corresponding debit to investments.

The management has received an independent valuation of the subsidiary, which indicates that there is no impairment on the value of the investment.

II.4. Acquisition of Intellectual Property Rights [IPR]

During 2001-2002, the Company acquired the intellectual property comprising software codes and licenses of OUTsmart, a Wireline Fraud Management System and INcharge, an intercarrier billing verification system from PricewaterhouseCoopers, Inc. (being the receivers of the property, assets and undertaking of Magardi, Inc. on behalf of Toronto Dominion Bank, who are the secured lenders of Magardi, Inc.). The total cost of acquisition amounting to Rs.158,956,637 includes the purchase consideration, advisory, syndication fees and other costs. INcharge was only at a conceptual stage during the acquisition and hence it is not possible to attribute any part of the cost of acquisition to this product.

The amount of Rs.29,258,668 outstanding at March 31, 2003 towards consideration payable over the next one year has been accounted as Deferred Consideration.

Consequent to the approval of the shareholders of the Company for write off of the above cost of acquisition of the intangible asset against the balance in the Share Premium account, an application for confirming the write off was preferred to the Honourable High Court of Karnataka under the provisions of Section 78 and 100 of the Companies Act, 1856. The Honourable High Court of Karnataka approved the said write off vide their confirmation order dated January 28, 2003 and the order, which was received by the Company on March 13, 2003, has been filed with the Registrar of Companies on March 21, 2003 for registration, which is awaited. The Company has set off the cost of the IPR against the Share Premium account in these accounts in accordance with the principles laid down in Accounting Standard 1 wherein it is stated that the accounting treatment and presentation in financial statements of transactions and events should be governed by their substance and not merely by the legal form.

II.5. Operating Leases

The Company has various operating leases for office facilities and residential premises for employees which include leases that are renewable on a yearly basis, cancellable at its option and other long term leases. Rental expenses for operating leases included in the Income statement for the year is Rs. 6,779,365.

As of March 31, 2003 future minimum lease payments for non-cancellable operating leases for the next five fiscal years are:

For the year ending	March 31, 2003 Amount in Rs.	March 31, 2002 Amount in Rs.
Within one year from the date of the Balance Sheet	7,120,166	6,102,985
Due in a period between one year and five years	2,067,306	5,969,345
Due after five years	—	—

II.6. Hire Purchase Transactions

The Company has entered into various hire purchase transactions for the acquisition of vehicles and computer systems. As of March 31, 2003, future minimum lease payments on these transactions are:

Amount in Rs.

For the year ending	Minimum Lease Payments		Interest		Present Value	
	2002-03	2001-02	2002-03	2001-02	2002-03	2001-02
Within one year from the date of the Balance Sheet	3,614,736	1,657,955	796,930	699,702	2,817,806	958,253
Due in a period between one year and five years	6,061,244	3,398,060	778,342	511,892	5,282,902	2,886,168
Due after five years	Nil	Nil	Nil	Nil	Nil	Nil

II.7. Employee Stock Option Plan (ESOP)

ESOP – I

The Company had issued 1,20,000 Equity Shares at Rs.10/- each to Subex Foundation, an Employee Welfare Trust, constituted to operate an Employee Stock Option Plan. Consequent to the issue of Bonus Shares during the year, the total shares available with the trust had increased to 2,40,000. The trust has been granted a Loan by the Company to subscribe for the original Shares. As per the Scheme in force, the trust allocates shares to those employees deemed eligible by the Advisory Board constituted for the purpose. The shares are allocated at a price, which is not less than 50% of the fair market price. The original Shares granted are subject to a minimum lock-in period of three years and the Bonus shares are subject to a minimum lock-in of 1 year, where after the shares granted can be sold / en-cashed. As at March 31, 2003, 154,745 shares have been granted under the scheme to 37 employees. The balance of 85,255 shares, are available with the trust for future grants. Since the Scheme was formulated prior to the promulgation of SEBI guidelines on ESOP dated June 19, 1999, the Company has been advised that the said guidelines are not applicable to the present scheme.

ESOP – II

During 1999-2000, the Company established a new Stock Option Scheme under which 5,00,000 options have been allocated for grant to the employees. Each option comprises of one underlying equity share of Rs.10/- each. This scheme has been formulated in accordance with the SEBI guidelines on ESOP & ESPS dated June 19, 1999. As per the scheme, the compensatory committee grants the options to the employees deemed eligible by the Advisory Board constituted for the purpose. The options are granted at a price, which is not less than 85% of the average market price of the underlying shares based on the quotation on the Bombay Stock Exchange for 15 days prior to the date of grant. The shares granted vest over a period of 1 to 5 years can be exercised over a period of 4 years from the date of vesting.

Under this scheme 196,375 options have been granted to 176 employees as at March 31, 2003. Out of the above option 33,389 options have been vested. The difference between the market price of the share underlying the options granted on the date of grant of option and the exercise price of the option are expensed over the vesting period as per the SEBI guidelines. The net impact of the movement in option grants during the year resulted in a credit of Rs. 168,088 (previous year: charge of Rs. 1,077,311) to the Profit & Loss account for the year.

Employees Stock Options details as on the balance sheet date are ;

ESOP – I

	March 31, 2003	March 31, 2002
Options outstanding at the		
Beginning of the year	152,720	176,900
Granted	—	—
Forfeited/Cancelled	4,630	17,525
Exercised	96,693	6,655
Balance at end of the year	51,397	152,720

ESOP - II

	March 31, 2003	March 31, 2002
Options outstanding at the		
Beginning of the year	207,900	205,600
Granted	79,550	97,950
Forfeited/Cancelled	87,700	95,650
Exercised	3,375	—
Balance at end of the year	196,375	207,900

II.8. Related Party Information

A) Related Parties

Wholly Owned Subsidiaries controlled by the Company:

Subex Technologies, Inc., USA

Companies under same management

Subex Cellcomm Limited

Subex Holdings Private Limited

Key Management Personnel

Subash Menon, Chairman & Managing Director

Alex Puthenchira, Executive Director

Sudeesh Yezhuvath, Whole Time Director

B) Details of the transactions with the related parties other than employees who are related to the Directors of the Company is as under:

(Amounts in Rs.)

Nature of Transaction	Subsidiary		Companies under same management		Key Management Personnel		Total	
	2002-03	2001-02	2002-03	2001-02	2002-03	2001-02	2002-03	2001-02
a) Purchase of services	399,843,694	336,729,996	-	-	-	-	399,843,694	336,729,996
b) Inter Corporate Deposits received	-	-	16,523,500	40,475,000	-	-	16,523,500	40,475,000
c) Interest paid on Inter Corporate Deposit	-	-	4,905,222	3,765,980	-	-	4,905,222	3,765,980
d) Repayment of Inter Corporate Deposit / Loan	-	-	8,920,000	-	2,920,000	-	1,1840,000	-
e) Salary & Perquisites	-	-	-	-	4,602,870	4,142,770	4,602,870	4,142,770
f) Amount due from as at March 31, 2003	100,852,378	4,602,311	-	-	-	2,920,000	100,852,378	4,602,311
g) Amount due to as at March 31, 2003	117,752,489	6,738,590	43,078,500	35,475,000	-	-	160,830,989	42,213,590

II.9. Earnings per Share:

	March 31, 2003	March 31, 2002
Profit after tax available to Equity Shareholders: A	96,068,377	41,842,950
Weighted Average number of shares – Basic: B	7,324,235	7,125,680
Weighted Average number of shares – Diluted: C	7,525,779	7,369,208
Earnings per Share – Basic	13.12	5.87
Earnings per Share – Diluted	12.77	5.68

II.10. Managerial Remuneration to Managing Director and Whole-time Directors:

	2002-03 Rs.	2001-02 Rs.
Salary	4,168,890	3,527,208
Perquisites	433,980	615,562
Total	4,602,870	4,142,770

As no commission is payable to the Directors, the computation of net profit in accordance with Section 349 of the Companies Act, 1956 has not been given.

II.11. Auditors' Remuneration

Miscellaneous Expenditure includes Remunerations to Auditors:

	2002-03	2001-02
Audit fees (inclusive of service tax)	483,000	420,000
For tax matters and other consultancy	185,250	—
Reimbursement of expenses	19,873	1,760
	688,123	421,760

II.12. Quantitative Details

None of the traded items are in excess of 10% of revenues and it is not practicable to give quantitative information in the absence of common expressible units.

II.13. Others

1. Fund and Non fund based facilities covering Letter of Credit and Bank Guarantees availed from State Bank of India are secured by the first charge on all the fixed and current assets of the Company. These loans are also secured by equitable mortgage of land belonging to the Company. The loans are further secured by the personal guarantee of the two of the Directors of the Company.
2. Estimated amount of contracts, remaining to be executed on capital account and not provided for (net of advances paid) Rs. 78,800. (Previous year Rs.5,581,000).
3. Amount of Rs.293,958 represents the unclaimed dividend for the period from 1999-2002. No part thereof has remained unpaid or unclaimed for a period of seven years from the date they become due for payment requiring a transfer to the 'Investor Education and Protection Fund'.
4. The shareholders of the Company have approved the allotment of 1,887,000 Redeemable Optionally Convertible Cumulative Preference Shares (ROCCPS) at a face value of Rs. 98 per share in the Extraordinary General Meeting on March 5, 2003. Out of this 1,570,245 ROCCPS were allotted to Intel and UTI on March 31, 2003 and the formalities for balance allotment of 316,755 ROCCPS relating to Toronto Dominion Bank have been completed by the Company in April 2003 after receipt of the subscription amount from them.
5. Amount of Rs. 21,377,000.00 received towards preferential allotment of 213,770 Equity shares of Rs. 10/- per share to TD Bank during the year has been utilized for repayment of liability towards acquisition charges of Magardi, Inc. IPR. No amounts so received remains unutilized as at March 31, 2003.
6. Previous year's figures have been regrouped to conform to the classifications for the year.

II.14. Other Information pursuant to Schedule VI of the Companies Act, 1956.

	Amounts in Rs.	
	2002-03	2001-02
CIF value of imports	143,587,180	8,535,000
Expenditure in Foreign Currency		
Traveling Expenses	4,057,548	5,800,729
Import of goods	305,831	2,143,079
Import of capital goods	1,573,389	72,486,710
Payment to Magardi, Inc., (towards part payment of Intellectual Property Rights (IPR)).	16,473,448	40,641,156
Investment in subsidiary on payment basis	21,992,987	37,553,058
Product Marketing Expense and Other expenditure incurred overseas for Software Development	221,809,253	377,916,692
Earnings in foreign exchange		
Income from software development services and Products on receipt basis	340,110,609	510,859,250
Commission	—	—
Remittance in Foreign Currency on account of dividend		
Amount remitted during the year in Foreign Currency on account of dividends for the year ended March 31, 2003	—	51,360
Non-Resident Shareholders to whom remittance was made for the year ended March 31, 2003	—	3
Shares held by Non-Resident Shareholders on which dividend was due for the year ended March 31, 2003	—	25,680
Loans and Advances include advances due by		
<i>Directors:</i>		
Unsecured	—	2,920,000
Maximum outstanding during the year	2,920,000	2,920,000

Signature to the Schedules A – R

Subash Menon
Chairman & Managing Director

Alex J. Puthenchira
Executive Director

V. Balaji Bhat
Director

Vinod R. Sethi
Director

Place : Bangalore
Date : June 9, 2003

Raj Kumar C
Company Secretary & Legal Counsel

Management Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

The financial statements have been prepared in compliance with the requirements of the Companies Act, 1956, and the Generally Accepted Accounting Principles (GAAP) in India. The management of Subex accepts responsibility for the integrity and objectivity of these financial statements, as well as for various estimates and judgements used therein. In addition to the historical information contained herein, the following discussion includes forward looking statements which involve risks and uncertainties, including, but not limited to, risks inherent in the Company's growth strategy, dependence on certain clients, dependence on availability of qualified technical personnel and other factors discussed in this report.

1. Commentary on the financial statements

1.1. Share Capital

1.1.1. The Company has both Equity Share Capital and Preference Share Capital.

1.1.2. Of the Equity Paid-up Capital, the Company has issued the following shares towards consideration other than cash.

- 1,15,000 shares of Rs. 10/- each, towards the balances in the current account of partners, Mr. Subash Menon and Mr. Alex J. Puthenchira, on the takeover of Subex Systems, a partnership firm, by the Company during 1993-94.
- 46,26,940 Shares of Rs. 10/- each to all eligible shareholders as on March 31, 1999 in the ratio of 1:1 by capitalizing the General Reserves.
- 12,840 shares of Rs. 10/- each to the erstwhile owners of M/s. Subex Technologies, Inc, towards part consideration of the cost of acquisition of that Company at Rs. 1,023/- per share during 1999-2000.

1.1.3. During the year the Company issued 2,13,770 Equity shares of Rs. 10 each at a premium of Rs. 90 each were allotted to Toronto Dominion Bank for cash, 3,375 shares of Rs. 10/- each to various Employees on exercise of Stock Options granted under the Employee Stock Option Plan (ESOP – II), and 1,000 Equity shares of Rs. 10/- each at a premium of Rs. 88 each to Intel Capital Corporation.

1.1.4. 1,570,245 Redeemable Optionally Convertible Cumulative Preference Shares (ROCCPS) of Rs. 98 each for cash at par were allotted on 31st March 2003 to the following investors:

Investor	No. of shares
1. Intel Capital Corporation	958,000
2. Unit Trust of India A/c ITVUS	612,245
Total	1,570,245

1.1.5. 316,775 Redeemable Optionally Convertible Cumulative Preference Shares (ROCCPS) of Rs. 98 each for cash at par were allotted to Toronto Dominion Bank during April 2003

1.1.6. The principal terms of ROCCPS are as under;

- a. Tenor
The ROCCPS will have a maximum tenor of three years from the date of allotment.
- b. Conversion
The ROCCPS may be converted in full or in part by the investor(s) at their sole option at any time prior to the expiry of 18 months from the date of allotment of the ROCCPS.
- c. Redemption
 1. The ROCCPS will be redeemed in three equal installments at the end of 12th, 24th and 36th month from the date of allotment of the ROCCPS.
 2. Further, if the first annual installment is not redeemed at the end of the 12th month at the option of the investor, then such first installments of the ROCCPS of that investor will be redeemed at the end of the 18th month from the date of allotment of the ROCCPS.
- d. Dividend
The ROCCPS will bear a dividend rate of 12.25% PA on the amount outstanding which shall be payable semi-annually on 31st March and 30th September. Dividend would be cumulative if not paid on the specified due dates and

would be paid prior to payment of any dividend in respect of equity shares. The first dividend will be payable on 30th September 2003 and will be for the period commencing from the date of allotment of ROCCPS. Payment of dividend will be subject to the provisions of the Companies Act, 1956.

1.1.7. There are no calls in arrears.

1.2. Reserves and Surplus

1.2.1. Capital Reserve of Rs. 130.07 lacs was created by credit of the notional premium on 12,840 equity shares of Rs. 10/- each valued at a price of Rs. 1,013/- per share and issued to the owners of IVth Generation, Inc, USA as part consideration for the transfer of their shareholding to Subex.

1.2.2. Share Premium Account represents the premium collected on:

- 9,71,000 Equity Shares issued at a premium of Rs. 65/- per share through an Initial Public Offer in 1999-2000.
- 3,30,800 equity shares issued at a premium of Rs. 740/- per share to Mutual Funds and Bodies Corporate on a preferential basis during 1999-2000.
- 213,770 equity shares at a premium of Rs. 90/- per share to Toronto Dominion Bank on Preferential basis during the year.
- 1,000 equity shares at a premium of Rs. 88/- per share issued to Intel Capital Corporation on Preferential basis during the year.
- 3,375 equity shares allotted to the employees under ESOP II Scheme as per the provisions of the Scheme.

1.2.3. A sum of Rs. 158,956,637, being the cost of Intellectual Property Rights acquired from Magardi, Inc, in 2001-02, has been written off against the Share Premium Account, in terms of the approval of the Shareholders in an Extraordinary General Meeting and the subsequent confirmation of the Honourable High Court of Karnataka under Section 78 and 100 of the Companies Act, 1956.

1.2.4. Share issue expenses of Rs. 27.92 lacs incurred during the year has been reduced from the share premium account.

1.2.5. The Company has transferred Rs. 20.00 lacs (Previous years Rs. 15.00 lacs) to General Reserves during the year.

1.2.6. A sum of Rs. Nil has been transferred (Previous year – Rs. 4 lacs) to General Reserves on account of Deferred tax Assets.

1.2.7. In accordance with the guidelines issued by SEBI under the ESOS & ESPS Scheme 1999, the Company has created a Reserve towards the excess of market price of the underlying equity shares as on the date of the grant of the option over the exercise price of the option, to be adjusted over the period of vesting. The amount adjusted and credited to reserves as at 31st March 2003 is Rs. 21.75 lacs (Previous year Rs. 23.78 lacs).

1.3. Secured Loans

1.3.1. The Company has a sanction of fund and non-fund based facilities such as Guarantee and Letter of credit facilities aggregating to Rs. 1,735.00 lacs for its working capital requirements from State Bank of India. The facilities are utilized by the Company on need basis.

1.3.2. The interest rates and bank charges are subject to the credit policy of the Government and the Bank. These facilities are secured by the first charge on all fixed assets of the company, both present and future, book debts, stock and equitable mortgage of industrial land of the Company

1.3.3. Installment of term loan due within one year is – Rs. 100.20 lacs (Previous year - Rs. 100.20 lacs)

1.3.4. The facilities are further secured by the personal guarantee of two of the Directors.

1.4. Unsecured Loans

1.4.1. During the year, the Company has taken unsecured short term loan from Companies under same management - Rs. 380.79 lacs (Previous year – 354.75) from M/s. Subex Holdings Private Limited and Rs. 50.00 lacs (Previous year - Nil) from M/s. Subex Cellcomm Private Limited. The interest paid during the year is Rs. 49.07 lacs (Previous year - 37.66). The said loans are repayable on demand.

1.5. Deferred Payment Consideration

1.5.1. Deferred payment consideration comprises future liability of the Company to the erstwhile owners of Subex Technologies, Inc, formerly IVth Generation, Inc, USA in terms of the agreement entered into for the acquisition of the Company. The liability

is payable over a period of three years and is subject to terms and conditions stipulated in the said agreement and the liability payable in foreign currency does-not carry any interest, but is subject to foreign exchange parity risk.

1.5.2. Deferred Payment consideration also comprises amount payable to PricewaterhouseCoopers, on behalf of Toronto Dominion Bank, towards the cost of acquisition of Intellectual Property Rights of Magardi, Inc., The liability is subject to Foreign exchange parity risk and carries interest at LIBOR + 0.50 %.

1.6. Fixed Assets

1.6.1. During the year, the Company added Rs. 89.65 lacs to its gross block. The Company disposed off certain assets no longer required. The Company has assets worth Rs. 168.31 lacs (Previous year Rs. 151.38 lacs) under hire purchase agreements and none (Previous year - Nil) under lease finance.

1.6.2. The capital expenditure for 2003-04 is estimated at Rs. 500.00 lacs. The Company estimates that it would have adequate internal accruals and liquid funds to fund the capital expenditure. Company may also take recourse to borrowings to meet its capital acquisition program in case of need.

1.7. Investments

1.7.1. The Company holds certain investments in Government Securities like Indira Vikas Patra, which are deposited, as per stipulations for registration, with various Government Departments.

1.7.2. During 1999, the Company had acquired the whole of the outstanding common stocks numbering 3,000 of no par value of IVth Generation, Inc, New Jersey, USA,. Consequent to the acquisition, IVth Generation, Inc, a wholly owned subsidiary of the Company, has been renamed as "Subex Technologies, Inc." The investments are carried at cost, including advisory fees, brokerage and syndication fees for facilitating the investment.

1.7.3. The Company has received an independent valuation report of Subex Technologies, Inc., based on which there is no impairment in the value of the Investment.

1.8. Inventories

1.8.1. The Company's stock of inventory consists certain spares and accessories maintained for providing support to the clients of the erstwhile Telecom System Integration activities. All these are valued in accordance with the Accounting Policy consistently adopted by the Company. A periodic review of the slow-moving stock is conducted and appropriate provisions are made for anticipated losses, if any.

1.8.2. The Company does not value the unbilled / value of software products and services as at the year end.

1.9. Sundry Debtors

1.9.1. The major customers of the Company are AT&T, Cora, Cyprus Telecommunications Authority, Hutch, BPL, Sonatel, Econet, software vendors in US and other telecom and cellular operators overseas and in India. The receivables are spread over a large customer base. There is no significant concentration of credit risk on a single customer.

1.9.2. All the debtors are generally considered good and realizable and necessary provision has been made for debts considered to be bad and doubtful. The level of sundry debtors is normal and is in tune with business trends.

1.9.3. Sundry Debtors as a percentage of total revenue is 56.58% as against 39.63% in the previous year.

1.9.4. The age profile is as given below :

Period in days	Rs. in lacs			
	March 31, 2003		March 31, 2002	
	Value	%	Value	%
Less than 30 days	902.93	22.59	640.67	27.53%
30 to 90 days	1122.51	28.09	612.45	26.08%
90 to 180 days	369.40	9.24	549.83	23.41%
More than 180 days	1601.96	40.08	539.73	22.98%
Total	3996.80	100.00	2348.68	100.00%

1.9.5. The management believes that the overall composition and condition of Sundry Debtors is satisfactory.

1.9.6. Based on the current financial condition of certain customers, the company has made a provision for doubtful debts Rs. 34.72 lacs. (Previous year - Rs. 205.73).

1.9.7. Dues from Companies under the same management

- Subex Technologies, Inc towards dues from certain customers serviced by Subex Systems - Rs. Nil (Previous year - Rs. 46.02 lacs).
- Maximum due during the year Rs. Nil (Previous year - Rs. 601.31 lacs)

1.9.8. Bad debts pertaining to Telecom System Integration activity written off during the year Rs. 5.16 lacs. (Previous year Rs. 12.05 lacs)

1.10. Cash and Bank Balances

1.10.1. The bank balances in India includes both rupee accounts and foreign currency accounts. Fixed deposits of Rs. 24.79 lacs (Previous year – Rs. 14.40 lacs) are given as security towards the issue of bank guarantee and Letters of Credit.

1.10.2. Cash and Bank balances constitute 17.77% of the total assets as against 2.25% in the previous year.

1.11. Loans and Advances

1.11.1. Advances recoverable in cash, kind or value to be received, are primarily towards prepayments for value to be received. Advance income tax, net of provision for taxation represents payments made towards tax liability pending assessment and refunds due.

1.11.2. Dues from Companies under the same management. N.A

1.11.3. Deposits represent electricity deposit, telephone deposits and advances of like nature. The Company has taken on lease several buildings for operations and facilities in various cities and also for housing its staff upon payment of Rs. 23.19 lacs (Previous year Rs. 62.51 Lacs) as rental and maintenance deposits.

1.12. Current Liabilities

1.12.1. Sundry Creditors for capital goods represent amount payable to vendors for supply of capital assets and to financiers for supply of capital assets on hire purchase basis.

1.12.2. Sundry Creditors for goods represent amount payable to vendors for supply of goods.

1.12.3. Sundry Creditors - others include creditors for operational expenses, accrued salaries and benefits and advances received from clients for delivery of future sales.

1.13. Provisions

1.13.1. Provisions for taxation represent dividend and wealth tax liability. The provision would be set off upon payment of tax. The proposed dividend represents the final dividend recommended to the shareholders by the Board, which would be paid after the Annual General Meeting.

1.14. Preliminary Expenses

1.14.1. Expenses incurred in connection with the Public Offer, follow-on offer and Bonus issue of shares by the Company are being written off over a period of 5 years.

2. Financial Instruments

2.1. Letters of Credit

2.1.1. The Company has various letters of credit outstanding, issued to different vendors, amounting to Nil and Nil lacs for the year ended 2003 and 2002 respectively.

2.2. Guarantees

2.2.1. The Company has outstanding guarantees for various purposes amounting to Rs. 19.41 lacs and Rs. 57.61 lacs for the year ended 2003 and 2002 respectively. These guarantees are in the nature of performance guarantees and bid bonds and are subject to the risk of performance by the Company.

3. Profit & Loss Account

3.1. Income

3.1.1. The Company derives its income from providing Software Development Services, Sale of Software Products and from integration and installation of Test and Measurement Solutions and Cellular Coverage Solutions. The segment wise break up of income is given below;

Rs. in lacs

Particulars	2002-2003		2001-2002	
	Value	%	Value	%
Software Services	4455.84	63.08	3930.90	66.345%
Software Products	2545.18	36.03	1944.65	32.82%
Others	63.12	0.89	49.54	0.84%
Total	7064.14	100.00	5925.09	100.00%

3.1.2. Geographically, the Company earns income from export of Software Services to USA and Software Products to all countries. The Software Products revenue grew by 30.88%.

3.2. Non-operating Income

3.2.1. Non-operating income consists of income derived by the Company from exchange fluctuation, dividend income, interest on deposit with Bank, insurance claims received towards damages of goods in transit / storage, Service and Agency Commission.

3.3. Expenditure

3.3.1. The staff cost increased to Rs. 4772.62 lacs from Rs. 4175.13 lacs during the previous year on account of increase in onsite consultancy services in US.

3.3.2. The Company incurred administration and other expenses at 9.10% of its total Income during the year as compared to 13.16% during the previous year. The decrease is on account of provision towards doubtful debts during the current year at 0.50% at the total income as against the 3.47% in the previous year.

3.4. Operating Profits

3.4.1. During the year, the Company earned an Operating Profit (Profit before Interest, Depreciation and Tax) of Rs. 1621.90 lacs being – 22.96% of total income as against Rs. 956.67 lacs at 16.15% during the previous year. The Operating Profit has increased on account of higher product sales.

3.5. Interest & Bank Charges

3.5.1. The Company incurred an expenditure of Rs. 224.63 lacs as against Rs. 120.76 lacs during the previous year. The increase is due to additional working capital facilities availed from bankers by the Company.

3.6. Depreciation

3.6.1. The provision for depreciation for the year increased to Rs. 365.02 lacs as compared to Rs. 342.01 lacs on account of addition of fixed assets during the year.

3.7. Provision for Tax

3.7.1. The Company has provided for its tax liability in India and overseas after considering the exemptions for income from software services and products under the various applicable tax enactments.

3.8. Net Profit

3.8.1. The net profit of the Company amounted to Rs. 961.20 lacs as against Rs. 418.43 lacs during the previous year. The Company earned a net profit margin of 13.61% to total income as against 7.06% during the previous year. The net profit margin increased by 6.55% due to increase in product sales.

3.9. Prior Period Taxes

3.9.1. Prior period taxes of Rs. 3.16 lacs (Previous year Rs. 28.73 lacs) represent income tax paid in respect of earlier years on completion of assessment.

3.10. Earnings Per Share

3.10.1. Earnings per share computed on the basis of number of common stock outstanding, as on the Balance Sheet date was Rs. 13.12 as against Rs. 5.87 per share for the Previous year. The Earnings per share diluted, for the year was Rs. 12.77 as against Rs. 5.68 for the previous year. Shares available (not allocated) with Subex Foundation under ESOP 1999 have been fully considered in the calculation of basic EPS.

3.11. Foreign Exchange Difference

3.11.1. An amount of Rs. 82.44 lacs has been considered as expense during the current year compared to Rs. 0.45 lacs income during the previous year, on account of foreign exchange differences arising due to timing differences between accrual of income / expense and receipt / payment of the same.

3.12. Depreciation on Software and Assets costing less than Rs. 5,000 each

During the year, the Company charged depreciation at one hundred percent in respect of assets costing less than Rs. 5,000 each, amounting to Rs. 0.34 lacs. (Previous year - Rs. 0.43 lacs). Cost of Software charged off to revenue during the year amounted to Rs. 4.59 lacs (Previous year - Rs. 47.69 lacs).

Financial Review - Subex Technologies, Inc.

Statement pursuant to Section 212 of the Companies Act, 1956, relating to Subsidiary Company

1. Name of the Subsidiary : Subex Technologies, Inc.
2. Financial Year ended : March 31, 2003
3. Holding Company's interest : 100% in common stock
4. Shares held by the holding Company in the Subsidiary : 3,000 nos. of common stock fully paid, no par value.
5. The net aggregate of profits or losses for the current financial year of the subsidiary so far as it concerns the members of the holding company dealt with or provided for in the accounts of the holding company
 - a. Dealt with or provided for in the accounts of the holding company : Nil
 - b. Not dealt with or provided for in the accounts of the holding company : US \$ 125,208
6. The net aggregate of profits or losses for previous financial years of the subsidiary so far as it concerns the members of the holding company
 - a. Dealt with or provided for in the accounts of the holding company : Nil
 - b. Not dealt with or provided for in the accounts of the holding company : Profit US \$ 125,208

Place : Bangalore
Date : May 16, 2003

Alex J.Puthenchira
Director

Subash Menon
Director

Directors' Report

For the period ended March 31, 2003

The Directors of Subex Technologies, Inc., present the results of operations for the financial year 2003.

Financial Results:

	2003 (in US \$)	2002 (in US \$)
Total Revenue	8,330,993	7,257,356
Gross Margin	124,718	8,349
Income before Taxes	128,277	6,633
Net Income	125,208	5,650

During the financial year 2002-03 your company's revenue has gone up from US\$ 7,257,356 to US\$ 8,331,483, a growth of 14.80%.

Your Directors are confident of maintaining the growth level in the coming years.

For Subex Technologies, Inc.,

Subash Menon
Director.

Date: May 16, 2003

Report of Certified Public Accountants

We have audited the accompanying balance sheets of Subex Technologies, Inc. as of March 31, 2003 and 2002, and the related statements of income, accumulated deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Subex Technologies, Inc. as of March 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

May 16, 2003
Ridgewood, New Jersey

Flackman, Goodman & Potter, P.A.
Certified Public Accountants

BALANCE SHEET

March 31, 2003 and 2002

ASSETS

	2003 (Audited)	2002 (Audited)
CURRENT ASSETS		
Cash	\$ -	\$ -
Accounts receivable	3,070,120	603,065
Employee advances	5,750	13,793
Due from related entity	-	138,940
Other current assets	80,586	37,686
TOTAL CURRENT ASSETS	3,156,456	793,484
EQUIPMENT		
Equipment	99,213	81,554
Furniture and fixtures	2,554	2,554
Accumulated depreciation	(88,803)	(82,723)
TOTAL EQUIPMENT	12,964	1,385
OTHER ASSETS		
Goodwill	5,129,176	5,129,176
Security deposit	3,038	3,038
TOTAL OTHER ASSETS	5,132,214	5,132,214
TOTAL ASSETS	\$8,301,634	\$5,927,083

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable	\$ 334,501	\$ 162,942
Accrued expenses and payroll	327,014	218,568
Deposits payable	-	94,893
Payroll and sales tax payable	-	81,294
Corporate income tax payable	16,491	-
Due to related entity	2,129,034	-
TOTAL CURRENT LIABILITIES	2,807,040	557,697

SHAREHOLDERS' EQUITY

Capital stock, no par value, 10,000 shares authorized, 3,000 shares issued and outstanding	2,000	2,000
Additional paid in capital	5,614,004	5,614,004
Accumulated deficit	(121,410)	(246,618)
TOTAL SHAREHOLDER'S EQUITY	5,494,594	5,369,386

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

\$8,301,634 **\$5,927,083**

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF INCOME AND ACCUMULATED DEFICIT

For the Years Ended March 31, 2003 and 2002

	2003 (Audited)	2002 (Audited)
REVENUES		
Consulting fees	\$8,330,993	\$7,253,166
Interest income	490	4,190
TOTAL REVENUES	8,331,483	7,257,356
EXPENSES		
Subcontracting expenses	2,659,163	3,529,249
Payroll expense	4,591,605	2,879,586
Recoverable expenses	-	12,941
Payroll tax expense	341,102	231,064
Insurance expense	208,882	154,929
Professional fees	117,977	142,956

Employee reimbursement expense	6,224	42,124
Retirement plan contributions	23,139	36,820
Rent	63,870	65,942
Office expense	17,258	8,117
Telephone	17,879	18,973
Interest expense	-	6,889
Postage and delivery	2,878	2,871
Travel and entertainment	69,499	28,034
Depreciation	6,080	14,013
Recruiting expenses	-	595
Bank and license fees	1,874	1,904
Temporary service	-	1,433
Training	16,989	11,967
Miscellaneous	58,787	60,316

TOTAL EXPENSES **8,203,206** **7,250,723**

INCOME BEFORE INCOME TAXES	128,277	6,633
PROVISION FOR INCOME TAXES	3,069	983
NET INCOME	125,208	5,650
ACCUMULATED DEFICIT - Beginning	(246,618)	(252,268)
ACCUMULATED DEFICIT - Ending	<u>\$(121,410)</u>	<u>\$ (246,618)</u>

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

See Accountant's Compilation Report
For the Years Ended March 31, 2003 and 2002

	2003 (Audited)	2002 (Audited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$125,208	\$ 5,650
Non cash expenses included in net income:		
Depreciation	6,080	14,013
Change in operating assets and liabilities:		
Accounts receivable	(2,467,055)	1,284,243
Other assets	(34,857)	34,970
Accounts payable	171,559	(513,194)
Accrued expenses	108,446	(107,576)
Other current liabilities	(159,696)	87,245
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(2,250,315)	805,351

CASH FLOWS FROM INVESTING ACTIVITIES

Advances (from) to related entity	2,267,974	(138,940)
Purchase of fixed assets	(17,659)	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	2,250,315	(138,940)

CASH FLOWS FROM FINANCING ACTIVITIES

Repayment of bank line of credit	-	(100,000)
Advances (repayments) from Parent	-	(618,448)
NET CASH USED BY FINANCING ACTIVITIES	-	(718,448)
NET DECREASE IN CASH	-	(52,037)
CASH - Beginning of year	-	52,037
CASH - End of year	<u>\$ -</u>	<u>\$ -</u>
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for:		
Interest	<u>\$ -</u>	<u>\$ 6,889</u>
Income taxes	<u>\$ -</u>	<u>\$ 983</u>

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

March 31, 2003 and 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Subex Technologies, Inc. "the Company" is a wholly owned subsidiary of Subex Systems Limited - India "the Parent". The Company is a placement company for computer personnel and maintenance. Customers are located throughout the United States. Credit is granted substantially to all customers.

Cash Equivalents

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable - Recognition of Bad Debts

The Company considers accounts receivable to be fully collectible, accordingly, no allowance for doubtful accounts is provided.

Property and Equipment

Property and equipment is stated at cost, less accumulated depreciation. Depreciation is provided over the estimated useful lives of the assets as follows:

	Method	Estimated Useful Life
Equipment	Declining balance	5 years
Furniture and Equipment	Declining balance	5-7 years

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses for the years ended March 31, 2003 and 2002 was \$575 and \$0, respectively.

Income Taxes

Deferred income taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. Deferred tax assets and liabilities represent future tax consequences of those differences that will either be taxable or deductible when the related assets and liabilities are recovered or settled. At March 31, 2003 and 2002 there were no material temporary differences giving rise to deferred tax assets and liabilities.

Goodwill

Goodwill represents the purchase price and transaction costs associated with business acquisitions in excess of estimated fair value of the net assets of the business.

The FASB issued SFAS No. 142, "Goodwill and Intangible Assets". SFAS No. 142 eliminates the amortization of goodwill, requires annual impairment testing of goodwill and introduces the concept of indefinite life intangible assets.

Management annually reviews the carrying value of goodwill to determine whether an impairment may exist. The Company considers relevant cash flow and profitability information, including estimated future operating results, trends, and other available information, in assessing whether the carrying value of intangible assets can be recovered. If it is determined that the carrying value of goodwill will not be recovered from the undiscounted future cash flows of the acquired business, the carrying value of such intangible assets would be considered impaired and reduced by a charge to operations in the amount of the impairment. An impairment charge is measured if any deficiency in the amount of estimated undiscounted future cash flows of the acquired business is available to recover the carrying value related to the intangible assets. Based on this assessment there was no impairment to goodwill.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at

the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made for the prior years' financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or retained earnings.

2. INCOME TAXES

The provision for income taxes for the years ended March 31, 2003 and 2002 consists of current tax expense.

	2003	2002
Federal	\$ (8,922)	\$ 64
State	11,991	919
	\$ 3,069	\$ 983

3. EMPLOYEE BENEFIT PLAN

The Company maintains a 401 (k) Savings Plan for qualified employees. The terms of the plan define qualified employees as those over 21 years of age, with at least six months of service with the Company. Employee contributions are discretionary to a maximum of 15% of compensation. The Company matches 50% of the employees contributions up to 6% of compensation. 401(k) expenses of the years ended March 31, 2003 and 2002 were \$23,139 and \$36,820, respectively.

4. DEBT

The Company has available a revolving line of credit with a bank. Borrowings under this line of credit bear interest at the bank's prime rate plus 1.0%. The outstanding balances at March 31, 2003 and 2002 was \$0 and \$0, respectively.

5. RELATED PARTY

The Company billed Subex Systems Limited "SSL" (a division of the Parent) on a cost plus basis for manpower requirement through September 30, 2002. As of October 1, 2002 the Company bills the Parent company on a cost plus basis for manpower requirements. Revenue from SSL and the Parent company for the years ended March 31, 2003 and 2002 was \$8,291,630 and \$7,045,664, respectively.

The Company has advanced and received funds from SSL for working capital purposes. At March 31, 2003 the Company owed SSL \$2,129,034 and at March 31, 2002, SSL owed the Company \$138,940.

Accounts receivable at March 31, 2003 and 2002 include \$2,467,054 and \$0 respectively due from the Parent company.

6. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and accounts receivable. The Company controls credit risk through credit approvals, credit limits, and monitoring procedures. The Company generally does not require collateral to support accounts receivable.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. The Company has not experienced any losses in such accounts.

7. COMMITMENTS

The Company leases office space under a four year lease expiring December 31, 2004. Rent expense for the years ended March 31, 2003 and 2002 was \$63,870 and \$65,942, respectively.

Future minimum lease payments are as follows for the years ended March 31:

2004	\$ 58,336
2005	43,752
	<u>\$ 102,088</u>

Consolidated Accounts

Auditors' Report

To the Board of Directors of Subex Systems Limited

1. We have examined the attached Consolidated Balance Sheet of **Subex Systems Limited** and its subsidiary as at March 31, 2003 and also the Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with generally accepted auditing standards in India. These standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and are free from material misstatements. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements. We believe our audit provides a reasonable basis for our opinion.
3. We did not audit the financial statements of the subsidiary, Subex Technologies, Inc. whose audited financial statements reflect gross total assets of Rs.33,407,323 as at March 31, 2003 and total turnover of Rs.399,843,694 for the year then ended and the financial statements of the US Branch of the Company. These financial statements have been audited by another auditor, whose report/returns have been furnished to us, and our opinion, insofar as it relates to the amounts included in respect of the subsidiary, is based solely on the report of the other auditors.
4. We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of Subex Systems Limited and its subsidiary included in the consolidated financial statements.
5. On the basis of the information and explanation given to us and on the consideration of the separate audit reports on individual financial statements of Subex Systems Limited and its aforesaid subsidiary, we are of the opinion that:
 - a) The consolidated Balance Sheet gives a true and fair view of the consolidated state of affairs of Subex Systems Limited and its subsidiary at March 31, 2003; and
 - b) The consolidated Profit and Loss Account gives a true and fair view of the consolidated results of operations of Subex Systems Limited and its subsidiary for the year then ended.
 - c) The consolidated Cash Flow Statement gives a true and fair view of the consolidated cash flows of Subex Systems Limited and its subsidiary for the year then ended.

For Deloitte Haskins & Sells
Chartered Accountants

Place : Bangalore
Place : June 9, 2003

V Srikumar
Partner
M.No.84494

Consolidated Balance Sheet

	SCH	As at March 31, 2003		As at March 31, 2002	
		Rs.	Rs.	Rs.	Rs.
SOURCES OF FUNDS :					
SHAREHOLDERS FUNDS :					
Share Capital	A	227,322,260		71,256,800	
Reserve and Surplus	B	<u>401,750,321</u>	<u>629,072,581</u>	<u>448,449,260</u>	519,706,060
LOAN FUNDS :					
Secured Loans	C	156,020,508		131,801,044	
Unsecured Loans	D	43,078,500		35,475,000	
Deferred payment consideration towards acquisition of a subsidiary and Intellectual Property Rights		<u>84,220,955</u>	<u>283,319,963</u>	<u>137,356,629</u>	<u>304,632,673</u>
TOTAL			<u><u>912,392,544</u></u>		<u><u>824,338,733</u></u>
APPLICATION OF FUNDS :					
FIXED ASSETS :					
Gross Block	E	166,333,099		167,698,439	
Less : Depreciation		<u>87,886,434</u>		<u>58,153,613</u>	
Net Block		<u>78,446,665</u>		<u>109,544,826</u>	
Capital work in progress		-		31,304	
			<u>78,446,665</u>		109,576,130
INVESTMENTS :	F		2,000		2,250
GOODWILL (On consolidation)			<u>308,987,980</u>		<u>308,987,980</u>
DEFERRED TAX ASSET (Net):			<u>2,050,000</u>		<u>1,550,000</u>
CURRENT ASSETS, LOANS & ADVANCES :					
Inventories	G	198,023		2,830,132	
Sundry Debtors	H	428,247,017		266,253,007	
Cash & Bank balances	I	162,355,299		18,828,451	
Loans & Advances	J	<u>29,365,925</u>		<u>39,415,606</u>	
		<u>620,166,264</u>		<u>327,327,196</u>	
Less: Current liabilities & Provisions	K	<u>98,992,031</u>		<u>85,267,850</u>	
NET CURRENT ASSETS			<u>521,174,233</u>		<u>242,059,346</u>
MISCELLANEOUS EXPENDITURE :					
(To the extent not written off or adjusted)	L		<u>1,731,666</u>		<u>162,163,027</u>
TOTAL			<u><u>912,392,544</u></u>		<u><u>824,338,733</u></u>
NOTES ON ACCOUNTS :					
	R				
The Schedules referred to above form an integral part of the Balance Sheet					

In terms of our report of even date

For Deloitte Haskins & Sells
Chartered Accountants

Subash Menon
Chairman & Managing Director

Alex J. Puthenchira
Executive Director

V. Srikumar
Partner

V. Balaji Bhat
Director

Vinod R. Sethi
Director

Place : Bangalore
Date : June 9, 2003

Raj Kumar C.
Company Secretary & Legal Counsel

Consolidated Profit and Loss Account

For the period ended March 31, 2003

	SCH	2002-2003		2001-2002	
		Rs.	Rs.	Rs.	Rs.
INCOME :					
Sales & Services			700,102,094		601,749,669
Other Income	M		8,244,660		882,129
TOTAL			708,346,754		602,631,798
EXPENDITURE :					
Materials Consumed	N		2,645,712		1,337,136
Personnel Costs	O		457,924,118		410,087,211
Other Operating, Selling and Administrative Expenses	P		81,198,206		94,326,643
Financial Costs	Q		22,553,992		12,496,126
Miscellaneous Expenses amortised			1,474,724		1,474,724
Depreciation	E		36,796,796		34,870,925
TOTAL			602,593,548		554,592,765
Profit Before Taxation			105,753,206		48,039,033
Provision for Taxation					
- Current		5,963,325		4,397,007	
- Deferred		(500,000)	5,463,325	(1,150,000)	3,247,007
Profit After Taxation			100,289,881		44,792,026
Prior period taxes			315,500		2,872,540
			99,974,381		41,919,486
Add: Balance brought forward from Previous year			41,592,552		8,298,746
Profit Available for Appropriation			141,566,933		50,218,232
APPROPRIATION :					
Transfer to General Reserve			2,000,000		1,500,000
Proposed dividend					
- Equity Shares		7,343,825		7,125,680	
- Preference Shares		51,646	7,395,471	-	7,125,680
Tax on distributed profits			947,545		-
Surplus carried to Balance Sheet			131,223,917		41,592,552
			141,566,933		50,218,232
Earnings per Share - Basic			13.64		5.88
Earnings per Share - Diluted			13.28		5.69

NOTES ON ACCOUNTS :

R

The Schedules referred to above form an integral part of the Profit & Loss Account

In terms of our report of even date

For Deloitte Haskins & Sells
Chartered Accountants

Subash Menon
Chairman & Managing Director

Alex J. Puthenchira
Executive Director

V. Srikumar
Partner

V. Balaji Bhat
Director

Vinod R. Sethi
Director

Place : Bangalore
Date : June 9, 2003

Raj Kumar C.
Company Secretary & Legal Counsel

Consolidated Cash Flow Statement

For the period ended March 31, 2003

2002-2003

Rs.

		2002-2003
		Rs.
Cash flow from Operating Activities		
Net Profit before Tax and before Extraordinary items		105,753,206
Adjustments for :		
a) Depreciation and amortization		38,271,520
b) Interest / Dividend Income		(324,978)
c) Interest on borrowings		22,553,992
d) Assets written off / Loss on sale		1,069,043
e) Profit on sale of assets		(510,328)
f) Employee compensation Expenses		(203,172)
g) Provision for doubtful debts		(3,472,789)
h) Direct Taxes paid		(1,582,599)
Operating Profit before Working Capital Changes		168,499,473
Adjustments for :		
a) Trade and other receivables		(165,466,799)
b) Loans and Advances		2,789,410
c) Inventories		2,632,109
d) Trade and other payables		14,940,688
Cash generated from operations	A	23,394,881
Cash Flow from Investing activities		
a) Purchase of Fixed Assets		(9,817,153)
b) Sale / disposal of Fixed Assets		3,591,108
c) Sale / Purchase of Investments		250
d) Payment towards Acquisition of Subsidiary/ IPR		(53,135,674)
Net Cash from Investing Activities	B	(59,361,469)
Cash Flow from Financing Activities		
a) Proceeds from issue of Share Capital		172,692,938
b) Proceeds from Borrowings (Net)		31,822,964
c) Dividends paid		(6,995,479)
d) Interest paid on Borrowings		(22,553,992)
e) Interest received		324,978
Net Cash from Financing Activities	C	175,291,409
Exchange Fluctuation reserve on account of consolidation		4,202,027
Net increase in Cash or Cash equivalents (A+B+C)		139,324,821
Cash or Cash equivalents at the start of the year		18,828,451
Cash or Cash equivalents at the close of the year.		162,355,299

Note: Cash & Cash equivalents include balances with Scheduled Banks on Dividend Account & GIC Deposit Account of Rs. 1,126,948/-, which are not available for use by the Company.

In terms of our report of even date

For Deloitte Haskins & Sells

Chartered Accountants

V. Srikumar

Partner

Place : Bangalore

Date : June 9, 2003

Subash Menon

Chairman & Managing Director

V. Balaji Bhat

Director

Raj Kumar C.

Company Secretary & Legal Counsel

Alex J. Puthenchira

Executive Director

Vinod R. Sethi

Director

Schedules to Consolidated Balance Sheet

SCH	As at March 31, 2003		As at March 31, 2002	
	Rs.	Rs.	Rs.	Rs.
SCHEDULE - A :				
SHARE CAPITAL :				
AUTHORISED :				
1,11,80,000 Equity Shares of Rs. 10/- each		111,800,000		200,000,000
20,00,000 Redeemable Optionally Convertible Cumulative Preference Shares (ROCCPS) of Rs.98/- each		196,000,000		
TOTAL		307,800,000		200,000,000
ISSUED, SUBSCRIBED AND PAID UP:				
A) EQUITY :				
7,343,825 (PY- 7,125,680) Equity Shares of Rs. 10/- each		73,438,250		71,256,800
Of the above:				
a) 115,000 shares of Rs.10/- each were allotted for consideration otherwise than for cash;				
b) 4,626,940 shares of Rs.10/- each are allotted as Bonus shares by capitalisation of General Reserve;				
c) 12,840 shares of Rs.10/- each are allotted in part settlement of cost of acquisition of subsidiary.				
B) PREFERENCE:				
15,70,245 Redeemable Optionally Convertible Cumulative Preference Shares (ROCCPS) of Rs.98/- each (PY-Nil)		153,884,010		—
TOTAL		227,322,260		71,256,800
SCHEDULE - B :				
RESERVES AND SURPLUS :				
Capital Reserve		13,006,920		13,006,920
General Reserve - Opening Balance	82,802,608		80,902,608	
Add : Additions during the year	2,000,000		1,500,000	
	84,802,608		82,402,608	
Add: Adjustment for Deferred Tax Asset as at 1.04.2001	—	84,802,608	400,000	82,802,608
Share Premium Account - Opening Balance	307,907,000		307,907,000	
Less : Miscellaneous expenses written off as per High Court Order (Refer Note II.5 of Schedule R)	158,956,637		—	
	148,950,363		307,907,000	
Add: Additions during the year (Net of Share issue exps)	16,627,478	165,577,841	—	307,907,000
Employees Stock Options Outstanding	2,959,834		3,877,098	
Deferred Employees Compensation Exps. A/C	785,236	2,174,598	1,499,328	2,377,770
Exchange reserve on Consolidation		4,964,437		762,410
Profit & Loss Account		133,223,917		41,592,552
TOTAL		401,750,321		448,449,260
SCHEDULE - C :				
SECURED LOANS :				
State Bank of India - MTL		1,003,400		29,698,327
State Bank of India - Cash Credit		9,977,358		—
(First charge on all fixed assets of the company, both present and future, book debts, stock, personal guarantee of two Directors and equitable mortgage of industrial land)				
State Bank of India - FCNB Loan		134,893,300		91,810,100
(First charge on all fixed assets of the company, both present and future, book debts, stock, personal guarantee of two Directors and equitable mortgage of industrial land)				
[Amount repayable within one year: Rs.134,893,300 (Previous Year: Rs.101,830,100)]				
Hire Purchase (Hypothecation of Motor Cars and Server)		10,146,450		10,292,617
[Amount repayable within one year: Rs.4,807,401 (Previous Year: Rs.3,311,062)]				
TOTAL		156,020,508		131,801,044
SCHEDULE - D :				
UNSECURED LOANS :				
Inter Corporate Deposits		43,078,500		35,475,000
		43,078,500		35,475,000

SCHEDULE - E :

FIXED ASSETS

Sl. No.	Particulars	GROSS BLOCK			DEPRECIATION				NET BLOCK		
		As at April 1, 2002	Additions during the Year	Deletion during the Year	As at March 31, 2003	Upto April 1, 2002	For the Year	On deletion	Upto March 31, 2003	As at March 31, 2003	As at March 31, 2002
1	Freehold Land	5,819,103	—	—	5,819,103	—	—	—	—	5,819,103	5,819,103
2	Plant & Machinery	4,540,760	—	(3,007,561)	1,533,199	3,543,612	320,940	(2,852,793)	1,011,759	521,440	997,148
3	Furniture & Fixtures	15,838,978	252,098	(3,77,038)	15,714,038	7,847,711	2,740,614	(57,434)	10,530,891	5,183,147	7,991,267
4	Computers	120,186,468	2,672,319	(1,025,699)	121,833,088	38,063,562	29,415,178	(711,375)	66,767,365	55,065,723	82,122,906
5	Office Equipments	6,698,404	232,050	(1,761,975)	5,168,479	2,839,476	1,218,050	(1,125,437)	2,932,089	2,236,390	3,858,928
6	Electrical Installations	2,163,206	—	(133,273)	2,029,933	1,191,830	375,517	(126,797)	1,440,550	589,383	971,376
7	Motor Cars	11,677,058	6,574,496	(4,299,361)	13,952,193	4,368,387	2,606,285	(1,879,473)	5,095,199	8,856,994	7,308,671
8	Other Fixed Assets	774,463	86,190	(577,587)	283,066	299,035	120,212	(310,666)	108,581	174,485	475,428
		167,698,440	9,817,153	(11,182,494)	166,333,099	58,153,613	36,796,796	(7,063,975)	87,886,434	78,446,665	109,544,827
	Previous Year	109,764,300	59,864,576	(5,854,915)	163,773,961	24,320,658	34,200,824	(4,243,980)	54,277,502	109,496,459	85,443,641

Computers and Motor cars include assets acquired under hire purchase of Rs. 16,830,714 (Previous year Rs. 15,138,000)

Schedules to Consolidated Balance Sheet

SCH	As at March 31, 2003		As at March 31, 2002	
	Rs.	Rs.	Rs.	Rs.
SCHEDULE - F :				
INVESTMENTS :				
(Unquoted at Cost)				
Long Term - Non Trade		2,000		2,250
In Government Securities - I.V.P				
TOTAL		<u>2,000</u>		<u>2,250</u>
SCHEDULE - G :				
INVENTORIES :				
(At cost)				
Traded Goods		198,023		2,830,132
TOTAL		<u>198,023</u>		<u>2,830,132</u>
SCHEDULE - H :				
SUNDRY DEBTORS :				
(Unsecured)				
Outstanding for more than six months				
Considered Good	188,763,570		83,221,993	
Considered Doubtful	24,045,589		20,572,800	
	<u>212,809,159</u>		<u>103,794,793</u>	
Less: Provision for Doubtful Debts	<u>24,045,589</u>	188,763,570	<u>20,572,800</u>	83,221,993
Others		239,483,447		183,031,014
TOTAL		<u>428,247,017</u>		<u>266,253,007</u>
SCHEDULE - I :				
CASH & BANK BALANCES :				
Cash on hand		66,867		119,729
Balance with Scheduled Banks				
- in Current Account in Indian Rupees*		156,029,056		2,764,266
- in Deposit Account in Indian Rupees		1,672,856		13,477,151
- in EEFC Account in foreign Currency		2,310,681		1,334,764
Balance with Non Scheduled Banks				
- Deposit with Royal Bank of Canada (Maximum outstanding during the year Rs. 806,000)		806,000		-
- in Current Account with Royal Bank of Canada, Canada (Maximum outstanding during the year Rs. 2,734,455)		917,637		462,659
- in CAP Account with First Union Bank, New Jersey (Maximum outstanding during the year Rs. 22,338,251)		182,830		669,882
- in Hellinic Bank, Cyprus (Maximum outstanding during the year Rs. 464,960)		143,119		-
- in Hellinic Bank - USD Account - Cyprus (Maximum outstanding during the year Rs. 972,191)		226,253		-
TOTAL		<u>162,355,299</u>		<u>18,828,451</u>

* Balance in Current Account with Scheduled Bank includes amount of Rs.153,982,010 (PY - Nil) received for allotment of Rs.1000 Equity Shares of Rs.10/- each and 958,000 ROCCPS of Rs.98/- each to Intel and 612,245 ROCCPS of Rs.98/- each to UTI on preferential basis. The entire proceeds from such preferential allotment remain unutilised at March 31, 2003

Schedules to Consolidated Balance Sheet

SCH	As at March 31, 2003		As at March 31, 2002	
	Rs.	Rs.	Rs.	Rs.
SCHEDULE - J :				
LOANS & ADVANCES :				
(Unsecured, considered good, subject to confirmation)				
Loans and advances recoverable in cash				
or in kind or for value to be received		8,251,021		6,870,526
Subex Technologies, Inc.,		-		-
Advance Income Tax including TDS		4,795,745		12,056,016
Other Deposits		16,319,159		20,489,064
TOTAL		<u>29,365,925</u>		<u>39,415,606</u>
SCHEDULE - K :				
CURRENT LIABILITIES & PROVISIONS :				
SUNDRY CREDITORS :				
Sundry Creditors	78,405,866		63,927,332	
(other than Small Scale Industrial Undertaking)				
Duties & Taxes	2,288,273		1,826,119	
Unclaimed Dividends (Refer Note II. 1 4. 3 of Schedule R)	<u>293,958</u>	80,988,097	<u>163,757</u>	65,917,208
PROVISIONS :				
Taxation	9,660,918		12,224,962	
Dividends	7,395,471		7,125,680	
Tax on proposed dividends	<u>947,545</u>	18,003,934	-	19,350,642
TOTAL		<u>98,992,031</u>		<u>85,267,850</u>
SCHEDULE - L :				
MISCELLANEOUS EXPENDITURE :				
(To the extent not written off or adjusted)				
Share Issue Expenses		1,731,666		3,206,390
Intellectual Property Rights [Refer Note II. 5 of Schedule R]		-		158,956,637
TOTAL		<u>1,731,666</u>		<u>162,163,027</u>

Schedules to Consolidated Profit and Loss Account

For the year ended March 31, 2003

	2002 - 2003		2001 - 2002	
	Rs.	Rs.	Rs.	Rs.
SCHEDULE - M :				
OTHER INCOME :				
Interest Received (Gross - TDS Rs. 33,096/-, Previous Year Rs.59,091/-)		324,978		463,233
Other income received		3,975,514		374,130
Creditors no longer required written back		2,216,783		—
Exchange Fluctuation		—		44,766
Rent Received		1,727,385		—
TOTAL		8,244,660		882,129
SCHEDULE - N :				
MATERIALS, FINISHED GOODS CONSUMED :				
Consumption of raw materials and bought out components				
Opening Stock as at 01-04-2002	—		730	
ADD : Purchases	—		—	
LESS : Closing Stock	—		730	730
Purchase of Systems & Solutions		13,603		459,917
(Increase)/Decrease in finished goods				
Opening Stock - Finished Goods	2,830,132		3,706,621	
Closing Stock - Finished Goods	198,023	2,632,109	2,830,132	876,489
TOTAL		2,645,712		1,337,136
SCHEDULE - O				
PERSONNEL COSTS :				
Salaries, Wages & Allowances		290,018,883		375,957,604
Contribution to Provident Fund and Other Funds		28,768,227		20,779,562
Other staff related costs		10,194,191		13,350,045
Sub Contract Charges		128,942,817		—
TOTAL		457,924,118		410,087,211

Schedules to Consolidated Profit and Loss Account

For the year ended March 31, 2003

	2002 - 2003	2001 - 2002
	Rs.	Rs.
SCHEDULE - P :		
OTHER OPERATING, SELLING AND ADMINISTRATIVE EXPENSES :		
Software Purchases	458,821	—
Rent	9,876,431	8,515,292
Power, Fuel and Water Charges	1,640,396	1,618,125
Repairs & Maintenance - Others	2,559,207	1,451,523
Insurance	525,964	425,727
Communication Costs	4,984,840	5,488,928
Printing & Stationery	1,641,883	1,356,345
Travelling & Conveyance	23,216,168	24,475,636
Directors sitting fees	9,000	—
Rates & Taxes Including Filing Fees	321,790	1,167,914
Advertisement & Business Promotion	7,192,773	6,070,062
Consultancy Charges	7,754,915	9,171,830
Bad Debts Written Off	515,613	1,204,966
Warranty Expenses	795,731	—
Provision for Doubtful Debts	3,472,789	20,572,800
Loss on sale of Asset & Assets Written Off	1,069,043	993,074
Exchange Fluctuation Account	8,244,168	—
Miscellaneous Expenses	6,918,674	11,814,421
TOTAL	81,198,206	94,326,643
SCHEDULE - Q :		
FINANCIAL COSTS :		
Interest on Fixed Loans	4,163,810	5,147,413
Other Interest & Bank Charges	18,390,182	7,348,713
TOTAL	22,553,992	12,496,126

SCHEDULE – R

I. SIGNIFICANT ACCOUNTING POLICIES

I.1. Basis for preparation of consolidated financial statements

The consolidated financial statements relate to Subex Systems Limited (the Company) and its wholly owned subsidiary.

The consolidated financial statements have been prepared under the historical cost convention in accordance with the applicable Accounting Principles in India, the Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956, as adopted consistently by the Company. Revenues are recognised and expenses accounted on their accrual, including provisions / adjustments for committed obligations and amounts determined as payable or receivable during the year.

I.2. Use of Estimates

The preparation of the financial statements in conformity with India GAAP requires that management makes estimates and assumption that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities as at the date of the financial statements and the reported amount of revenue and expenses during the reported period. Actual results could differ from those estimates.

I.3. Principles of Consolidation

The financial statements of the Company and its wholly owned subsidiary have been combined on a line by line basis by adding together like items of assets, liabilities, income and expense. The intra-group balances and intra-group transactions are eliminated.

The excess of cost to the Company of its investments in the subsidiary over its share of the equity of the subsidiary, at the date on which the investments in the subsidiary company was made, is recognized as 'goodwill' being an asset in the consolidated financial statements.

The financial statements of both companies are prepared according to uniform accounting policies in accordance with the generally accepted accounting principles in India.

I.4. Revenue Recognition

Sales are recognised on the dispatch of goods to customers and are recorded net of discounts, rebates for price adjustment, rejections, shortages in transit, taxes and duties but include wherever applicable, export incentives.

Contracts for sale of software licences include fees for transfer of software licences (which normally coincides with delivery), installation and commissioning. Activities relating to installation and commissioning involve minimal time and cost and are not subject to uncertainties. Revenues from composite contracts wherein fees for software licenses and implementation/commissioning fees are not identifiable separately are recognized on transfer of the software licenses and a provision is made for the estimated costs relating to the installation and commissioning. In the case of contracts, where the fees for software licenses and implementation costs are identified separately, revenues from software licenses are recognized on transfer of software licenses and revenues from implementation are recognized on completion of implementation and commissioning.

Revenue from software development is recognised on the basis of chargeable time or achievement of prescribed milestones as relevant to each contract.

Interest on investments and deposits are booked on a time proportion basis taking into account the amounts invested and the rate of interest.

Agency commission is accrued on shipment of consignment by principal.

Maintenance and service income is recognised on accrual basis.

I.5. Fixed Assets

Fixed assets are stated at cost of acquisition inclusive of freight, duties, taxes and interest on borrowed money allocated to and utilised for fixed assets upto the date of capitalisation and other direct expenditure incurred on ongoing projects. Assets acquired on hire purchase are capitalised at gross value and interest thereon is charged to revenue.

I.6. Depreciation

Fixed assets are depreciated using the straight-line method over the useful lives of assets. Depreciation is charged on pro-rata basis for assets purchased/sold during the year.

The rates of depreciation adopted on the assets of the Company is as under ;

Particulars	Depreciation Rates
Plant & Machinery	20.00 %
Computers	25.00 %
Vehicles	20.00 %
Furniture & Fixtures	20.00 %

Individual assets costing less than Rs. 5,000 are depreciated in full, in the year of purchase.

I.7. Inventories

Inventories are valued at lower of cost or net realizable value, after providing for cost of obsolescence and other anticipated losses, wherever considered necessary. Spares and Consumables are charged off to revenue in the year of purchase. Cost includes the aggregate of all expenditure incurred in bringing the inventories to the present condition and situation.

I.8. Employee Stock Option

For the shares granted /allocated under Employee Stock Option Plan - I (ESOP-I), the Securities Exchange Board of India (SEBI) guidelines are not followed, since the scheme was formulated prior to the promulgation of the guidelines.

Employee Stock Option under Employees Stock Option - II are accounted in accordance with the guidelines stipulated by SEBI. The difference between the market price of the shares underlying the options granted on the date of grant of option and the option price is expensed as "Employees Compensation" over the period of vesting.

I.9. Retirement benefits to employees

The Company's liability towards retirement benefits in the form of provident fund is fully provided and charged to expenditure. The Company has entered into an agreement with LIC of India for managing the gratuity liability through a fund, the premium for which is funded by the Company and charged to expenditure. Leave encashment benefits is accounted for an estimated liability as at the date of the balance sheet.

I.10. Research and Development

Expenses incurred on research and developments are charged to revenue in the same year. Fixed assets purchases for research and development purposes are capitalized and depreciated as per the Company's policy.

I.11. Foreign Currency Transactions and Translation

Transactions denominated in foreign currencies are recorded at the exchange rates prevailing on the date of the transaction. Monetary items denominated in foreign currencies at year-end are translated at the exchange rate prevailing on the date of the Balance Sheet. Non-monetary items denominated in foreign currencies are carried at cost. Exchange differences on settlement or restatement are adjusted in the profit & loss account/related asset account.

Assets and liabilities of the foreign subsidiary and branch are translated into Indian rupees at the rate of exchange prevailing as at the Balance Sheet date. Revenue and expenses are translated into Indian rupees at yearly average exchange rates prevailing during the year. The exchange difference arising out of the transactions pertaining to the branch have been recognised as exchange gain/(loss) in the Profit & loss account while those relating to the subsidiary have been disclosed as 'Exchange Reserve Arising on Consolidation' in Reserves and Surplus.

I.12. Investments

Long term Investments are stated at cost. Diminution in the value of investments other than temporary in nature is provided for.

I.13. Income Taxes

Income Tax comprises the current tax provision under the tax payable method and the net change in the deferred tax asset or liability in the year. Deferred Tax Assets and liabilities are recognized for the future tax consequences of temporary differences between the carrying values of the assets and liabilities and their respective tax bases. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be received or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the income statement in the period of enactment of the change.

I.14. Cash Flow Statement

Cash flow statements has been prepared in accordance with the indirect method prescribed in Accounting Standard 3, issued by the Institute of Chartered Accountants of India.

I.15. Preliminary and Share Issue Expenses

Expenses incurred during the Initial Public Offer, follow-on offer and issue of Bonus Shares are amortised over 5 years. Other share issue expenses are charged to the share premium account.

II. NOTES TO ACCOUNTS

II.1. Subsidiary Company

The Company's wholly owned subsidiary, Subex Technologies, Inc., incorporated in the USA, has been considered in the consolidated financial statements.

II.2. Deferred income taxes

a) Provision for income taxes has been made in terms of Accounting Standard 22 "Accounting for Taxes on Income". Deferred tax assets are subject to a valuation allowance that reduces the amount recognized to that which is more likely than not to be realized.

b) Movement in deferred tax asset:	2002-03	2001-02
Net Deferred tax Assets at April 1, 2002	1,550,000	400,000
Add: Tax benefits for the year ended March 31, 2003	500,000	1,150,000
Net Deferred Tax Assets at March 31, 2003	2,050,000	1,550,000

c) The net deferred tax asset as at March 31, 2003 comprises the tax impact arising from the timing differences on account of:

	2002-03	2001-02
- Depreciation	(3,124,053)	(4,514,116)
- Business loss	8,702,151	8,702,151
	5,578,098	4,188,035
Net deferred asset relating to above	2,050,000	1,550,000

II.3. Contingent Liabilities

Disputed taxes on appeal net of advance tax paid is Rs. Nil. (Previous Year Rs. 577,000)

II.4. Acquisition of Wholly Owned Subsidiary

During 1999-2000, the Company acquired the whole of the outstanding shares of the IVth Generation, Inc. New Jersey, USA, from its three owners. To reflect the true and correct state of affairs, the acquisition was accounted at the full value of Rs.335,795,161 including advisory, syndication fees and other costs although a part of the amount payable is contingent upon the future performance of the acquiree Company. During 2000-2001, the cost of acquisition was reduced in accordance with the final purchase consideration as per the Definitive Purchase Agreement and accordingly the cost was stated at Rs.326,217,997. The amount of investment at March 31, 2003 stands at Rs. 328,684,613 after adjusting for the exchange fluctuation on the deferred consideration as at the year end. The amount of Rs. 54,962,287 payable over the next two years has been accounted as Deferred Consideration. Exchange Fluctuation arising on the amount payable is added to the liability with the corresponding debit to investments.

The Goodwill recognized in the consolidated financial statements represents the excess of cost over its share of the equity of the subsidiary, at the date on which the investments in the subsidiary company was made. The management has received an independent valuation of the subsidiary, which indicates that there is no impairment on the value of the Goodwill.

II.5. Acquisition of Intellectual Property Rights

During 2001-2002, the Company acquired the intellectual property comprising software codes and licenses of OUTsmart, a Wireline Fraud Management System and INcharge, an intercarrier billing verification system from PricewaterhouseCoopers, Inc. (being the receivers of the property, assets and undertaking of Magardi, Inc. on behalf of Toronto Dominion Bank, who are the secured lenders of Magardi, Inc.). The total cost of acquisition amounting to Rs.158,956,637 includes the purchase consideration, advisory, syndication fees and other costs. INcharge was only at a conceptual stage during the acquisition and hence it is not possible to attribute any part of the cost of acquisition to this product.

The amount of Rs.29,258,668 outstanding at March 31, 2003 towards consideration payable over the next one year has been accounted as Deferred Consideration.

Consequent to the approval of the shareholders of the Company for write off of the above cost of acquisition of the intangible asset against the balance in the Share Premium account, an application for confirming the write off was preferred to the Honourable High Court of Karnataka under the provisions of Section 78 and 100 of the Companies Act, 1856. The Honourable High Court of Karnataka approved the said write off vide their confirmation order dated January 28, 2003 and the order, which was received by the Company on March 13, 2003, has been filed with the Registrar of Companies on March 21, 2003 for registration, which is awaited. The Company has set off the cost of the IPR against the Share Premium account in these accounts in accordance with the principles laid down in Accounting Standard 1 wherein it is stated that the accounting treatment and presentation in financial statements of transactions and events should be governed by their substance and not merely by the legal form.

II.6. Operating Leases

The Company has various operating leases for office facilities and residential premises for employees, which include leases that are renewable on a yearly basis, cancellable at its option and other long term leases. Rental expense for operating leases included in the Income statement for the year is Rs. 9,876,521.

As of March 31, 2003 future minimum lease payments for non-cancellable operating leases for the next five fiscal years are:

For the year ending	March 31, 2003 Amount in Rs.	March 31, 2002 Amount in Rs.
Within one year from the date of the Balance Sheet	9,883,542	6,102,985
Due in a period between one year and five years	4,139,838	5,969,345
Due after five years	—	—

II.7. Hire Purchase Transactions

During the Company has entered into various hire purchase transactions for the acquisition of vehicles and computer systems. As of March 31, 2003, future minimum lease payments on these transactions are:

For the year ending	Minimum Lease Payments		Interest		Present Value	
	2002-03	2001-02	2002-03	2001-02	2002-03	2001-02
Within one year from the date of the Balance Sheet	3,614,736	1,657,955	796,930	699,702	2,817,806	958,253
Due in a period between one year and five years	6,061,244	3,398,060	778,342	511,892	5,282,902	2,886,168
Due after five years	Nil	Nil	Nil	Nil	Nil	Nil

II.8. Employee Stock Option Plan (ESOP)

ESOP – I

The Company had issued 1,20,000 Equity Shares at Rs. 10/- each to Subex Foundation, an Employee Welfare Trust, constituted to operate an Employee Stock Option Plan. Consequent to the issue of Bonus Shares during the year, the total shares available with the trust had increased to 2,40,000. The trust has been granted a Loan by the Company to subscribe for the original Shares. As per the Scheme in force, the trust allocates shares to those employees deemed eligible by the Advisory Board constituted for the purpose. The shares are allocated at a price, which is not less than 50% of the fair market price. The original Shares granted are subject to a minimum lock-in period of three years and the Bonus shares are subject to a minimum lock-in of 1 year, where after the shares granted can be sold / en-cashed. As at March 31, 2003, 154,745 shares have been granted under the scheme to 37 employees. The balance of 85,255 shares are available with the trust for future grants. Since the Scheme was formulated prior to the promulgation of SEBI guidelines on ESOP dated June 19, 1999, the Company has been advised that the said guidelines are not applicable to the present scheme.

ESOP – II

During 1999-2000, the Company established a new Stock Option Scheme under which 5,00,000 options have been allocated for grant to the employees. Each option comprises of one underlying equity share of Rs. 10/- each. This scheme has been formulated in accordance with the SEBI guidelines on ESOP & ESOS dated June 19, 1999. As per the scheme, the compensatory committee grants the options to the employees deemed eligible by the Advisory Board constituted for the purpose. The options are granted at a price, which is not less than 85% of the average market price of the underlying shares based on the quotation on the Bombay Stock Exchange for 15 days prior to the date of grant. The shares granted vest over a period of 1 to 5 years can be exercised over a period of 4 years from the date of vesting.

Under this scheme 1,96,375 options have been granted to 176 employees as at March 31, 2003. Out of the above option 31,281 options have been vested. The difference between the market price of the share underlying the options granted on the date of grant of option and the exercise price of the option are expensed over the vesting period as per the SEBI guidelines. The net impact of the movement in option grants during the year resulted in a credit of Rs. 1,68,088 (previous year: charge of Rs. 1,077,311) to the Profit & Loss account for the year.

Employees stock options details as on the balance sheet date are ;

ESOP – I

	March 31, 2003	March 31, 2002
Options outstanding at the Beginning of the year	152,720	176,900
Granted	—	—
Forfeited/Cancelled	4,630	17,525
Exercised	96,693	6,655
Balance at end of the year	51,397	152,720

ESOP - II

	March 31, 2003	March 31, 2002
Options outstanding at the		
Beginning of the year	207,900	205,600
Granted	79,550	97,950
Forfeited/Cancelled	87,700	95,650
Exercised	3,375	—
Balance at end of the year	196,375	207,900

II.9. Related Party Information

A) Related Parties

Companies under same management

Subex Cellcomm Limited

Subex Holdings Private Limited

Key Management Personnel

Subash Menon, Chairman & Managing Director

Alex Puthenchira, Executive Director

Sudeesh Yezhuvath, Whole Time Director

B) Details of the transactions with the related parties other than employees who are related to the Directors of the Company is as under:

(in Rs.)

Nature of Transaction	Companies under same management		Key Management Personnel		Total	
	2002-03	2001-02	2002-03	2001-02	2002-03	2001-02
Inter Corporate Deposits received	16,523,500	40,475,000	-	-	16,523,500	40,475,000
Interest paid on Inter Corporate Deposit	4,905,222	3,765,980	-	-	4,905,222	3,765,980
Repayment of Inter Corporate Deposit	8,920,000	-	2,920,000	-	11,840,000	-
Salary & Perquisites	-	-	4,602,870	4,142,770	4,602,870	4,142,770
Amount due from as at March 31, 2003	-	-	-	2,920,000	-	2,920,000
Amount due to as at March 31, 2003	43,078,500	35,475,000	-	-	43,078,500	35,475,000

II.10. Earnings per Share

	March 31, 2003	March 31, 2002
Profit after tax available to Equity Shareholders: A	99,922,735	41,919,486
Weighted Average number of shares – Basic: B	7,324,235	7,125,680
Weighted Average number of shares – Diluted: C	7,525,779	7,369,208
Earnings per Share – Basic	13.64	5.88
Earnings per Share - Diluted	13.28	5.69

II.11. Managerial Remuneration to Managing Director and Whole-time Directors:

	2002-03	2001-02
	Rs.	Rs.
Salary	4,168,890	3,527,208
Perquisites	433,980	615,562
Total	4,602,870	4,142,770

As no commission is payable to the Directors, the computation of net profit in accordance with Section 349 of the Companies Act, 1956 has not been given.

II.12. Segmental Reporting

The Company's operation comprises of software development, services and sale of Telecom Products. Primary segmental reporting comprises of products and services segment. Secondary segment is reported based on geographical location of customers. The accounting principles

consistently used in the preparation of the financial statements are also consistently applied to record income and expenditure in individual segments. These are as set out in the note on significant accounting policies.

In primary segment, revenue and direct expenses, which relate to particular segment and which are identifiable, are reported, while certain expenses such as depreciation and interest, which form a significant component of total expenses, are not specifically allocable to specific segments as the underlying services are used interchangeably. The company believes that it is not practical to provide segment disclosures relating to those costs and expenses, and accordingly these expenses are separately disclosed as "unallocated" and directly charged against total income.

Information about Primary Business Segment

(Amount in Rs.)

Particulars	Products		Services		Consolidated	
	2003	2002	2003	2002	2003	2002
Revenues	254,517,837	198,736,870	445,584,257	403,012,799	700,102,094	601,749,669
Segment results before interest & taxes	130,296,431	92,116,441	25,178,911	29,716,426	155,475,342	121,832,867
Less: Unallocable expenses, net of unallocable income					27,168,144	61,297,708
Interest expense					22,553,992	12,496,126
Profit before tax					105,753,206	48,039,033
Provision for taxation:						
Current					5,963,325	4,397,007
Deferred					(500,000)	(1,150,000)
Profit after tax					100,289,881	44,792,026
Prior period taxes					315,500	2,872,540
Profit for the year					99,974,381	41,919,486

Particulars of Segment Assets & Liabilities

(Amount in Rs.)

	Products		Services		Unallocable		Consolidated	
	2002-03	2001-02	2002-03	2001-02	2002-03	2001-02	2002-03	2001-02
Segment Assets	272,541,563	169,455,940	155,903,476	99,482,654	265,372,145	155,908,716	693,817,184	424,847,310
Segment Liabilities					80,988,097	65,917,208	80,988,097	65,917,208
<i>Unallocable Assets exclude</i>								
Goodwill (On Consolidation)							308,987,980	308,987,980
Investments							2,000	2,250
Advance income taxes							4,795,745	12,056,016
Miscellaneous Expenditure							1,731,666	162,163,027
Deferred tax asset							2,050,000	1,550,000
							317,567,391	484,759,273
<i>Unallocable Liabilities exclude</i>								
Loans - secured							156,020,508	131,801,044
Loans - unsecured							43,078,500	35,475,000
Deferred consideration							84,220,955	137,356,629
Provisions							18,003,934	19,350,642
							301,323,897	323,983,315

Fixed assets used in the company's business or liabilities contracted have not been identified to any of the primary reportable segments, as the fixed assets and services are used interchangeably between segments. Significantly all the fixed assets of the Company are located in India. The company believes that it is currently not practicable to provide segment disclosures relating to total assets and liabilities since a meaningful segregation of the available data is onerous.

Information about Secondary Business Segment

Revenue attributable to location of customers is:

(Amount in Rs.)

Revenue	India		North America		European Countries		African Countries		Rest of the World	
	2002-03	2001-02	2002-03	2001-02	2002-03	2001-02	2002-03	2001-02	2002-03	2001-02
Software Products	19,743,713	13,762,600	20,799,905	95,143,292	34,864,320	15,588,635	54,740,691	52,238,662	121,600,963	17,731,700
Software Services	1,580,500	-	444,003,757	403,012,799	-	-	-	-	-	-
Others	2,768,245	4,271,981	-	-	-	-	-	-	-	-
	24,092,458	18,034,581	464,803,662	498,156,091	34,864,320	15,588,635	54,740,691	52,238,662	121,600,963	17,731,700

Segment assets based on their location

(Amount in Rs.)

	2002-2003	2001-2002
Africa	63,653,121	42,280,090
North America	184,034,888	161,854,608
Europe	66,983,789	27,146,997
India	28,201,600	19,954,399
Rest of the world	85,571,642	17,702,500
	428,445,040	268,938,594

II.13. Quantitative Details

None of the traded items are in excess of 10% of revenues and it is not practicable to give quantitative information in the absence of common expressible units.

II.14. Others

- Fund and Non fund based facilities covering Letter of Credit and Bank Guarantees availed from State Bank of India are secured by the first charge on all the fixed and current assets of the Company. These loans are also secured by equitable mortgage of land belonging to the Company. The loans are further secured by the personal guarantee of the two of the Directors of the Company.
- Estimated amount of contracts, remaining to be executed on capital account and not provided for (net of advances paid) Rs. 78,800. (Previous year Rs. 5,581,000).
- Amount of Rs. 293,958 represents the unclaimed dividend for the period from 1999-2002. No part thereof has remained unpaid or unclaimed for a period of seven years from the date they become due for payment requiring a transfer to the 'Investor Education and Protection Fund'.
- The shareholders of the Company have approved the allotment of 1,887,000 Redeemable Optionally Convertible Cumulative Preference Shares (ROCCPS) at a face value of Rs. 98 per share in the Extraordinary General Meeting on March 5, 2003. Out of which 1,570,245 ROCCPS were allotted to Intel and UTI on March 31, 2003 and the formalities for balance allotment of 316,755 ROCCPS relating to Toronto Dominion Bank have been completed by the Company in April 2003 after receipt of the subscription amount from them.
- These are the second year of consolidated financial statements of the Company and its subsidiary. The figures for the year ended March 31, 2001 were not compiled, and in the absence of these figures, a consolidated cash flow statement for the previous year has not been prepared and presented. The cash flow statement for the current year has been presented in the financial statements.
- Amount of Rs. 21,377,000.00 received towards preferential allotment of 213,770 Equity shares of Rs. 10/- per share to TD Bank during the year has been utilized for repayment of liability towards acquisition charges of Magardi, Inc. IPR. No amounts so received remains unutilized as at March 31, 2003.
- Previous year's figures have been regrouped to conform to the classification for the year.

Signature to the Schedules A – R

Subash Menon
Chairman & Managing Director

V Balaji Bhat
Director

Alex J Puthenchira
Executive Director

Vinod R Sethi
Director

Raj Kumar C.
Company Secretary & Legal Counsel

Place : Bangalore
Date : June 9, 2003

Shareholders' Information

1. Date and venue of the Annual General Meeting : 9th September 2003 at Le Meridien, 28, Sankey Road, Bangalore - 560 052
2. Dates of book Closure : 4th Sept. 2003 to 9th Sept. 2003. (both days inclusive)
3. Dividend Payment : @10% to Equity shareholders as on 9th Sept. 2003.
@12.25% to Preference Shareholders as on 9th Sept. 2003 (Provision)
4. Financial calendar (tentative and subject to change) : Quarter ending 30th June, 2003 July 2003
Half year ending 30th Sept., 2003 Oct. 2003
Quarter ending 31st Dec., 2003 Jan. 2004
Year ending 31st March, 2004 May/June 2004
5. Listed on Stock Exchanges : Bangalore, Mumbai and Hyderabad Stock Exchanges
6. Listing Fees : Paid for all the above Stock Exchanges for 2003-04
7. Registered office : No.721, 7th Main, Mahalaxmi Layout, Bangalore – 560 086
8. Shares of the Company have been quoting from 3rd September 1999 at Bangalore Stock Exchange Limited, from 7th September 1999 at Hyderabad Stock Exchange and from 31st July 2000, at The Stock Exchange, Mumbai (BSE).
9. Share transfers and other communication regarding Share certificates and change of address, etc., may be addressed to:

M/s Canbank Computer Services Ltd., R & T Centre

Hotel Broadway Complex, # 19, K. G. Road, BANGALORE – 560 009

Ph : 080 – 2872461 / 2872462; Fax : 080 – 2872804; e-mail : ccslrnt@vsnl.com

10. Share Transfer System:

Share transfers would be registered and returned within a period of 20 days from the date of receipt, if the documents are clear in all respects. The Share Transfer Committee normally meets 2 times a month.

11. Stock Market data relating to shares listed in India:

Monthly high and low quotations as well as the volume of shares traded at Mumbai, Bangalore and Hyderabad Stock Exchanges for 2002-2003 are:

Month	BSE			BgSE			HSE		
	High Rs.	Low Rs.	Volume Nos.	High Rs.	Low Rs.	Volume Nos.	High Rs.	Low Rs.	Volume Nos.
Apr '02	164.80	129.55	10463229	NT	NT	NT	NT	NT	NT
May '02	164.40	95.65	8875998	NT	NT	NT	NT	NT	NT
Jun '02	115.05	92.45	3001344	NT	NT	NT	NT	NT	NT
Jul '02	98.90	48.60	1322328	NT	NT	NT	NT	NT	NT
Aug '02	84.25	51.40	2194118	NT	NT	NT	NT	NT	NT
Sep' 02	82.90	64.70	1052446	NT	NT	NT	NT	NT	NT
Oct '02	79.40	62.35	906418	NT	NT	NT	NT	NT	NT
Nov '02	91.25	68.00	1337517	NT	NT	NT	NT	NT	NT
Dec '02	114.65	81.00	3376682	NT	NT	NT	NT	NT	NT
Jan '03	126.60	85.20	6283386	NT	NT	NT	NT	NT	NT
Feb '03	127.60	96.00	3758489	NT	NT	NT	NT	NT	NT
Mar '03	112.00	83.60	1870589	NT	NT	NT	NT	NT	NT
			44442544	NT	NT	NT	NT	NT	NT

NT: Not Traded.

12. Investor's services – Complaints received from 1st April 2002 to 31st March 2003:

Nature of complaints	Received	Cleared
1. Non-receipt of share certificates/refund orders/call money notice/allotment advice/dividend warrant	2	2
2. Letters from NSDL, Banks etc.	-	-
3. Correction/change of bank mandate of refund order, Change of address	-	-
4. Postal returns of cancelled stockinvests / refund orders/ share certificates / dividend warrants	-	-
5. Other general query	1	1
Total	3	3

The Company has attended to investors' grievances / correspondence within a period of 10 days from the date of receipt of the same, during the year ended March 31, 2003.

13. Legal proceedings:

Subex has been made as defendant in a case filed by Mr. Arun Dhariwal in respect of complaint received by the Company regarding loss of 12 share certificates comprising of 1,200 shares by Mr. Ashok Dhariwal & Others. The matter is presently sub-judice. However this case is not material in nature.

14. Distribution of shareholding as on :

No. of equity shares held	As at March 31, 2003		As at March 31, 2002	
	No. of shareholders	% of shareholders	No. of shareholders	% of shareholders
1 - 500	4,571	87.95	3,871	86.76
501 - 1000	333	6.41	288	6.45
1001 - 5000	230	4.43	221	4.95
5001 - 10000	23	0.44	42	0.94
10001 and above	40	0.77	40	0.90
	5,197	100.00	4,462	100.00

15. Categories of shareholders as on:

Category	As at March 31, 2003			As at March 31, 2002		
	No. of shareholders	Voting strength %	No. of shares held	No. of shareholders	Voting strength %	No. of shares held
Public & Others	4782	26.60	1954273	3,953	27.39	1,951,005
Companies	403	8.20	602074	503	11.22	799,549
Core Promoters	3	54.72	4018360	3	56.13	4,000,000
Mutual Funds	5	5.00	367157	2	1.91	136,401
ESOP	1	1.87	137191	1	3.35	238,725
Foreign Insttn. Investors	3	3.61	264770	0	0.00	0
	5197	100.00	7343825	4,462	100.00	7,125,680

16. Investors' correspondence may be addressed to:

For investor matters:

Raj Kumar. C

Company Secretary & Legal Counsel

Subex Systems Limited, No. 52/44, 8th Main, Ganesha Block, Mahalaxmi Layout, Bangalore – 560 096, India,

Telephone : 91 80 349 7581. E-mail: investorrelations@subexgroup.com

For queries relating to financial statements:

Mr. Subash Menon, Chairman & Managing Director OR Mr. Alex P. J., Executive Director

Subex Systems Limited, No. 52/44, 8th Main, Ganesha Block, Mahalaxmi Layout, Bangalore – 560 096, India, Telephone : 91 80 3497581

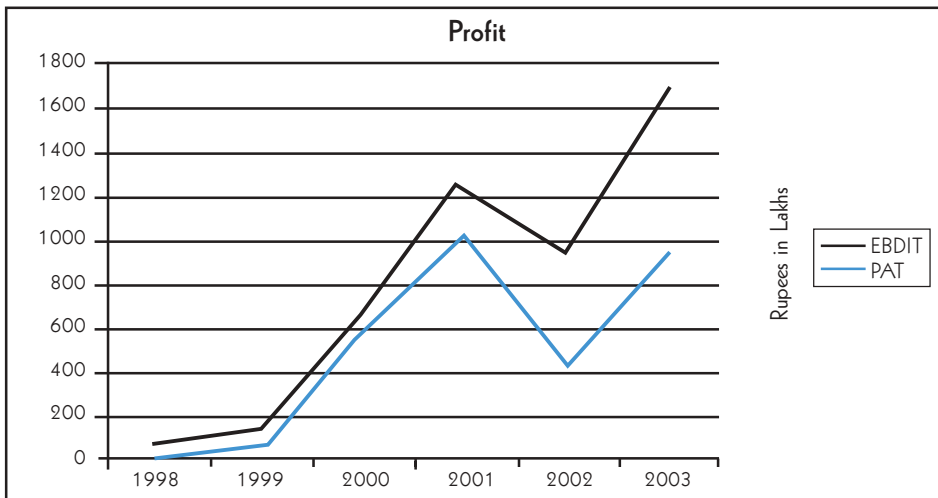
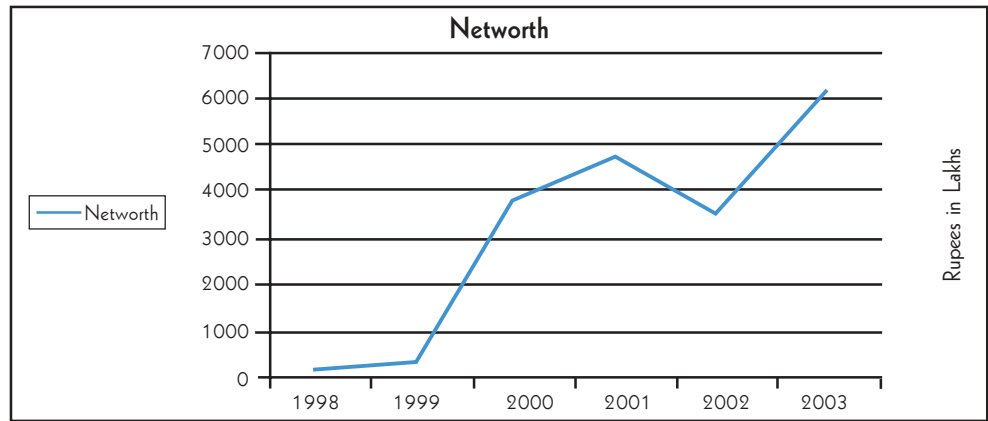
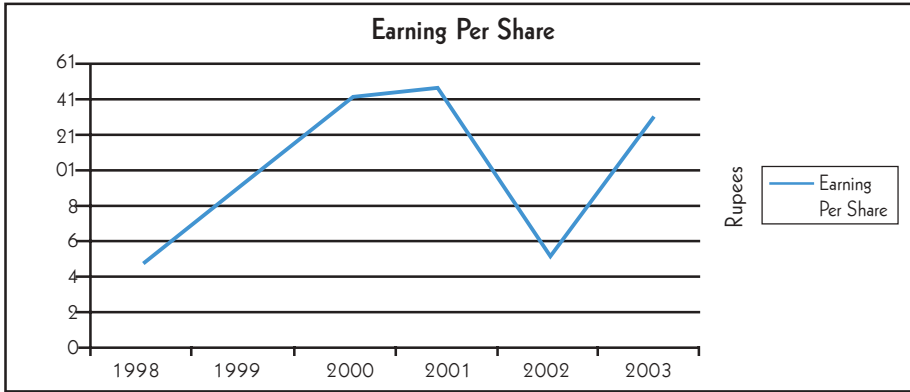
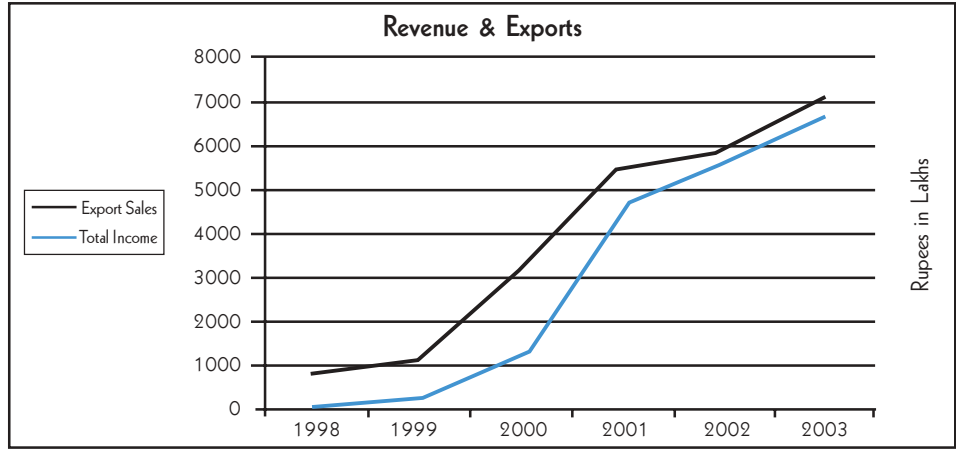
17. Dematerialisation of shares and liquidity:

All Shareholders holding shares in physical form are requested to convert their holdings into electronic form.

18. Stock Code

SUSL.B (BSE), SUBEXSYS (B3SE), SUBSEXS (HSE)

Subex Systems Limited
5 years - At a glance



Subex Systems Limited

Registered Office

721, 7th Main, Mahalaxmi Layout
Bangalore - 560 086, India
Tel : + 91 80 349 7581
Fax : + 91 80 349 1490

BRANCH OFFICES

Asia Pacific

52/44, 8th Main, 2nd Cross,
Ganesha Block, Mahalaxmi Layout
Bangalore - 560 096, India
Tel : + 91 80 349 7581
Fax : + 91 80 349 1490

OVERSEAS OFFICES

United States

255, Old New Brunswick Road,
Suite S240, Piscataway,
NJ 08854, USA
Tel : + 1 732 981 1333
Fax : + 1 732 981 1666

Canada

202-52 Antares Drive
Nepean, Ontario
Canada K2E 7Z1
Tel : + 1 613 224 3131
Fax : + 1 613 224 4004

Europe

Office # 102, Tamacon Court
34, Griva Digheni Avenue
PB No. 42034, Larnaca 6530
Cyprus
Tel : + 357 24 665457
Fax : + 357 24 665458

E-mail:

subex@subexgroup.com

Website: www.subexgroup.com