Annual report 2005-06

his-to-ry *(n.)*: when time remembers your story

www.subexazure.com

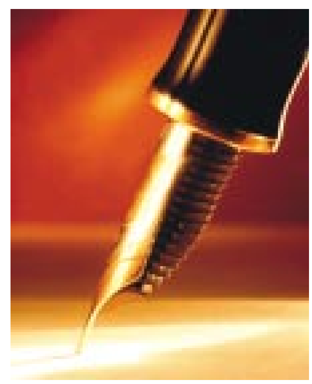
SUBEXAZURE

...Powering the ROC

Challenging Rules

There are places where definitions are really meant to be redefined. Where the accepted routes are rejected. Where the done thing is, well, just not done. Like Subex Azure. A place where words take on a new meaning. Where habit and prescription give way to initiative. And intuition helps achieve the unimaginable.

It's an environment where revolution is a process, not a goal to spend a lifetime on. Where young minds are set free, to soar, to seek and solve what generations have struggled with.



In an industry where software spelt services, Subex Azure chose to take the risky product route. Several more decisions that turned conventional wisdom on its head, paid off.

Today, we are global leaders in fraud management and revenue maximization; our brands empower 150 telcos across 66 countries.

While software engineering often means mechanical coding, young Subexians keep breaking barriers and creating world-beating products.

Inventive Spirit

At Subex Azure, breaking the mould has been much more than just a way of doing things; it's been the guiding principle that has shaped our track record. A relentless questioning of every aspect of our work has helped us evolve our very own corporate ethos.

When many Indian software companies saw their ultimate goal in being bought out by an international giant, at Subex we saw merit in doing exactly the opposite. We sought out international giants. Subex's $140 million acquisition of UK's No.1 revenue assurance company is just one such example of a vision and strategy that most industry watchers are still trying to understand.

Naturally, our ten-year track record of healthy financial growth has won many over to our way of thinking. It's a reassuring story that the numbers tell... speaking of sustained growth, and a dynamic future ahead.

While an annual report often presents a one-dimensional picture of the past year, Subex Azure would like to redefine the very idea; taking stock of not just the numbers, but our intellectual capital also. The 500-strong team of young minds, whose inventive spirit has redefined the way an Indian company could conduct itself across the globe.

Milestone *(n)*: a landmark achievement;
a historic moment from the past year

Contents

Keynote *(n)*: a vision or statement that sets the tone for the activities and initiatives to follow; a leader's insight that is shared

Subash Menon
Founder Chairman, Managing Director & CEO

Dear Shareholder,

These past seven years, I have been reporting to you on the growth of your company in the software products business. I had once quoted Victor Hugo - "An invasion of armies can be resisted, but not an idea whose time has come", while referring to the idea that your company had. That idea was to create a successful Indian software product company. An idea that was scoffed at by many. An idea that was "not bankable" for many funding agencies. Today, we have proved the skeptics wrong. We have not only created a vibrant software product company, but have also created history along the way. The time has now dawned upon us for me to tell you about certain path-breaking endeavors of your company.

But first, let me take you through the key financial data. Our revenue grew by 55% to reach Rs. 1,812 million while Profit After Tax (PAT) grew by 54% to reach Rs. 391 million.

In keeping with our long term plan, products contributed 65% of the revenue by growing at 87%. Products recorded a revenue of Rs. 1,166 million.

Building a Global Company

Your company has always endeavored to create a global organization. From the word go, seven years ago, the objective was not to build yet another software product company. It was to build one of the largest telecom software product companies in the world. Such a creation calls for several key elements to be present: a vision, an understanding of the future and the right attitude to be able to think and execute globally. I am happy to report that we have now delivered on our promise of the past to create the global leader in revenue maximization. Let me now take you through that journey.

In 2000, we launched our first product: Ranger™, a telecom fraud management system. It was tough going initially, but we persevered and signed on customers initially in India and then in other developing countries in Africa and Eastern Europe. Slowly but steadily, Ranger™ started gaining traction, was soon accepted as a reliable product and Subex came to be known as a fraud management company. It was then time for us to redefine our business. True to our pioneering spirit, we told the telco world that fraud management and revenue assurance have significant synergies and launched the next product, INcharge™, a revenue assurance system. That led to our business getting redefined as revenue maximization. At the same time, in keeping with our long term objective to be the global leader in our area of operation, we set ourselves the twin objectives of attaining leadership in fraud management and revenue maximization. Thus began our quest for the chalice.

INcharge™ started gaining momentum in the wake of Ranger™, exactly as we had planned. The telcos warmed up to the idea of a common platform for fraud management and revenue assurance; and RevMax™, the integrated offering, started gaining currency. This strategic move also differentiated us from several other vendors and was the first turning point in our successful march. With the launch of INcharge™ and its acceptance by our customers, we felt the need to evolve a long term strategy that was crucial to our success.

A thorough gap analysis was conducted between where we were and where we intended to reach, and we identified several areas for improvement and change. Solutions were formulated to address each issue and that included overhauling Ranger™, beefing up the sales team, acquisitions etc. Given the extent of the work involved, the entire program was divided into three phases and it was obvious that we were in for a long haul.

While work commenced on implementing the different solutions identified, the company designed a proactive approach to inorganic growth. We short-listed several potential targets, engaged an investment banker and went about implementing the process. In the first phase, the plan was to consummate one or two small acquisitions, thereby achieving leadership in fraud management. This phase was also positioned as the learning phase with regard to acquisitions. Hence the choice of small entities as targets to minimize the risk. The targets identified were met and the final short-list was arrived at over a period of 6 months. Another 6 months were invested in conducting due diligence and concluding the two acquisitions; the fraud management businesses of Alcatel in UK and Lightbridge in US. It is important to comprehend the rationale behind the final decision. Both these businesses were divisions within large companies and essentially were stranded assets without any specific plan for the future. Consequently, they were available at reasonable valuations and could be assimilated into Subex with minimal risk and within a short span of time. Further, the customer bases of these two companies had no overlap among themselves and with that of Subex at the time. This resulted in a wide base of Tier 1 customers in all the major geographies and could be used as an excellent strategy to enter the developed countries. Upon completion of the acquisitions, the company focused on integrating these businesses with the parent in as seamless a manner as possible to achieve synergies and cost efficiencies, and to leverage the strengths. Towards that end, the company invested heavily in new offices and manpower in the US and UK. The timely investment in these new facilities manned by experienced personnel with significant local knowledge and exposure turned out to be a very wise move resulting in a substantial contraction of the payback period (for the acquisitions) from an expected 3 years to 1.5 years. This successful transition of the acquired businesses into the parent was a morale booster and also enabled Subexians to gain valuable experience in integrating acquisitions on a global scale. We ended up handling over 30 new customers spread across 15 new countries where Subex was not present prior to the acquisitions. The entire integration went through smoothly without negatively impacting the level of customer satisfaction. That marked the end of phase 1 of our long term plan.

"Your company has always endeavored to create a global organization."

It was now time to commence phase 2. Armed with the knowledge and experience garnered from phase 1, the decision was taken to explore the possibility of consummating a transformational transaction. As before, we had a set of key parameters to guide us in this phase. Let me explain those parameters in detail. The first parameter is a financial one. Subex does not believe in any acquisition that is dilutive to its earnings. In short, all acquisitions must be either accretive or neutral to earnings in the first full year after completion of the acquisition.

The other parameters relate to the business. They are: the products of the acquired entity must be in our space of operation and hence synergistic; there should be minimal overlap in customer base; it should be possible to achieve cost optimization through synergies in operation; the payback period should be reasonable etc. Finally, the overriding consideration is that the acquisition should strengthen Subex in areas where we were seeking additional support and strength. The need for a transformational transaction was felt as we were endeavoring to pioneer and spearhead the introduction of a new concept, Revenue Operations Center (ROC), in the telco world. The strength that could be derived from such a transaction seemed crucial.

The successful process employed for phase 1 was re-employed for this phase as well. Thus, several targets were identified and contacted. As before, considerable time was invested in the preliminary work of evaluating these targets and in conducting extensive due diligence of the couple who made it to the final short-list. This extensive process, that lasted about 15 months, resulted in the conclusion of the transaction with Azure Solutions Limited of UK. This company, a 3-year old spin-off from the BT stable, met all the criteria and was the global leader in revenue assurance with a wide customer base.

The combination of Subex and Azure, named Subex Azure Limited, is a very powerful one. I believe that there are four key aspects to create and sustain a global company in our area of operation. These are: a strong product offering; a great brand image; a wide base of high quality customers and deep domain expertise. While Subex had a strong product offering in the form of ROC along with a wide customer base, Azure brought a great brand image coupled with excellent customer relationships and extensive domain knowledge. Needless to say, the combined entity will be a force to reckon with as the global leader in fraud management and revenue assurance.

The journey that was started seven years ago to create a globally successful and dominant telecom software product company has now reached a key milestone. We have now created the largest organization in telecom revenue maximization with over 150 customers spread across 60 countries. We now serve 23 of the world's top 40 telcos. We are streets ahead of the nearest competitor and we have over 25% of a fragmented market. And, the journey continues towards the next milestone.

The Future

Subex has now achieved its initial objective set over 3 years ago to be the global leader in telecom revenue maximization. The immediate task is to fully integrate the new acquisition seamlessly and to position Subex Azure to take advantage of the opportunities that lie ahead. The telecom industry is facing unprecedented challenges with regard to protecting its revenues and growing them. This presents fabulous possibilities for the largest company in that space: Subex Azure. Once the integration is complete and we start benefitting from the strengths gained, your company will be ready for phase 3 of its long term plan. Let me sign off for now by thanking every one of you for the support and for the faith reposed in me and my colleagues. Dear shareholders, your company has never been stronger and the future never brighter, as now.

Subash Menon

Operational Highlights

- Acquisition of UK-based Azure Solutions. The new, combined entity, Subex Azure, becomes the world's No. 1 vendor for fraud management and revenue assurance solutions and the 2nd largest vendor for interconnect and inter party billing solutions.
- Acquisition of the telecom business assets of US-based Mantas, Inc.
- Launch of the Revenue Operations Center (ROC) concept.
- Launch of the 3rd product, ONtrack Subscriber Risk Management Solution.
- Announcement of the new campus on Outer Ring Road, Bangalore, to seat 1,000+ Subexians.
- Subex Azure was selected as part of Deloitte & Touche Tech Fast 50
- Subex Azure was chosen as one of the 8 most innovative companies by NASSCOM.

Flashpoint *(n)*: a moment when insight, vision and daring explode into a series of achievements that light up the way ahead

Financial Highlights

Year ended 31st March

Particulars (Rs. in million)	2006	2005
Total Revenue	1841	1172
Export Revenue	1787	1086
Gross Profit	762	467
Operating Profit (EBITDA)	539	357
Profit Before Tax	422	261
Profit After Tax	391	253
Shareholders' Funds	1816	1233
Equity	218	101
Gross Fixed Assets	653	555
Net Fixed Assets	392	368
Total Assets (Basic)	1827	1542
Earning Per Share	18.23	13.89
Debt (including working capital) Equity Ratio	0.01	0.23
EBITDA / Sales - %	29%	30%
Net Profit Margin - %	22%	22%
Return on year-end Net Worth - %	22%	21%
Return on year-end Capital Employed - %	30%	23%

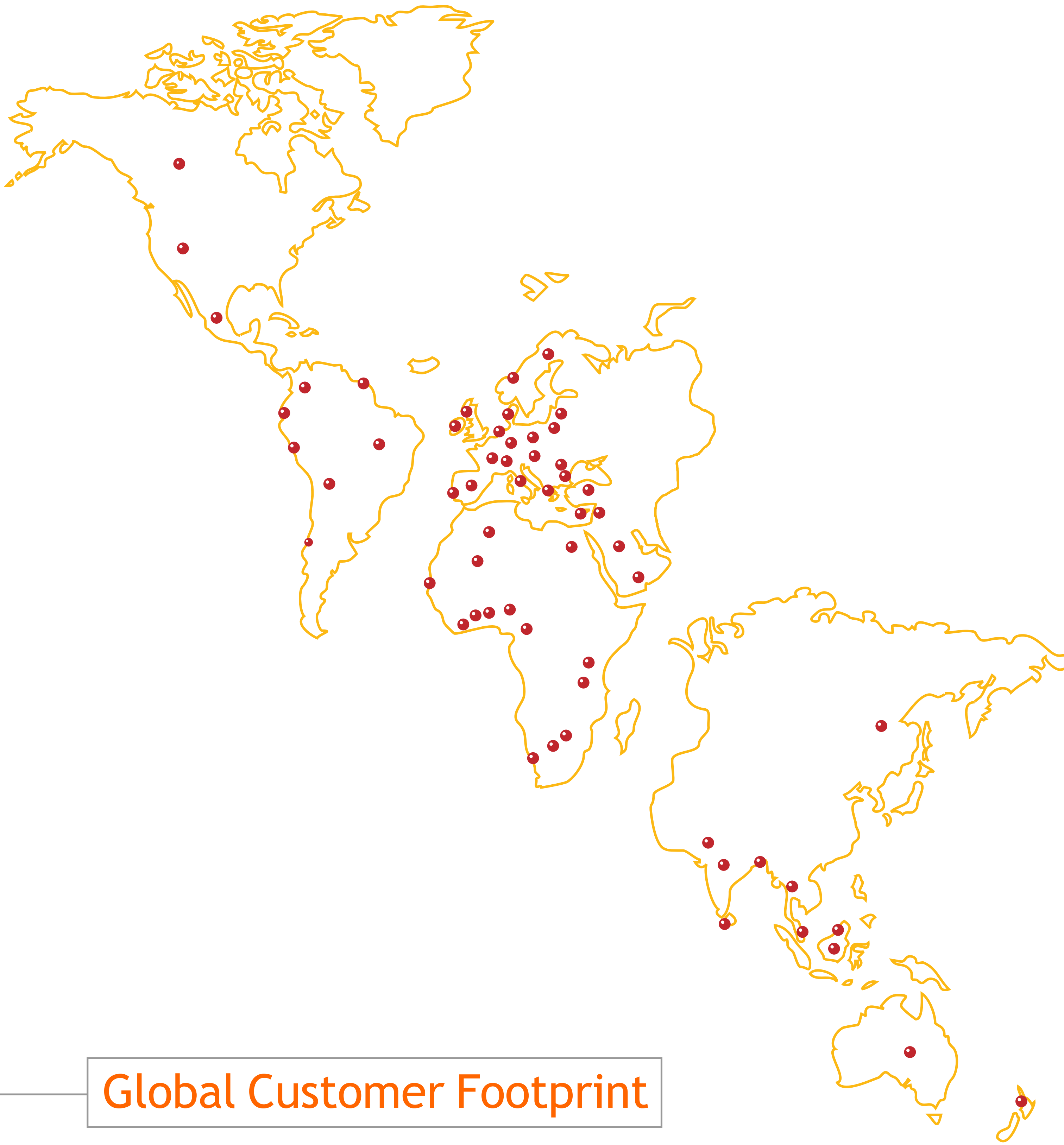
Revenue
UP 55%
FY 06 Rs. 1841m
FY 05 Rs. 1172m

Basic EPS
UP 31%
FY 06 Rs. 18.23
FY 05 Rs. 13.89

Profit After Tax
UP 54%
FY 06 Rs. 391m
FY 05 Rs. 253m

EBITDA
UP 51%
FY 06 Rs. 539m
FY 05 Rs. 357m

Revenue Share
Products 65%
Services 35%



Global Customer Footprint

Offerings Overview

Telecom networks across the world are on a migration path to Ethernet. IP based services are expected to proliferate and current business models, which depend largely on voice services, are expected to change considerably. This will change the very nature of how operators do business and will impact on all areas of operations from customer acquisition to collection, and from product development to financial reporting.

Fraud is a global malaise to telecom networks and has a very significant impact on the bottomlines of telecom operators. Surveys show that about 4% of the industry's revenue is lost to fraud. Fraudsters and their methods will continue to evolve to take advantage of the numerous security holes that will emerge in this new environment.

The open architecture of a next-generation telecom network (like IMS) will make it easier for fraudsters to illegally gain access to services and defraud the operators. A highly focused approach is essential to combat these upcoming frauds and this forms the biggest driver for the evolution of Ranger. Ranger's core architecture is evolving to address fraud threats in the new environment using a combination of different techniques including artificial intelligence and statistical modeling. This has made Ranger the foremost fraud management system available today for next-gen services, outperforming others in the market by a large margin. Ranger is increasingly becoming the solution of choice for large Tier 1 operators globally as they prepare themselves for the upcoming cycle of growth.

Revenue leakage in a carrier's network can occur at any point in the billing chain. Errors and mismatches across switches, inventory, provisioning, mediation, rating and billing systems result in revenue losses from incorrect billing, unused assets and unbilled usage, among other things.

In these new revenue models, telcos are fast emerging as sales channels and payment gateways for a variety of products like ring tones, music downloads, video downloads, utility payments etc. In these instances, the potential loss to the telcos who fail to recognize and collect revenues from their customers is considerably high as they will have to pay out to those who provide the content and services.

INcharge is a market-leading revenue assurance solution that helps the operators to automate their revenue leakage detection and resolution process.

It provides benefits to the revenue assurance analysts in the following ways:

- Provides an end-to-end revenue assurance capability, allowing analysts to progressively extend revenue assurance to all areas of operation.
- Performs automatic processing and reconciliation of large data volumes, thus offering larger coverage.
- Includes powerful analysis tools that help revenue assurance analysts to quickly zero in on the root cause of a detected revenue leakage.
- Provides the workflow to help prioritize the most critical issues, which leads to structured resolution and tracking of issues.

Subscriber delinquency and bad debt are serious problems faced by almost every operator in the world today. On an average, around 5% of an operator's revenue is written off as bad debt. Further, a subscriber entry qualification criterion is becoming less stringent than before as operators aggressively pursue subscriber growth.

While uses of credit assessment and scoring methodologies have helped tackle the problem prior to activation, a significant portion of risk exists post activation. Operators need to monitor the liability and outstanding against each subscriber on a continuous and real-time basis, in order to detect delinquency risks early-on in the billing cycle to limit instances of bad debt.

A successful risk management strategy would aim to close the gap through pre-emptive techniques such as seeking part payments from subscribers with unusually high usage or identify subscribers with whom the post invoice follow up needs to be done with greater urgency .

ONtrack continuously monitors and tracks the possibility of a subscriber going delinquent in the network and thus enables operators to minimize their losses early-on and pre-empt a potential write-off. ONtrack uses a very flexible rule-driven risk modeling core that allows the system to profile, segment and define highly focused risk management strategies. Monitoring the build-up of unbilled amounts is one such strategy; another would be to detect subscriber behavior changes which suggest that the subscriber would not be able to pay his bills.

ONtrack employs an integrated usage tracking and rating mechanism that enables the operator to use a subscriber's usage details to achieve near-real time risk assessment, thereby negating any delay imposed by conventional methods on revenue recovery. Further, ONtrack's flexible workflow helps the operator to better prioritize cases and even automate monotonous routine tasks like sending out reminders. Thus, ONtrack reduces the time taken to work on a case thereby allowing operators to work more actively in controlling their losses from bad debt.

Marketing Events

1 Americas User Conference
2 Telestratergies Revenue Assurance (RA) Fall
3 TeleManagement Forum Dallas
4 Teradata Partners Users' Conference
5 ITU Telecoms America

6 Risk Management and Audit in Telecoms
7 Revenue Management
8 FIINA Plenary
9 African Telecoms Billing & RA 2005

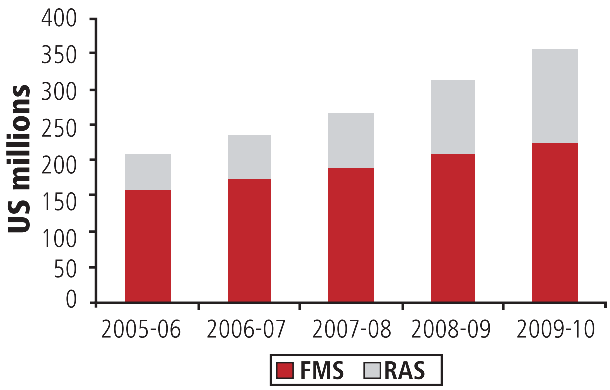
10 Revenue Assurance Summit 2005
11 Combating Telecom Fraud in Asia
12 APAC User Conference
13 TeleManagement Forum ASEAN Summit

Market Overview

The telecommunications business is a dynamic world of sophisticated markets, demanding customers and rapidly changing technology. Telecom operators worldwide, toil in an intensely competitive environment. They are under incessant pressure to show consistent growth in their Average Revenue per User (ARPU) and Average Margin per User (AMPU). As operators navigate through this demanding scenario, they grapple daily with the challenge of ensuring sustained, profitable growth.

It is the growing maturity of the telecommunication business that is propelling the need for revenue maximization solutions. Subex Azure finds itself in the happy position of having built credibility and market share that it can leverage to achieve a compelling leadership position.

Subex Azure estimates, as independently corroborated by industry analysts, that the FMS + RAS market will reach an annual size of USD 250M by 2007-08 and USD 400M by 2009-10. Given the relative maturity of the FMS segment vis-à-vis the RAS segment, we expect a higher rate of growth for the RAS market which in turn would reflect in higher percentage of Subex Azure's total revenue earned from INcharge.



Subex Azure has clearly established itself as the leader of the revenue maximization niche. It is our estimate that Subex Azure enjoys 25 - 30% market share in the FMS segment and 10 - 15% market share in the RAS segment.

ROC: Crafting Strategic Business Value

Operators realize that sustained growth cannot be guaranteed by mere addition of new subscribers. Equally important is the ability to offer new and exciting services. Unfortunately, operators have repeatedly seen their effort and investment in new services undermined by insidious revenue leakages. This has made capturing all accrued revenue from subscribers for the services they use, a top business objective.

In order to guarantee realization of all accrued revenues, operators are increasingly embracing the idea of revenue maximization.

Revenue maximization is the business practice of continual optimization of the revenue chain to increase the revenue realized and to reduce the costs incurred.

What is ROC?

- Centralized & Integrated Operational Infrastructure
- Monitors, controls & ensures integrity of revenue chain
- Provides tools to ensure revenue chain optimization & error correction
- Delivers relevant data to upstream analytics & planning system

Subex Azure's key insight is the need for an enabling infrastructure that helps operators operationalize a successful revenue maximization practice. We call this the Revenue Operations Centre (ROC).

Subex Azure envisions ROC as a centralized and integrated operational infrastructure to monitor, control and assure the integrity of the entire revenue chain. Subex Azure has presented its idea on the ROC in various industry events where it garnered rave reviews from industry analysts and the trade press. Dr. Jerry Lucas, one of the foremost thought-leaders in the telecommunications space, in his column in Billing World & OSS magazine, highlights ROC as being "Really on the mark", while a recent Frost & Sullivan report suggests it as "An innovative approach to this key problem being experienced by the telcos".

We believe that Subex Azure is uniquely positioned to emerge as the leading provider of software solutions that power the ROC. Subex Azure is best equipped to help operators implement a comprehensive revenue maximization practice by leveraging its:

- Deep domain knowledge
  - Acquired through supporting over 80 customer installations in 40 countries
- World class support
  - Ability to provide near-shore support through field support offices
- Integrated suite of best-of-class solutions, RevMax™
  - INcharge™ - Revenue Assurance System
  - Ranger™ - Fraud Management System
  - ONtrack™ - Risk Management System

In the coming months, Subex Azure's communication to the market will highlight this unique value proposition.

Subex pride award winners

Pavankumar Kulkarni

Rajkumar C

Vijay Raghunathan

Vivek Thakare

People Overview

In a critical and exciting year for Subex Azure, our new mandate for Human Resources is to ensure that we have every Subexian committed to contributing towards the success of the organization. As we pull together for this journey, which we believe will be exhilarating as well as challenging, we will be Creating History in the Indian software space. We will also draw from the Subexian traits extensively to march together through the new challenges.

By the end of March 2006, we had a total of 325 Subexians. Our talent pool of qualified professionals consists of 26% Subexians, who have been with the organization for more than 3 years. For a knowledge-intensive industry like ours, this is quite important and for that reason, a significant achievement.

Creating History

One of the major activities for us this year has been an initiative we termed 'Creating History'. The key message has been that each Subexian is Creating History by being a part of an organization that is a world leader in its area of focus. We have done this by developing fully home-grown products. Creating History also emphasizes the point that everyone in the organization has a chance to contribute innovative ideas and create Subexian History. This in turn,would mean better career opportunities for every Subexian.

The Subexian Traits

The Subexian Traits are the traits and characteristics that are encouraged and nurtured at Subex Azure. We believe that these traits - Strategic Thinking, Ethics and Professionalism, Quality, Leadership, Commitment, Perseverance and Customer Orientation - make a successful Subexian. The significance of these traits is communicated right from the induction process into the organization. These are further strengthened through our Subexian Traits Integration Camp, a mandatory outbound learning experience for every new Subexian. These traits form the foundation of our Performance Management System as well. Subexian Traits are further reinforced through our Subexian Pride Award - a recognition given by Subexians to fellow Subexians who manifest the Subexian Traits. You will find our winners of the past year in this report.

Subex Azure Leadership Program

The way we look at the Subex Azure Leadership Program, as with any process of building competencies in individuals, is through the following steps - create the right attitude for change in individuals, deliver the relevant knowledge, improve the skills/ knowledge, transfer the newly acquired competencies into their day-to-day activities and then help them get used to the new way of working.

We have met one of the major challenges - creating the right attitude for change - to a great extent from Phase 1 of the Program, through the Assessment Centre conducted last year. Subexians have been receptive to the individual feedback and thereby have the realization about the need for their change and growth. The next step would be to identify the right avenues for imparting some training initiatives - classroom, assignment-based, on-the-job, etc. A continuation of this would be application of the newly acquired competencies into their daily activities.

Last year we completed Phase 1 of the Subex Azure Leadership Program. This year, the focus will be on Phase 2, the developmental phase.

Recruitment

Creating a talent pool of skilled Subexians, who possess the correct fit with the Subex Azure culture, is of utmost importance. We look at all avenues to hire Subexians - campus recruitment, referrals by Subexians, job portals and recruitment agencies. With the demand for talent growing exponentially, a lot of focus will be on developing future leadership from within.

We have a very crucial time ahead of us. This year we will evaluate our core human resource strategies and also realign all our HR processes towards the new business plans. We are a well-knit team of Subexians, unique by our accessibility to each other and commitment to the organization. As we grow larger, the biggest asset we will have is this uniqueness!

Milestone *(n)*: a high point; an event or achievement that highlights an organization's forward journey

Driving Beliefs

Mission Statement

To 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.

Vision Statement

To be the leader in our areas of business through:

Total Customer Satisfaction, Commitment to Excellence and Determination to Succeed.

Quality Statement

"Subexians are committed to achieve total customer satisfaction by delivering high quality products that meet the needs and expectations of our customers.

We commit ourselves to adhere to quality management system requirements and to continually improve the same"

Board Of Directors

1

2

3

4

5

6

7

8

9

1. Subash Menon
Founder Chairman,
Managing Director & CEO

2. Sudeesh Yezhuvath
Executive President

3. V. Balaji Bhat
Non - Executive Director

4. K. Bala Chandran
Non - Executive Director

5. Vinod R. Sethi
Non - Executive Director

6. Andrew Garman
Non - Executive Director

7. S. N. Rajesh
Non - Executive Director

8. P. P. Prabhu
Non - Executive Director

9. Harry Berry
Non - Executive Director

Executive Management Team







1. **Subash Menon**
Founder Chairman,
Managing Director & CEO

2. **Anuradha**
Senior Vice President - Engineering

3. **Dean Smith**
President - APAC

4. **Greg LeNeveu**
Senior Vice President - Americas

5. **Paul Skillen**
Vice President - Account Management, BT Account

6. **Phil Osborne**
Vice President - Operations, BT Account

7. **Rajkumar C**
Head - Legal & Company Secretary

8. **Sanjay Paul Antony**
Vice President - Human Resources

9. **Sanjeev Gadre**
Senior Director - Marketing

10. **Saul Nurtman**
President - EMEA

11. **Sekharan Y Menon**
Senior Vice President - Professional Services Organization

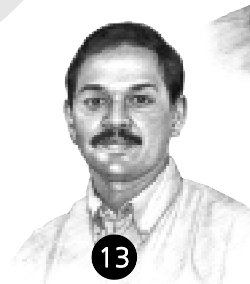
12. **V R Suresh Rao**
Vice President - Finance & Accounts

13. **Vinod Kumar P**
Senior Vice President - Sales

14. **Sudeesh Yezhuvath**
Executive President






This page is intentionally left blank

Financial Review

for the year ended 31st March, 2006

DIRECTORS' REPORT TO THE MEMBERS OF SUBEX AZURE LIMITED

Your directors have pleasure in presenting the twelfth Annual Report of the company on the business and operations together with the audited accounts for the year ended 31st March, 2006.

FINANCIAL RESULTS

Amount in Rs. million

	2005-06	2004-05
Total revenue	1841.19	1172.35
Profit before interest, depreciation & amortization	539.44	356.74
Interest, depreciation & amortization	117.21	95.64
Profit before tax	422.23	261.10
Provision for taxes	30.73	8.07
Profit after tax	391.50	253.03
Appropriations		
Interim dividend	16.28	9.28
Preference dividend	-	4.65
Dividend proposed on equity shares	21.76	20.13
Provision for tax on dividends	5.60	4.52
Transfer to general reserve	39.50	25.50
Surplus carried to balance sheet	756.30	448.50

RESULTS OF OPERATIONS

Your company performed well during the financial year ended 31st March 2006. Our total revenue grew by 55% to reach Rs. 1841.19 million while Profit after Tax (PAT) grew by 54% to reach Rs. 391.50 million. Products division increased its' contribution to revenue with a 65% share. Products recorded revenue of Rs. 1166.82 million that translates to a growth of 87% as against 58% the year before.

As is evidenced by the figures above, the products business is growing in line with our strategic plan and is set to further gain in relative terms in the years to come. Over the past 5 years, software products have increased their contribution in the overall revenue from a low figure of 7% in FY01 to 65% in FY06. Additionally, one of the key metrics that we track, namely the Average Revenue per Contract (ARPC) has increased to US$ 950,000 from US$ 875,000 in FY05.

Our acquisitions in FY05 have yielded us very good returns during FY06 and the businesses have got well integrated into the overall activity. As against an expectation of a payback period of over 3 years, we have finished payback over an 18-month period. This excellent experience has boosted our confidence in our ability to handle and gain from acquisitions going forward.

BUSINESS

Your company operates in a niche market providing Revenue Maximization solution to communications service providers worldwide. These solutions improve the revenues and profits of the communications service providers through identification and elimination of leakages in their revenue chain. Your company conceptualizes and develops software products at its facilities in Bangalore and is focused on the telecom business segment. Your company has sales and support offices in Canada, UK, China and United States. Your company's vision is to be a global leader in its' chosen area of operation namely revenue maximization for communications service providers. Your company aims to be the leader in revenue maximization solutions for communications service providers globally and has taken several strategic initiatives to fulfill its' ambition. The company is focused on the products side of the business and is committed to grow this segment faster in the coming years.

Carriers the world over are facing an increasing threat on the revenue maximization front. A significant reason for that is the morphing of their business model coupled with the increasing complexities and scale. While the conventional business model was to serve products voice, data etc. that were generated by their own networks, the new model is to offer products like ring tones, music downloads, video clippings, commercial products etc. from other providers thereby functioning as a channel. This brings with it an added element of risk if revenue leakage happens. For example, if a carrier misses out to bill for a music download, they will still need to pay the provider for that download while not collecting from their customer. This, in effect, is a "double whammy". Thus, revenue maximization solutions are fast becoming key investments for all communications service providers leading to an unprecedented demand for these solutions.

However, there are widely ranging estimates about the size of the market. While the loss due to revenue leakages has been established fairly accurately by Analysys of UK at about 13% of the revenue of a carrier, the size of the resultant market for tools to address this loss is yet to be ascertained precisely. Given to conservative estimates, we put the figure at US$ 250 million during the current year growing at about 15 to 20% annually and that gives us a market share of about 25%. As regards the market for interparty management and interconnect, while the market for the latter is growing only at about 5%, that for the former is growing at 39% although from a lower base.

On the whole, there is tremendous opportunity for your company to grow in the future. The market for our products is growing quite well and we are now uniquely positioned to take advantage of that growing market. Our large customer base coupled with the deep domain knowledge within the organisation puts us in an enviable position to tap the market effectively and grow at a pace that is faster than that of the market itself thereby resulting in a increasing market share.

ACQUISITIONS

Your company has acquired the telecom fraud management business of Mantas, Inc., during the year which will enable it to further consolidate its position in the key North American market. On 25th April, 2006 Subex has announced its agreement to acquire Azure Solutions Limited which is indeed a significant moment in the history of your company. Subsequently your company has announced the completion of the deal on 23rd June, 2006. The combined entity can now boast 23 of the 40 Tier-1 telecommunications companies across the world. This landmark deal, valued at US$ 140 million, has been billed as the largest overseas acquisition by an Indian company in the IT space. The management is in the process of integrating businesses of both the companies.

CHANGE OF NAME

Consequent to the acquisition of Azure Solutions Limited, the name of your company has been changed from Subex Systems Limited to Subex Azure Limited with effect from 23rd June, 2006.

DIVIDEND

In October 2005, we paid an interim dividend of Rs. 1.50 per share (15% on par value of Rs.10). Your directors recommend a final dividend of Re.1 per share (10% on par value of Rs. 10) fortifying the company's tradition of enabling shareholders to participate in its progressive performance, subject to the approval by the shareholders at the ensuing Annual General Meeting. After the approval of the shareholders at the ensuing Annual General Meeting, the dividend will be paid as per the applicable regulations.

In terms of the provisions of the Investor Education and Protection Fund (Awareness and Protection of Investor) Rules, 2001, no amount is to be transferred during the year to the Investor Education and Protection Fund.

The register of members and share transfer books will remain closed from 22nd August, 2006 to 28th August, 2006, both days inclusive. The Annual General Meeting of the company has been scheduled to be held on Monday, 28th August, 2006.

CHANGES IN THE SHARE CAPITAL

ESOP SHARES

During the year, your company has allotted 65,408 shares under its ESOP 2000 scheme to the option holders on their exercise of stock options.

BONUS SHARES

During the year under review, a sum of Rs. 108,787,840 standing to the credit of the Securities Premium Account was capitalized for the issue of 10,878,784 fully paid equity shares of Rs. 10 each, allotted as bonus shares in the ratio one equity share for every one equity share held. The record date for determining the entitlement of bonus shares was 6th January, 2006 and the bonus shares were allotted on 9th January, 2006. The Bonus shares will be eligible for the final dividend to be declared pursuant to the recommendation made by the board of directors.

ISSUE OF GLOBAL DEPOSITORY RECEIPTS (GDRs)

On 7th April, 2006, your company has raised funds by issuing Global Depositary Receipts (GDR) to the tune of US$ 10 million. Consequent to this, the company has issued 1,109,878 underlying equity shares. These shares were issued at a price of Rs. 400 (face value, Rs.10) each.

The recent acquisition of Azure Solutions Limited was done through the issue of GDRs. Your company has allotted 11,728,728 GDRs, with every GDR having one underlying equity share, to the share holders of Azure Solutions Limited as consideration for acquiring the entire issued share capital of Azure Solutions Limited. The GDRs are listed on the Luxembourg Stock Exchange.

SUBSIDIARIES

SUBEX TECHNOLOGIES, INC

For the year ended 31st March, 2006, Subex Technologies Inc (STI) earned an income of Rs. 596.59 million and a net profit of Rs. 2.54 million. STI provides manpower for the contracts of the company with its customers in US on a transfer pricing mechanism and as such the profits on the contracts are reflected in your company's accounts. 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.

SUBEX TECHNOLOGIES LIMITED

During the year 2004-05, Subex Technologies Limited (STL) had been formed as a wholly-owned subsidiary of the company. For the year ended 31st March, 2006, Subex Technologies Limited earned an income of Rs.12.26 million and incurred a net loss of Rs. 15.26 million The issued and paid up share capital of the company increased from Rs. 0.5 million to Rs. 10 million.

EMPLOYEE STOCK OPTIONS SCHEMES

Your company has introduced various stock option schemes for its employees. Details of these, including grants to directors and senior management issued during the year are given below.

EMPLOYEES STOCK OPTION PLAN-1999 (ESOP – I)

This scheme was instituted during 1999 and managed by Subex Foundation with a corpus of 1,20,000 equity shares initially. This scheme is not operational now. As on 31st March, 2006, 174,440 shares (which includes 87,220 bonus shares allotted on 6th January, 2006) are available with the trust.

EMPLOYEES STOCK OPTION PLAN-2000 (ESOP- II)

Under this scheme, a corpus of 500,000 options were created for grant to eligible employees. Each option is convertible into one fully paid-up equity share of Rs.10. This scheme has been formulated in accordance with the Securities and Exchange Board of India (Employee Stock Option Scheme and Stock purchase scheme) Guidelines, 1999.

The corpus of the scheme was enhanced by another 387,125 options in order to accommodate the effect and benefit of the bonus issue made by the company during the financial year 2005-06.

As per the scheme, a Compensation Committee was formed, which grants options to the eligible employees. The options are granted at a price, which is not less than 85% of the average of the closing price of the shares during the 15 trading days preceding the date of grant on the stock exchange where there is highest trading volume during this period. The options granted will be vested over a period of 1 to 4 years and can be exercised over a period of 3 years from the date of vesting. As on 31st March, 2006, 23,098 options were available in this scheme for further grants.

EMPLOYEE STOCK OPTION PLAN-2005 (ESOP-III)

Under this scheme a corpus of 500,000 options were created for grant to the eligible employees. Each option is convertible into one fully paid-up equity share of Rs.10. This scheme has been formulated in accordance with the Securities and Exchange Board of India (Employee Stock Option Scheme and Stock purchase scheme) Guidelines, 1999 and amendments thereto.

As per the scheme, the Compensation Committee grants options to eligible employees. The options are granted at a price, which is not less than 85% of the average of the closing price of the shares during the 15 trading days preceding the date of grant on the stock exchange where there is highest trading volume during this period. The options granted will be vested over a period of 1 to 4 years and can be exercised over a period of 3 years from the date of vesting.

ADDITIONAL INFORMATION AS PER SEBI GUIDELINES

Sl.No	Particulars	ESOP 2000	ESOP 2005
1	Options granted as on 31st March, 2006	476,902	70,380
	Options granted during the year	144,000	70,380
2	Pricing formula	As mentioned above	As mentioned above
3	Options vested but not exercised as on 31st March, 2006	70,323	NIL
4	Options exercised as on 31st March, 2006	112,875	NIL
	Options exercised during the year	65,408	NIL
5	Money realized by exercise of options during the year	6,055,240	NIL
6	The total number of shares arising as a result of exercise of options as on 31st March, 2006	112,875	N.A
7	Options lapsed as on 31st March, 2006	285,398	NIL
	Options lapsed during the year	50,950	NIL
8	Variation of terms of options	None	None
9	No. of employees covered	310	156
10	Employee-wise details of options granted during the year under review to:		
	(i) Senior managerial personnel Mr. Sanjay Paul Antony	8000	-
	Ms. Anuradha	-	2360
	Mr. V R Suresh Rao	-	1130
	Mr. Vinod Kumar P	-	2030
	Mr. Sekharan Y Menon	-	1950
	Mr. Rajkumar C	-	1400
	(ii) Other employees who receive a grant in any one year of option amounting to 5% or more of option granted during that year	NIL	NIL
	(iii) Identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant	NIL	NIL
11	Diluted Earnings Per Share (EPS) pursuant to the issue of shares on exercise of option calculated in accordance with Accounting Standard (AS) 20 'Earnings per share'	Rs. 18.13	Rs. 18.13
12	Where the company has calculated the employee compensation cost using the intrinsic value of the stock options, the difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognized if it had used the fair value of the options. The impact of this difference on profits and on EPS of the company is:	(7,664,830)	
13	Weighted-average exercise prices and weighted-average fair values of options separately for options whose exercise price either equals or exceeds or is less than the market price of the stock.	Weighted average exercise price is Rs. 442.80	Weighted average exercise price is Rs. 342.55
14	A description of the method used during the year to estimate the fair values of options, including the following weighted-average information :	Black Scholes method of valuation	
	1. risk-free interest rate	6.43%	
	2. expected life	3 Years	
	3. expected volatility	55.765%	
	4. expected dividends	0.42%	
	5. the price of the underlying share in market at the time of option grant	473.18	

CORPORATE GOVERNANCE

Your company is committed to ensure good corporate governance practices in its operations. 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. During the year under review, your company has been selected as one among the top-25 companies in India in terms of practicing best corporate governance norms by the Institute of Company Secretaries of India.

Your company has complied with the requirements of the new Clause 49 of the listing agreement of the Stock Exchanges. The auditors' certificate on compliance with Clause 49 is annexed to this report. In addition, your company has documented its internal policies in line with the corporate governance guidelines. The management's discussion & analysis of the financial position of the company is provided in this annual report and is mentioned hereby for reference.

AUDITORS' REPORT

There were no qualifications observed in the auditor's report for the Financial Year 2005-06.

AUDIT COMMITTEE

The audit committee presently has 5 directors as members viz. Mr. V. Balaji Bhat, Mr. K. Bala Chandran, Mr. Vinod R Sethi, Mr. Subash Menon and Mr. S.N. Rajesh. Except Mr. Subash Menon, all other members of the audit committee are non-executive independent directors. Mr. Balaji Bhat is the Chairman of the audit committee. The role, terms of reference, the authority and powers of the audit committee are in conformity with the requirements of the Companies Act, 1956 and Clause 49 of the listing agreement. More details of the audit committee are provided in the report on corporate governance attached to this annual report.

AUDITORS

The auditors, M/s. Deloitte Haskins & Sells, Chartered Accountants, retire at the ensuing Annual General Meeting and have confirmed their eligibility and willingness to accept office, if re-appointed.

DIRECTORS

The Board of Directors at their meeting held on 25th April, 2006 re-appointed Mr. Sudeesh Yezhuvath as Whole-time Director of the Company for a further period of 5 years with effect from 1st April, 2006, which was subsequently approved by the members in their extra-ordinary general meeting held on 29th May, 2006.

As per Article 87 of the Articles of Association of the Company, Mr. P. P. Prabhu and Mr. Sudeesh Yezhuvath retire by rotation and being eligible, offer themselves for re-appointment in the forthcoming Annual General Meeting.

Mr. Alex Puthenchira has resigned from the Board with effect from 30th August, 2005. Your directors place on record their deep appreciation for the service rendered by Mr. Alex Puthenchira during his tenure as a director of the company.

Mr. Andrew Garman and Mr. Harry Berry were inducted on the Board as directors by the members in their extra-ordinary general meeting held on 29th May, 2006.

Mr. Andrew Garman is Managing Partner of New Venture Partners. He focuses on the firm's Software & Services and Networking & Communications investment areas. Mr. Garman holds an AB in Engineering and Applied Physics from Harvard College, an MS in Mechanical Engineering from Stanford University and an MBA from Stanford University, where he was named an Arjay Miller Scholar. He is a past president of the Stanford Business School Alumni Association and member of the Board of Advisors.

Mr. Harry Berry is Managing Partner of New Venture Partners, which was formed from a combination from Lucent Ventures Technologies and BT's corporate venturing arm, BT Brightstar. With over 30 years experience in the telecommunications industry, Mr. Harry Berry has held a wide range of senior positions. He has a depth of experience in dealing with companies in the OSS space and a strong background in product and service delivery within the telecommunications field.

FIXED DEPOSITS

Your company has not accepted any fixed deposits from the public.

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.

As per the amendment made to Companies (Particulars of Employees) Rules, 1975, the particulars of employees of companies engaged in Information Technology sector posted and working outside India, not being directors or their relative, drawing more than Rs. 24 lakhs per financial year or Rs. 2 lakhs per month, as the case may be, need not be included in the statement. Accordingly, the statement included in this report does not contain the particulars of employees who are posted and working outside India.

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

A CONSERVATION ENERGY

The operations of your company are not energy-intensive. However, significant measures are taken to reduce energy consumption by using energy-efficient computers and by the purchase of energy-efficient equipment. Your company constantly evaluates new technologies and invests to make its infrastructure more energy-efficient. Currently your company uses CFL fittings and electronic ballasts to reduce the power consumption of fluorescent tubes. Air conditioners with energy efficient screw compressors for central air conditioning and air conditioners with split air conditioning for localized areas are used.

B TECHNOLOGY ABSORPTION, ADOPTION AND INNOVATION

Your 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. Since Software products are the significant line of business of your company, the company incurs expenses on product related Research & Development on a continuous basis. These expenses are charged to revenue under the respective heads and are not segregated and accounted separately.

C FOREIGN EXCHANGE EARNINGS 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 2005-06 total foreign exchange inflow and outflow is as follows:

i) Foreign exchange earnings Rs. 1378.70 million (previous year Rs. 1042.08 million)

ii) Foreign exchange outgo Rs. 1000.91 million (previous year Rs. 632.41 million)

SOCIAL RESPONSIBILITIES - SUBEX CHARITABLE TRUST

The trust was set up with to provide for welfare activities for underprivileged and the needy in the society. The trust is managed by trustees elected from amongst the Subexians. During the year the trust has provided active support for rural heath care initiatives and for education of underprivileged children.

HUMAN RESOURCE MANAGEMENT

One of the major initiatives for your company this year has been an initiative termed 'Creating History'. The key message is that each Subexian is Creating History by being a part of an organization who is a world leader in its area of focus. Your company has done this by developing fully home-grown products. Creating History also emphasizes the point that everyone in the organization has a chance to contribute innovative ideas and create Subexian History. This in turn, would mean better career opportunities for every Subexian.

During the forthcoming year, as your company grows larger, the biggest asset will be the uniqueness of Subexians because of their accessibility to each other and commitment towards the organization.

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, 2006, 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 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 31st March, 2006 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 accounts for the year ended 31st March, 2006 has been prepared on a going concern basis.

APPRECIATIONS / ACKNOWLEDGEMENTS

We thank our clients, vendors, investors and bankers for their continued support during the year. We place on record our appreciation for the co-operation and assistance provided by the Central and State Government authorities particularly software technology park - Bangalore, customs and central excise authorities, Registrar of Companies, Karnataka, the Income Tax Department Reserve Bank of India and various authorities under the Government of Karnataka.

Your directors also wish to place on record their deep appreciation to Subexians at all levels for their hard work, solidarity, co-operation and support as they are instrumental in your company scaling new heights, year after year.

for and on behalf of the Board

Subash Menon
Founder Chairman,
Managing Director & CEO

Place : Bangalore
Date : 26th June, 2006

ANNEXURE TO THE DIRECTORS' REPORT

Information as per Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of employees) Rules, 1975 and being part of the Directors' Report for the year ended 31st March, 2006.

Name	Designation	Qualification	Age	Experience (No. of years)	Date of commencement of employment	Remuneration received Rs.	Previous employment
Subash Menon	Founder Chairman, Managing Director & CEO	B.E	41	18	December 1994	12,405,236	Eltel Industries
Sudeesh Yezhuvath	Executive President	B.Tech	37	16	December 1994	11,003,930	Transmatic Systems Limited
Sekharan Yezhuvath	Sr. VP - PSO	Instru-mentation Engg.	39	20	September 1996	2,479,655	Yokogawa Blue Star
Dakshinamurthy Karra*	Chief Techonolgy Officer	B.Sc	42	18	February 1999	1,927,515	Powertel Boca Ltd
Anuradha	Sr. VP - Engg.	MS	41	17	June 2003	2,814,406	Mistral Software Pvt Ltd
P. Vinodkumar	Sr. VP - Sales	B.Tech	36	14	October 1997	4,049,143	Crompton Greaves Ltd
Sanjay Paul Antony*	VP - Human Resources	BE,PM&IR	40	15.8	October 2005	1,683,819	Goldman Sachs

* Worked for part of the year.

Notes : Remuneration comprises basic salary, allowances and taxable value of perquisites.
Sudeesh Yezhuvath is the brother of Subash Menon and except this, none of the other employees are related to any of the other Directors of the company.

REPORT ON CORPORATE GOVERNANCE

I. COMPANY'S PHILOSOPHY ON CODE OF CORPORATE GOVERNANCE

Corporate governance is about commitment to values and ethical business conduct. It is about how an organization is managed. Therefore situation, performance, ownership and governance of the company are all equally important as regards to the structure, activities and policies of the organization. This helps the organization to attract investors and enhance the trust and confidence of the stakeholders.

Subex Azure's compliance with the corporate governance guidelines as stipulated by the stock exchange is described in this section. The company believes that sound corporate governance is critical to enhance and retain investors' trust. Subex Azure respects minority rights in its business decisions.

Subex Azure's corporate governance philosophy is based on the following principles:

1. Satisfy the spirit and not just the letter of the law.
2. Be transparent and maintain high degree of disclosure levels.
3. Communicate externally, in a truthful manner, about how the company is run internally.
4. Comply with the laws in all the countries in which the company operates.

Subex Azure Limited is committed to good corporate governance practices. Consistent with this commitment, Subex Azure seeks to achieve a high level of responsibility and accountability in its internal systems and policies. Subex Azure respects the inalienable rights of the shareholders to information on the performance of the company. The company's corporate governance policies ensures, 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 Azure'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 and amendments made thereto.

II. BOARD OF DIRECTORS

The Board of Directors of Subex Azure consists of 9 directors out of which 2 are executive directors and 7 are non-executive independent directors.

Details of the composition of the Board of Directors and their attendance and other particulars are given below:

A. Composition and category of directors as on 26th June, 2006

Category	No. of directors	%
Promoter directors	1	11.1%
Non-executive Independent directors	7	77.8%
Other executive directors	1	11.1%
Total	9	100%

B. Attendance of directors at the Board meetings and the last AGM and details about their directorships and membership in committees as on March 31, 2006.

Director	Position	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 member ■▲
Mr. Subash Menon	Chairman & Managing Director	4	4	Yes	1	-	1
Mr. Alex J Puthenchira*	Non-Executive Director	4	-	No	-	-	-
Mr. K. Bala Chandran	Non-Executive Independent Director	4	3	Yes	1	1	3
Mr. V. Balaji Bhat	Non-Executive Independent Director	4	4	Yes	5	3	1
Mr. Vinod R. Sethi	Non-Executive Independent Director	4	2	No	7	-	3
Mr. Sudeesh Yezhuvath	Wholetime Director	4	2	Yes	1	-	1
Mr. S. N. Rajesh	Non-Executive Independent Director	4	2	No	3	-	3
Mr. P. P. Prabhu	Non-Executive Independent Director	4	4	Yes	3	1	1
Mr. Harry Berry+	Non Executive Independent Director	4	-	No	-	-	-
Mr. Andrew Garman+	Non Executive Independent Director	4	-	No	-	-	-

▲ Excluding private limited companies & overseas companies.
■ Including only audit committee and shareholder's grievance committee. Memberships in committees in Subex Azure Ltd are included.
* Mr. Alex J Puthenchira resigned as director with effect from 30th August, 2005.
\+ Mr. Harry Berry and Mr. Andrew Garman were inducted on the Board with effect from 29th May, 2006.

C. Number and dates of Board meetings

4 (Four) Board meetings were held during the year. The dates on which meetings were held are as follows

28th April, 2005; 28th July, 2005; 28th October, 2005; 27th January, 2006.

D. Brief details of directors seeking re-appointment

1. Sudeesh Yezhuvath, B. Tech, Executive President, has been with the company since 1993 and has considerable experience in the telecom industry. Sudeesh Yezhuvath, who joined the company as Manager Sales & Marketing, was promoted as the Chief Operating Officer in 2001. Over the years, he has built up a strong sales and marketing team in the company.

2. P. P. Prabhu, I.A.S (Retd) joined the Indian Administrative Service (IAS) in 1964. He held various positions with Govt. of Karnataka and Govt. of India including the positions of Chairman & Managing Director of Vikrant Tyres, Managing Director of Karnataka State Road Transport Corporation, Managing Director of Karnataka Power Corporation, Chairman of Coffee Board, Secretary to the Government of India, Ministry of Food Processing Industry and Commerce Secretary, Government of India. He was till recently Chairman of UTI Venture Funds Management Private Limited.

III. AUDIT COMMITTEE

A. Terms of reference

The audit committee has, interalia, the following mandate:

- Overseeing the company's financial reporting process and disclosure of its financial information to ensure that the financial statements are 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 the 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 on which Subex Azure is listed.

B. Composition of audit committee

Composition	Category
Mr. Balaji Bhat,Chairman	Non-Executive Independent Director
Mr. K. Bala Chandran	Non-Executive Independent Director
Mr. Vinod R. Sethi	Non-Executive Independent Director
Mr. S. N. Rajesh	Non-Executive Independent Director
Mr. Subash Menon	Founder Chairman, Managing Director & CEO

The Company Secretary is the secretary of the audit committee.

C. Meetings and attendance during the year

During the financial year 2005-06, four audit committee meetings were held. The audited financial results for the year ended 31st March, 2005 were taken on record at the meeting held on 28th April, 2005. At their meetings held on 28th July, 2005, 28th October, 2005 and 27th January, 2006, the accounts for the respective quarters were taken on record.

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	4	4
Mr. K. Bala Chandran	4	3
Mr. Vinod R. Sethi	4	2
Mr. S. N. Rajesh	4	2
Mr. Subash Menon	4	4

IV. REMUNERATION COMMITTEE

Composition of the committee
Mr. S. N. Rajesh - Chairman
Mr. Vinod R. Sethi
Mr. K. Balachandran

Mr. V. Balaji Bhat has been inducted as a member of the committee with effect from 15th May, 2006. The committee looks into remuneration of executive directors. The committee considers the performance of the company as well as general industry trends while fixing the remuneration of executive directors. During the year under review, the committee had one meeting on 28th April, 2005. All the members of the committee were present in the meeting.

Details of remuneration to directors *Amount in Rs.*

Name	Designation	Salary	Commission	Total
Mr. Subash Menon	Chairman & Managing Director	69,05,236	55,00,000	1,24,05,236
Mr. Sudeesh Yezhuvath	Whole time Director	65,03,930	45,00,000	1,10,03,930
Mr. K. Bala Chandran	Non-Executive Independent Director	-	3,00,000	3,00,000
Mr. V. Balaji Bhat	Non-Executive Independent Director	-	3,00,000	3,00,000
Mr. Vinod R. Sethi	Non-Executive Independent Director	-	3,00,000	3,00,000
Mr. S. N. Rajesh	Non-Executive Independent Director	-	-	-
Mr. P. P. Prabhu	Non-Executive Independent Director	-	3,00,000	3,00,000

Note: The above figures are excluding the sitting fees, which are within the limits specified in the Companies Act, 1956.
The company compensates Non-Executive Independent Directors keeping in view of the time and attention devoted by them for the company.

The following directors have been allotted stock options under the employee stock options scheme of the company.

Name	Designation	No. of options	No. of shares vested and exercised as on 31st March, 2006
Mr. K. Bala Chandran	Non–Executive Director	7,500	2625
Mr. V. Balaji Bhat	Non–Executive Director	7,500	4875
Mr. Vinod R. Sethi	Non–Executive Director	7,500	2625
Mr. P. P. Prabhu	Non–Executive Director	7,500	1125

The above stock options were granted at the same terms and conditions as mentioned in the ESOP scheme-2000 of the company.

The Remuneration Committee determines and recommends to the Board the compensation payable to the directors. All Board level compensation is approved by the shareholders, and separately disclosed in the financial statements. Remuneration of executive directors consists of a fixed component and a performance based commission. The compensation, however, shall be within the parameters set by the shareholders meetings and the provisions of the Companies Act, 1956. The executive directors have entered into service contracts with the company. Both the executive directors have 3 months notice period with the company if they decide to terminate the contract. If the termination is from the company, the notice period shall be 12 months. They have voluntarily opted out of the stock options plans of the company. In case of severance from the company the executive directors are eligible for getting compensation not less than five times the total remuneration of the preceding 12 months from the date of the notice and the notice period amount. The non-executive directors are eligible for commission not exceeding 0.5% of the profits of the company subject to a maximum of Rs.2 million in aggregate per year and also stock options of the company subject to the terms of the stock options schemes of the company.

V. SHARE TRANSFER COMMITTEE

A. Composition of the committee

Mr. Sudeesh Yezhuvath, Chairman

Mr. Subash Menon

Authorised Representative of share transfer agents.

B. Meetings during year

The company holds share transfer committee meetings upto 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 four times during the financial year 2005-06 on the following dates:

Date of the meeting	No. of transfer deeds received	Shares involved
28th October, 2005	2	400
2nd January, 2006	2	300
6th January, 2006	1	100
31st January, 2006	4	800

The company ensures that the share transfers are effected within one month of the receipt of request for transfer.

VI. INVESTOR GRIEVANCE COMMITTEE

A. Composition of the committee

The members of the company's investor grievance committee are:

Mr. K. Bala Chandran, Chairman

Mr. Sudeesh Yezhuvath

This committee looks into redressal of shareholders' and investors' complaints.

The company secretary is the compliance officer of the company.

B. Meetings during the year

The committee has met 4 (Four) times during the current financial year on these dates:

28th April, 2005; 28th July, 2005;
28th October, 2005; 27th January, 2006

Details of the grievances of the investors are provided in the "Shareholders' Information" section of this report.

VII. ESOP COMMITTEE (compensation committee)

The company has instituted employee stock options scheme in line with the SEBI Guidelines. In order to grant options under the scheme to eligible employees, a compensation committee has been formed.

A. Composition of the committee

The committee comprises the following members:

Mr. V. Balaji Bhat, Chairman

Mr. K. Bala Chandran

Mr. Subash Menon

B. Meetings during the year

The committee met 4 (Four) times during the financial year on the following dates:

1st April, 2005, 1st July, 2005, 1st October, 2005, 2nd January, 2006

VIII. GENERAL BODY MEETINGS

A. Location and timings of the last three AGMs

Year	Date of AGM	Venue	Time
2002-2003	9th September, 2003	Le Meridien – Bangalore	3:00 p.m.
2003-2004	24th August, 2004	Le Meridien – Bangalore	3:00 p.m.
2004-2005	28th July, 2005	Le Meridien – Bangalore	3:00 p.m.

Location and timings of the last three EGMs

Year	Date of EGM	Venue	Time
2005	2nd December, 2005	Corporate office	4:00 p.m.
2006	25th February, 2006	Corporate office	4:00 p.m.
2006	29th May, 2006	Le Meridien - Bangalore	3:00 p.m.

B. Postal ballot

No special resolutions were required to be put through the postal ballot in the previous 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. Annual/ Half Yearly and Quarterly results

The annual/half yearly/quarterly audited/un-audited results are generally published in all editions of Business Standard and Udayavani. The complete financial statements are posted on the Company's website www.subexazure.com. Subex Azure 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's 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 the Stock Exchanges is enclosed in this annual report.

XIII. Compliance with non-mandatory requirements of Clause 49 of the listing agreement.

Clause 49 further states that the non-mandatory requirements may be implemented as per the company's discretion. However the disclosures of compliance with mandatory requirements and adoption (and compliance)/ non adoption of non-mandatory requirements shall be made in the section on corporate governance in the annual report. We comply with the following non-mandatory requirements.

A. The Board

We have an Executive Chairman and as such maintenance of office by a Non-Executive Chairman does not arise. None of our independent directors have served for a tenure exceeding nine years from the date when the new Clause 49 became effective.

B. Remuneration Committee

We have instituted a Remuneration Committee. A detailed note on the Remuneration Committee is provided elsewhere in the report.

C. Shareholder's rights

We communicate with investors regularly through emails, telephones and face to face meetings either investor conferences, company visits or on road shows. We announce quarterly financial results within four weeks of the close of a quarter. The company publishes the quarterly financial results in leading business newspaper(s) as well as put on the company's website. However, we have not initiated sending half-yearly declaration of financial performance to the household of shareholders so far.

D. Audit Qualifications

The company does not have any audit qualification for the year under review. We always endeavor to move towards a regime of un-qualified financial statements.

E. Training of Board Members

All new non-executive directors inducted into the Board are given adequate orientation on the company's businesses, group structure, risk management strategy and policies.

F. Mechanism for evaluating non-executive Board Members

The company compensates non-executive directors keeping in view of the time and attention devoted by them for the company. While doing so, we evaluate the performance of the non-executive directors using various parameters. However we are yet to formalize this evaluation by peer group comprising entire Board of Directors, excluding the director being evaluated.

G. Whistle Blower Policy

We have established a mechanism for employees to report concerns about unethical behaviour, actual or suspected fraud or violation of our code of conduct. The mechanism also provides for adequate safeguards against victimization of employees who avail of the mechanism and also provide for direct access to the Chairman of the Audit Committee in exceptional cases. Our employees are informed of this policy through appropriate internal communications. None of our employees has been denied access to this facility.

for Subex Azure Limited

Subash Menon
Founder Chairman,
Managing Director & CEO

Place : Bangalore
Date : 26th June, 2006

COMPLIANCE CERTIFICATE TO THE MEMBERS OF SUBEX AZURE LIMITED

1. We have examined the compliance of conditions of Corporate Governance by Subex Azure Limited (formerly Subex Systems Limited) ['the Company'], for the year ended 31st March, 2006, 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 a review of the procedures and implementations 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 of 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. 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

V. Srikumar
Partner
Membership No. 84494

Place : Bangalore
Date : 26th June, 2006

DECLARATION BY THE CEO UNDER CLAUSE 49 I (D) OF THE LISTING AGREEMENT REGARDING ADHERENCE TO THE CODE OF CONDUCT

To,

The Members of Subex Azure Limited

In accordance with Clause 49 sub-clause I (D) of the Listing Agreement with the Stock Exchanges, I hereby confirm that, all the Directors and the Senior Management personnel including me, have affirmed compliance to their respective Codes of Conduct, as applicable for the Financial Year ended 31st March, 2006.

for Subex Azure Limited

Subash Menon
Founder Chairman,
Managing Director & CEO

Place : Bangalore
Date : 26th June, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

Subex Azure Limited (Subex Azure) is listed on the National Stock Exchange of India Limited (NSE), Bombay Stock Exchange Limited (BSE) and the Bangalore Stock Exchange Limited (BgSE). The Global Depository Receipts of the company are listed on the Luxembourg Stock Exchange. Until recently, the company was called Subex Systems Limited. Consequent to the acquisition of Azure Solutions Limited, UK, by Subex Systems Limited, the name of the company was changed to Subex Azure limited.

The management of Subex Azure is committed to improve the levels of transparency and disclosure. Keeping this in mind, an attempt has been made to disclose hereunder, information about the company, its business, operations, outlook, risks and financial condition.

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 Azure accepts responsibility for the integrity and objectivity of these financial statements, as well as for various estimates and judgments used therein. The estimates and judgments relating to the financial statements have been made on a prudent and reasonable basis, in order that the financial statements reflect the form and substance of transactions in a true and fair manner, and reasonably present the state of affairs and profits for the year under review.

In addition to the historical information contained herein, the following discussion may include forward looking statements which may involve risks and uncertainties, including but not limited to the risks inherent in the company's growth strategy, dependency on certain clients, dependency on availability of qualified technical personnel and other factors discussed in this report.

1. INDUSTRY STRUCTURE AND DEVELOPMENTS

1.1 Subex Azure operates in a niche market providing Revenue Maximization solution to telecommunications service providers (telcos) worldwide. These solutions improve the revenues and profits of the communications service providers through identification and elimination of leakages in their revenue chain. Subex Azure conceptualizes and develops software products at its facilities in Bangalore and is focused on the telecom business segment. Subex Azure has sales and support offices in the United States, Canada, UK and China. Subex Azure is the global leader in its' chosen area of operation – namely revenue maximization for communications service providers.

The causes for leakages can be broadly classified into two – deliberate and non deliberate. The former occurs due to fraud perpetrated by subscribers on the telcos. The latter occurs due to a variety of issues like lack of processes, improper processes, technical errors, equipment malfunction, human errors etc. The former accounts for about 4% and the latter about 8% of the revenues of the telcos. Given the total revenue of about US$ 1.3 trillion, the losses add upto about US$ 150 billion globally. Needless to say, this is a major cause of worry for the telcos and has resulted in a growing market for our solutions.

2. OPPORTUNITIES AND THREATS

2.1 GROWTH STRATEGY – ORGANIC AND INORGANIC

We have been growing at a frenetic pace as a result of a carefully balanced combination of organic and inorganic routes. In the world of software products, particularly in an area of high technology, depending solely on organic growth is suicidal. Hence our balanced approach.

Being in the telecom space, there are several ways to grow organically and we employ all of them extensively. As our revenues are linked to the size of operations of our customers, we grow with them. Given the number of products that we have, cross selling is another avenue for growth. A unique feature of the telecom sector is the presence of large groups with operations in multiple geographies. We take advantage of this phenomenon to spread our footprint. Finally, the carriers constantly evolve through the provision of new services. We endeavor to extend our products to cover all these services and thereby create a larger market for ourselves. About half of the current base of customers were acquired in an organic manner over the course of six years.

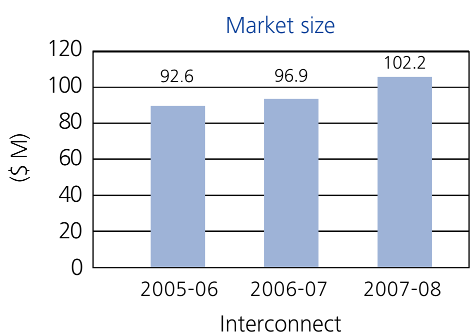
Inorganic means is a key element of our growth strategy. Our approach here is to be proactive and the same has resulted in our identifying and acquiring a few key companies and divisions of companies in the past. The latest one, Azure Solutions Limited of UK, is a case in point. Azure enhances our brand, domain expertise, product set and customer base. These are apart from the fact that we have now achieved global leadership with the help of this acquisition. The first step in our approach is to chart out the plan for the future with regard to all the key areas of business – namely products, markets, penetration etc. The next step is to conduct a gap analysis and pin point the main areas for improvement or corrective action. This then leads to the employment of acquisition as a strategy to address the issues that come to the surface, through the process of identification of suitable targets and endeavoring to conclude transactions. We have concluded six successful acquisitions during the past seven years and will continue to scout for more such opportunities at the appropriate time.

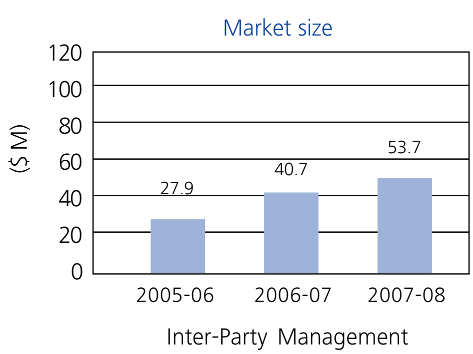
2.2 MARKET OPPORTUNITY

With the conclusion of the transaction with Azure, and the formation of the enlarged entity Subex Azure, our stature has undergone a dramatic change. This, we believe, opens up a plethora of opportunities for us in a market that is growing rapidly. Further, we now address a new space called interconnect and inter-party management. Thus the market opportunity for us encompasses four product sets, including these two and our traditional areas of fraud management and revenue assurance.

Carriers the world over are facing an increasing threat on the revenue maximization front. A significant reason for that is the morphing of their business model coupled with the increasing complexities and scale. While the conventional business model was to serve products – voice, data etc. – that were generated by their own networks, the new model is to offer products – like ring tones, music downloads, video clippings, commercial products etc. – from other providers thereby functioning as a channel. This brings with it an added element of risk if revenue leakage happens. For example, if a carrier misses out to bill for a music download, they will still need to pay the provider for that download while not collecting from their customer. This, in effect, is a "double whammy". Thus, revenue maximization solutions are fast becoming key investments for all communications service providers leading to an unprecedented demand for these solutions.

However, there are widely ranging estimates about the size of the market. While the loss due to revenue leakages has been established fairly accurately by Analysys of UK at about 13% of the revenue of a carrier, the size of the resultant market for tools to address this loss is yet to be ascertained precisely. Given to conservative estimates, we put the figure at US$ 250 million during the current year growing at about 15 to 20% annually and that gives us a market share of about 25%. As regards the market for interparty management and interconnect, while the market for the latter is growing only at about 5%, that for the former is growing at 39% although from a lower base. The data, as per our estimates, is presented below.

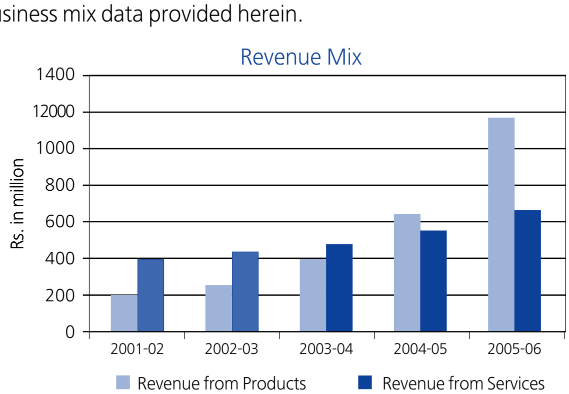


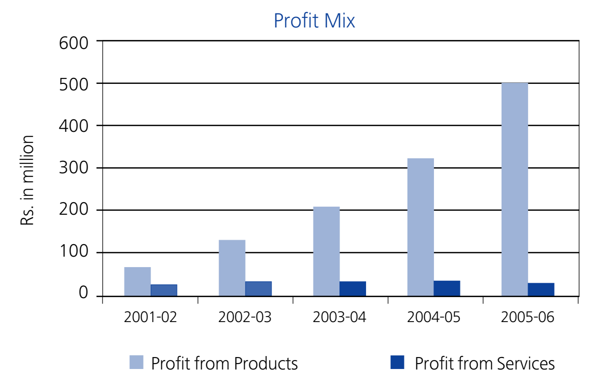


3. BUSINESS SEGMENTS AND INDUSTRY OUTLOOK.

3.1 BUSINESS SEGMENTS

Subex Azure operates in two business segments – telecom software products and telecom software services. The former is the key focus area for the company and will be discussed in detail. The latter is staff augmentation services for telcos in the United States and is fast losing its' significance as can be seen from the business mix data provided herein.





3.2 TELECOM SOFTWARE PRODUCTS

Subex Azure'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 Azure has developed and is marketing Ranger™, a fraud management system; INcharge™, a revenue assurance system and ONtrack™, a subscriber risk management system. Further, the interparty solutions from Azure have also been added to the product portfolio. These products form a suite in the revenue maximization space, called RevMax™. During the year ended 31st March, 2006, we launched a new concept called Revenue Operations Center (ROC). This concept calls for a facility with four major components – software, hardware, processes and people. The company provides the software portion (RevMax™) of the facility and hence considers itself to be powering the ROC. This positioning has been brought forward in our logo. Going forward, the conceptualization and launch of new products within the RevMax™ suite will be guided by the proposition of powering the ROC.

Ranger™ Fraud Management System

Fraud is a global malaise in telecom networks and has a very significant impact in the bottom lines of telecom operators. Fraudsters, who are proving to be extremely innovative, are devising advanced techniques to defraud networks and the losses can be quite huge. Surveys show that about 4% of the industry's revenue is lost to fraud.

Though digital technologies like GSM and CDMA are secure to a large extent from technical frauds, subscription related and behavioral frauds are on the upswing. A very focused approach is essential to combat these frauds in telecom networks. The types of fraud that are generally encountered by the telcos are:

- Subscription fraud
- Call selling fraud
- Premium rate service fraud
- Cloning fraud
- Internal fraud
- PABX hacking fraud
- Clip-on fraud
- Pre-paid fraud
- Roaming fraud
- Roaming subscription fraud

Combating fraudsters, who are proving to be extremely innovative, calls for high-end preventive solutions. Successful management of fraud depends upon the ability of the solution to pre-empt the occurrence of fraud rather than reacting after the fraud has occurred in a large scale. Ranger™ finds fraud in the network as early as possible and thus limits the revenue loss that may be suffered by the operator.

Ranger™ employs a unique mix of events, rules, profiling, pattern matching, subscriber pre-check and credit management to identify and curb fraudulent activity. The call data of each subscriber is mapped and analyzed to furnish accurate alarms and reports to the operator. Comprehensive information on the case provided by Ranger™ enables the investigator to quickly settle a case, which reduces the exposure to fraud considerably. Ranger™ comprises closely integrated modules that allow telecom operators to constantly keep a track on the usage pattern of their subscribers and detect fraud in their network.

INcharge™ Revenue Assurance System

Revenue leakage in a carrier's network can occur at any point in the billing chain. Errors and mismatches across switches, inventory, provisioning, mediation, rating and billing systems result in revenue losses from incorrect billing, unused assets and unbilled usage, among other things. Some of the most common causes of revenue leakage include:

- Unbilled usage or facilities due to provisioning system errors
- Incomplete, missing, duplicate and inaccurate CDRs (Call Detail Record) from switches
- Incorrect identification and Mis-handling of CDRs within mediation and billing systems
- Mismatches between inventory and billing systems
- Billing and rating errors

Further, increasing competition in telecommunications markets and the emergence of a growing number of new services has led to a substantial increase in interconnection (IC) traffic. The fee paid out to other carriers for traffic passed to their network account for roughly half of a carrier's operating costs, and thus deserves a much closer scrutiny. Yet another area of concern has evolved due to the new revenue models being deployed by telcos. In these new revenue models, telcos are fast emerging as sales channels and payment gateways for a variety of products like ring tones, music downloads, video downloads utility payments etc. In these instances, the potential loss to the telcos who fail to recognise and collect revenues from their customers is considerably high as they will have to payout to those who provided the content and services. Thus, irrespective of whether the telcos collected any revenue or not, they will end up paying out, leading to a significant loss.

A revenue assurance tool helps the operators to automate their revenue leakage detection and resolution process. It provides benefits to the revenue assurance analysts in the following ways:

- The right tool provides an end-to-end revenue assurance capability, allowing analysts to progressively extend revenue assurance to all areas of operation.
- The tool performs automatic processing and reconciliation of large data volumes, thus offering larger coverage.
- The tool includes powerful analysis tools that help revenue assurance analysts quickly zero in on root cause of a detected revenue leakage.
- Workflow to help prioritise the most critical issues and lead on to structured resolution and tracking of issues.

ONtrack™ Subscriber Risk Management System

Subscriber delinquency and bad debt is a serious problem faced by almost every operator in the world today. On an average, around 5% of an operator's revenue is written off as bad debt. Further, subscriber entry qualification criteria is becoming less stringent than before as operators aggressively pursue subscriber growth. While use of credit assessment and scoring methodologies have helped tackle the problem prior to activation, a significant portion of risk exists post activation. Operators need to monitor the liability and outstanding against each subscriber on a continuous and real-time basis, in order to detect delinquency risks early-on in the billing cycle to limit instances of bad debt. A successful risk management strategy would aim to close the gap through pre-emptive techniques such as seeking part payments from subscribers with unusually high usage or identify subscribers with whom the post invoice follow up needs to be done with greater urgency .

ONtrack™ continuously monitors and tracks the possibility of a subscriber going delinquent in the network and thus enables operators to minimize their losses eary-on and pre-empt a potential write-off. ONtrack™ uses a very flexible rule driven risk modelling core that allows the system to profile, segment and define highly focussed risk management strategies. Monitoring the build-up of unbilled amounts is one such strategy; another would be to detect subscriber behaviour changes which suggest that the subscriber would not be able to pay his bills.

ONtrack™ employs an integrated usage tracking and rating mechanism that enables the operator to use a subscriber's usage details to achieve near-real time risk assessment, thereby negating any delay imposed by conventional methods on revenue recovery. Further, ONtrack's flexible workflow helps the operator to better prioritise cases and even automate monotonous routine tasks like sending out reminders. Thus, ONtrack™ reduces the time taken to work on a case thereby allowing the operator to work more actively in controlling their losses from bad-debt.

Interparty Settlement Solutions

Inter-Party is a modular billing and DWH solution that provides retail/reseller, wholesale and IP/Content provider solutions for one or multiple business lines on a single modular platform. Its unique architecture enables the calculation of multiple charges for each transaction, and the correlation of reseller revenues with content provider costs/out payments. This approach not only helps organizations to realize a reduced cost of ownership, but also leverages the consolidated data through enhanced corporate-wide business analysis and reporting capabilities. As product bundles and their related tariff plans become ever more complex, this ability to see all revenues and related costs is vital to ensuring a healthy bottom line.

Interparty provides support for a wide range of business models where revenue and cost is shared across parties based on a transaction including:

- Revenue sharing
- Self-billing
- Reverse billing
- Sponsorship
- Advertising
- MVNO

All Inter-Party settlement implementations are underpinned by a highly functionally rich billing framework that supports end-to-end billing workflow. The aforementioned business models and associated service 'plug-ins' are then incorporated into the solution to support bespoke needs. The billing framework provides the foundations of all billing implementations including, but limited to, reseller and content provider account management, product management, discounts, invoice presentation and generation, out payment report generation, billing cycles, bill hierarchies and audit trails.

3.3 CUSTOMER BASE

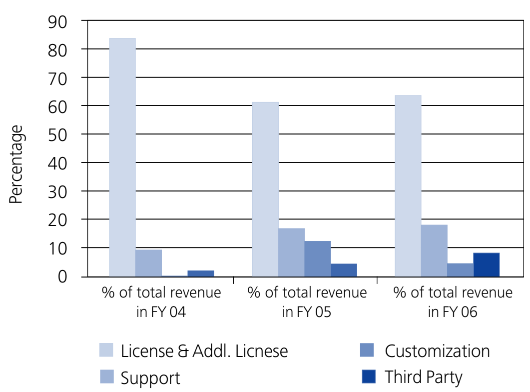
With the acquisition of Azure Solutions, the company serves 150 customers across 60 countries. Further, we now have 23 of the world's Top 40 telcos as our customers. Needless to say, this adds to our superior position in the market thereby enabling us to increase our market share and grow significantly with time. BT is the largest customer contributing a very large portion of our revenue

3.4 REVENUE MODEL

Subex Azure licenses its software solutions on a per subscriber or per transaction basis resulting in continuous growth in license revenues depending on the growth of the networks where the solutions are installed. Another sustainable revenue stream is the support revenue calculated as a function of the license revenue. These three streams of revenue – new license, additional license and support – are expected to lend stability to the overall revenue of the company. Further, we also have a fourth stream of revenue namely, customization. The following graph gives the revenue from each of the streams and from Third Party during FY04, FY05 and FY06.

Revenue Stream	% of total FY04	% of total FY05	% of total FY06
License & Addl. License	88%	64%	67%
Support	10%	18%	19%
Customization	0	13%	5%
Third Party	2%	5%	9%

Subex Azure Revenue Stream

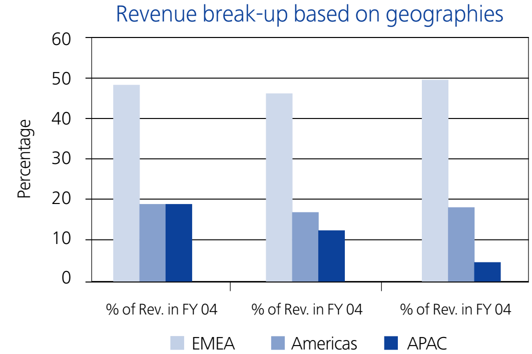


3.5 GEOGRAPHICAL MIX

Our revenues from developed markets (particularly from the Americas) have been growing steadily. This indicates that even developed markets are far from a point of saturation for our products and that emerging markets will turn out to be excellent markets for us in the coming years when they start maturing. Thus, the long term potential of our space is obvious from the revenue split among the various geographies given below.

Area	% of Rev. in FY04	% of Rev. FY05	% of Rev FY06
EMEA	54%	52%	55%
Americas	23%	34%	36%
APAC	23%	14%	9%

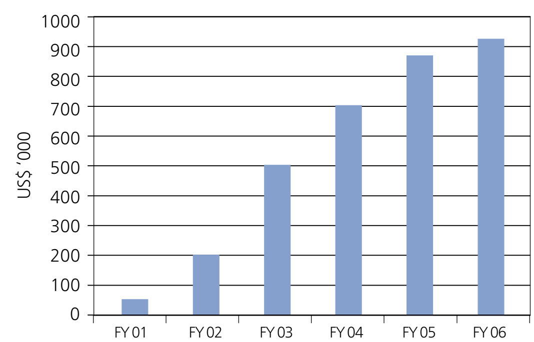
Revenue break-up based on geographies



3.6 AVERAGE REVENUE PER CONTRACT

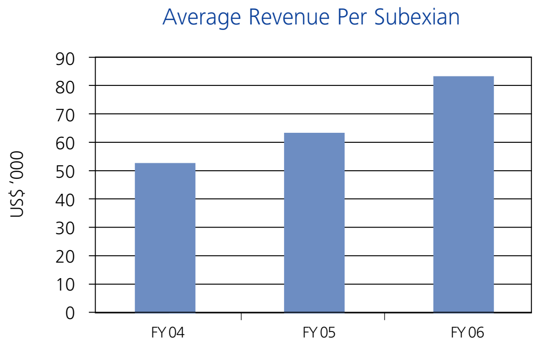
The progression in Average Revenue Per Contract (ARPC), a key measure that leads to increased profitability, is given below. We expect this to continue its' progression in the years to come.

Average Revenue Per Contract



3.7 AVERAGE REVENUE PER SUBEXIAN

In the Products business, our Average Revenue Per Subexian (ARPS), another key measure that leads to increased profitability, has been increasing steadily. The following graph shows the progression on this front.



3.8 QUALITY

Subex Azure is dedicated to maintain the highest levels of quality standards throughout its operations. Towards this, Subex Azure has been accredited ISO 9001:2000 certification.

4. RISKS AND CONCERNS

Any business has several risks related to that. Our business is no different. Following are the risks that we are cognizant of.

4.1 MARKET

The communications industry continues to experience consolidation and an increased formation of alliances among communications service providers and between communications service providers and other entities. Should one of our significant customers consolidate with a service provider using a competing product and decide to discontinue the use of our product(s), this could have a negative material impact on our business. These consolidations and alliances may cause us to lose customers or require us to reduce prices as a result of enhanced customer leverage, which would have a material adverse effect on our business. We may not be able to offset the effects of any price reductions. We may not be able to expand our customer base to make up any revenue declines if we lose customers.

Subex Azure is fully dependant on the telecom industry. So, any vagaries in the telecom business environment will considerably impact the fortunes of the company. Further, the revenue maximization market is evolving resulting in uncertainties on the size of the market, opportunities etc.

4.2 DEBTORS

The extremely competitive nature of the industry has led to an abnormally high debtor position that has been detrimental to cashflow. While the situation has been improving, it could take us a few more quarters to bring normalcy. Certain markets in which Subex Azure sells its products are subject to foreign exchange repatriation and economic risks, which may result in either delayed recovery or even non-realisation of revenue. Subex Azure conducts adequate due diligence while venturing into such markets.

4.3 TECHNOLOGY AND PERSONNEL

Our industry is characterized by rapid technological changes and frequent new service offerings. Significant technological changes could make our technology and services obsolete, less marketable or less competitive. We must adapt to our rapidly changing market by continually improving the features, functionality, reliability and capability of our products to meet changing customer needs. We may not be able to adapt to these challenges or respond successfully or in a cost-effective way. Our failure to do so would adversely affect our ability to compete and retain customers or market share. Launching new products is a key element of our growth and an inability to bring new products with high demand to the market in a timely manner will reduce our growth and profitability.

Subex Azure 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.

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

4.4 INTELLECTUAL PROPERTY

Our success depends to a significant degree upon the protection of our software and other proprietary technology rights. We rely on trade secret, copyright and trademark laws and confidentiality agreements with Subexians and third parties, all of which offer only limited protection. The steps we have taken to protect our intellectual property may not prevent misappropriation of our proprietary rights or the reverse engineering of our solutions. Legal standards relating to the validity, enforceability and scope of protection of intellectual property rights in several countries are uncertain and may afford little or no effective protection of our proprietary technology. Consequently, we may be unable to prevent our proprietary technology from being exploited abroad, which could require costly efforts to protect our technology. Policing the unauthorized use of our products, trademarks and other proprietary rights is expensive, difficult and, in some cases, impossible. Litigation may be necessary in the future to enforce or defend our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Such litigation could result in substantial costs and diversion of management resources, either of which could harm our business. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property.

4.5 INFRINGEMENT

Third parties could claim that our current or future products or technology infringe their proprietary rights. Any claim of infringement by a third party, even those without merit, could cause us to incur substantial costs defending against the claim, and could distract our management from our business. Third parties may also assert infringement claims against our customers. These claims may require us to initiate or defend protracted and costly litigation on behalf of our customers, regardless of the merits of these claims. If any of these claims succeed, we may be forced to pay damages on behalf of our customers. We also generally indemnify our customers if our services infringe the proprietary rights of third parties. If anyone asserts a claim against us relating to proprietary technology or information, while we might seek to license their intellectual property, we might not be able to obtain a license on commercially reasonable terms or on any terms.

4.6 ACQUISITION

Acquisition has always been a significant element of our strategy. After concluding several small acquisitions, we have now consummated the biggest in our history. While we have considerable experience in handling acquisitions spread over the past 6 years, the scale of the latest one (that of Azure Solutions Limited) increases the risk by manifold. It is critical to achieve seamless integration with the acquired entity as our ability to serve the customers to the expected levels and meet the expectations of all Subexians will depend heavily on this integration. Until the acquisition, Azure was a loss making organization. Converting that operation into a profitable one is another key aspect that could jeopardize our plans. Further, we need to leverage the strengths of the combined entity to ensure growth in the future. Thus, this new acquisition poses several risks that were not perceived with the acquisitions in the past. While we believe that adequate planning and strategizing have taken place, the results of the execution will be known only by the end of the financial year 2006 – 07.

4.7 VARIABILITY OF QUARTERLY OPERATING RESULTS

The quarterly operating results of the company have varied in the past due to reasons like seasonal pattern of hardware and software capital spending by customers, information technology investment trends, achievement of milestones in the execution of projects, hiring of additional staff 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 and increase of steady annuity revenue. Despite those efforts, the variability could continue.

The company constantly endeavors to safeguard itself against the above mentioned risks by adopting best practices, advanced processes, future proof investments and up-gradation of skills and capabilities. Consequently, we believe that we are reasonably well protected against the risks.

4.8 STATUTORY OBLIGATIONS

Subex Azure 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.

4.9 ENVIRONMENTAL MATTER

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

4.10 FOREIGN EXCHANGE

Subex Azure has substantial exposure to foreign exchange related risks on account of revenue earnings from export of software. These are hedged with banks and risks mitigated to the extent possible.

4.11 TAXATION

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

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

4.12 LITIGATION

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

4.13 CONTRACTUAL OBLIGATION

In terms of the contracts entered into by Subex Azure 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 Azure to financial and other risks.

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.

5. INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Management maintains internal control systems designed to provide reasonable assurance that assets are safeguarded, transactions are executed in accordance with management's authorization and properly recorded, and accounting records are adequate for preparation of financial statements and other financial information. The internal audit function also carries out Operations Review Audits to improve the processes and strengthen control of the existing processes. The audit committee periodically reviews the functions of internal audit.

Pursuant to the revised Clause 49 of the Listing Agreement, the CEO and CFO have to accept responsibility for establishing and maintaining internal controls for financial reporting and that they have evaluated the effectiveness of internal control systems of the company pertaining to financial reporting and that they have disclosed to the auditors and the audit committee, deficiencies in the design or operation of such internal controls, if any, of which they are aware and the steps they have taken or propose to take to rectify these deficiencies.

An internal steering committee has been formed, under the supervision of audit committee and a dedicated team of professionals are engaged in assessing the adequacy of the company's internal controls over financial reporting, developing remediation plans for control deficiencies, if any, identified during the assessment, and validate through testing that the controls are functioning as documented.

6. DISCUSSION ON FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

6.1 Key financials and ratio analysis

Amount in Rs million, except key indicators

Financial Highlights / Year ending 31st March	2006	2005	2004	2003	2002	2001
Total income	1,841.19	1,172.35	891.94	706.41	592.51	557.89
Export sales	1,787.39	1,086.40	828.53	676.01	573.79	479.59
Operating Profits (EBDIT)	539.44	356.74	246.02	162.19	95.67	126.90
Depreciation & Amortization	90.79	71.43	42.68	37.98	35.68	20.80
Profit before tax	422.23	261.10	189.04	101.75	47.92	103.94
Profit after tax	391.50	253.03	177.50	96.12	41.84	102.77
Equity Dividend %	25%	30%	20%	10%	10%	20%
Share Capital	217.58	100.67	73.54	73.44	71.23	71.26
Reserves & Surplus	1,597.75	1,132.05	540.94	403.26	458.01	421.82
Net Worth	1,816.20	1,233.04	799.39	628.85	367.11	488.39
Gross fixed Assets	653.06	555.42	209.61	161.55	163.81	109.82
Net Fixed Assets	391.61	367.83	89.66	77.84	109.53	85.53
Total Assets	2,159.76	1,745.12	1,085.76	997.68	896.16	672.06
Key Indicators						
Earning per Share (Year end)	17.99	25.13	24.14	13.09	5.87	14.42
Cash Earning per Share (Year end)	22.17	32.23	29.94	18.26	10.88	17.34
Book value per Share	83.47	122.48	108.70	85.63	51.54	68.54
Debt (including Working capital) Equity Ratio	0.01	0.23	0.21	0.32	0.46	0.01
EBDIT / Sales - %	29%	30%	28%	23%	16%	23%
Net Profit Margin - %	22%	22%	20%	14%	7%	18%
Return on year end Net Worth %	22%	21%	22%	15%	11%	21%
Return on year end Capital Employed %	30%	23%	26%	20%	18%	26%

Note: Earning per share, Cash Earning per share and Book Value of share are in Rupees.

7. COMMENTARY ON FINANCIAL STATEMENTS

7.1 SHARE CAPITAL

7.1.1 Of the equity paid-up capital, the company had issued the following shares towards consideration other than cash.

- 115,000 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.
- 4,626,940 shares of Rs.10 each to all eligible shareholders as on 31st March, 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. IVth Generation Inc., towards part consideration of the cost of acquisition of that company at Rs.1,023 per share during 1999-2000.
- 10,878,784 shares of Rs.10 each to all eligible shareholders as on 6th January, 2006 in the ratio of 1:1 by capitalizing the securities premium.

7.1.2 During 2005-06 the company issued 65,408 shares of Rs.10 each to various employees on exercise of Stock Options granted under the Employee Stock Option Plan (ESOP – II).

7.1.3 There are no calls in arrears.

7.2 RESERVES AND SURPLUS

7.2.1 Capital Reserve of Rs.13 million was created by credit of the notional premium on 12,840 equity shares of Rs.10 each valued at a price of Rs.1,023 per share and issued to the owners of IVth Generation Inc, USA as part consideration for the transfer of their shareholding to Subex Systems Ltd.

7.2.2 Share Premium Account represents the premium collected on:

- 971,000 equity shares issued at a premium of Rs.65 per share through an Initial Public Offer in 1999-2000.
- 330,800 equity shares issued at a premium of Rs.740 per share to mutual funds and bodies corporate on a preferential basis during 1999-2000.
- 1,887,000 equity shares issued at a premium of Rs. 88 per share to holders of ROCCPS on conversion of preferential shares of Rs. 98 each, namely Intel Capital, Toronto Dominion Bank and UTI Venture Funds.
- 1,538,459 equity shares issued at a premium of Rs.290 per share to holders of FCCBs on conversion of the bonds at a price of Rs.300 per share.
- 65,408 equity shares allotted to the employees under ESOP II Scheme as per the provisions of the Scheme.

7.2.3 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.

7.2.4 The company has transferred Rs.39.50 million (Previous year, Rs.25.5 million) to General Reserves during the year.

7.2.5 In accordance with the guidelines issued by the Institute of Chartered Accounts of India on Accounting for Deferred Taxes, a net gain of Rs.3.94 million have been recorded in the P&L A/c on account of recognition of deferred tax asset as at year end, amounting to Rs. 7.91 million.

7.2.6 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 of reserves as at 31st March, 2006 is Rs.8.88 million (Previous year, Rs.4.763 million).

7.3 SECURED LOANS

The secured loan of Rs. 11.12 million (Previous Year, Rs. 73.28 million) outstanding in the books as at 31st March, 2006 pertains to motorcars financed by the company through Hire purchase scheme with the financiers and is secured by hypothecation of the vehicles.

7.4 UNSECURED LOANS

Pursuant to conversion of all the Fully Convertible Cumulative Bonds (FCCB) issued in the previous year, there are no unsecured loans outstanding.

7.5 DEFERRED PAYMENT CONSIDERATION

The amount of deferred payment consideration outstanding at the beginning of the year; amounting to Rs.22.75 million represents the portion of consideration payable to Alcatel UK for transfer of IPRs pertaining to their FMS business. During the year, this has been fully discharged by the company.

7.6 FIXED ASSETS

7.6.1 The company acquired business contracts, Intellectual Property Rights (comprising of trademarks, patents, copyrights) hardware and software connected with the fraud management software businesses from Mantas, Inc. USA in an all cash deal of US$ 2.10 million, on 1st March, 2006. The same has been capitalized along with the expenses incurred in connection with the said acquisition.

7.6.2 The value of intangible assets, based on the valuation report by independent valuers, is being depreciated over 5 years in accordance with the company's assessment of useful life thereof. Accordingly, an amount of Rs.1,696,053 (pro-rated for the month of March, 2006) has been depreciated in the financial year under review.

7.6.3 Consequent to the acquisition, revenues recorded for the year include revenues arising from these acquisitions as well, pro-rated for the month of March, 2006.

7.6.4 During the year, the company added Rs.121.47 million to its gross block, including the FMS business assets of Mantas, as above. The company disposed off certain assets no longer required. The company has assets worth Rs.24.20 million (Previous year Rs. 21.75 million) under hire purchase agreements and - none (Previous year - Nil) under lease finance.

7.6.5 The company has disposed of its land located at Yeshwantpur Industrial Area during the year for a sum of Rs.17,667,000.

7.7 INVESTMENTS

7.7.1 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.

7.7.2 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.

7.7.3 The company has subscribed to the entire share capital of Subex Technologies Limited, a wholly owned subsidiary company to the extent of Rs 10 million.

7.8 SUNDRY DEBTORS

7.8.1 During the year, the company has securitized a portion of its receivables amounting to US$ 8.76 million with UTI Bank Ltd.

7.8.2 The major customers of the company are the 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, but for the majority of the services business coming from AT&T, USA.

7.8.3 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 and requirements.

7.8.4 Sundry debtors as a percentage of total revenue is 53% as against 63% in the previous year.

7.8.5 The age profile is as given below :

Amount in million Rs.

Period in days	31st March, 2006		31st March, 2005	
	Value	%	Value	%
Less than 90 days	421.80	43.93	314.14	42.98
90 – 180 days	284.24	29.60	210.07	28.74
More than 180 days	254.15	26.47	206.74	28.28
Total	960.19	100.00	730.95	100.00

7.8.6 The management believes that the overall composition and condition of sundry debtors is satisfactory.

The company has made fresh provisions for doubtful debts during the year amounting to Rs. 35.58 million (Previous Year Rs. 4.30 million).

7.8.7 Dues from companies under the same management

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

- Bad debts pertaining to services products division activity written off during the year Rs.0.14 million (Previous Year, Rs.0.45 million towards services)

7.9 CASH AND BANK BALANCES

7.9.1 The bank balances in India includes both rupee accounts and foreign currency accounts. Fixed deposit of Rs.333.67 million is funded out of book debts securitized.

7.9.2 Cash and bank balances constitute 22.20% of the total assets as against 18.02% in the previous year.

7.10 LOANS AND ADVANCES

7.10.1 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.

7.10.2 Dues from companies under the same management. - Rs. 11.53 million from Subex Technologies Limited (Previous Year, Rs. 0.28 million).

7.10.3 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. 26.18 million (Previous Year, Rs.8.99 million) as rental and maintenance deposits.

7.11 CURRENT LIABILITIES

7.11.1 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.

7.11.2 Sundry creditors for goods represent amount payable to vendors for supply of goods.

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

7.12 PROVISIONS

Provisions for taxation represent income tax, dividend tax 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.

7.13 FINANCIAL INSTRUMENTS

7.13.1 Letters of credit

The company has Letters of credit amounting to Rs.3.58 (Previous Year, Rs.5.24 million) million outstanding as at year-end.

7.13.2 Guarantees

The company has outstanding guarantees for various purposes amounting to Rs.10.08 million as at 31st March, 2006. (Previous year, Rs.5.17 million). These guarantees are in the nature of performance guarantees and bid bonds and are subject to the risk of performance by the company.

7.14 PROFIT & LOSS ACCOUNT

7.14.1 Income

The company derives its income from providing software development services and licensing of software products. The segment wise break up of income is given below;

Amount in Rs. million except percentages

Particulars	2005-2006		2004-2005	
	Value	%	Value	%
Software services	645.32	35.61	537.53	46.12
Software products	1166.82	64.39	627.97	53.88
Total	1812.16	100.00	1165.50	100.00

7.14.2 Geographically, the company earns income from export of software services to USA and software products to all countries.

7.15 NON OPERATING INCOME

7.15.1 Non-operating income consists of income derived by the company by way of interest on deposit with Bank, insurance claims received towards damages of assets, VAT refund, rental from sub-lease of premises and write-back of provisions no longer required and exchange fluctuation.

7.16 EXPENDITURE

7.16.1 The staff cost increased to Rs.946.13 million from Rs.675.73 million during the previous year on account of new recruitment, increments and increase in onsite consultancy services in US.

7.16.2 The company incurred administration and other expenses at 12.29% of its total Income during the year as compared to 9.22% during the previous year.

7.17 OPERATING PROFITS

During the year, the company earned an operating profit (profit before interest, depreciation and tax) of Rs. 539.44 million being 29% of total income as against Rs.356.74 million at 30% during the previous year.

7.18 INTEREST & BANK CHARGES

The company incurred an expenditure of Rs.26.42 million as against Rs.24.22 million during the previous year. The interest paid is related to temporary overdrawals and securitised receivables.

7.19 DEPRECIATION

7.19.1 The provision for depreciation for the year increased to Rs.90.79 million as compared to Rs. 71.17 million. The increases mainly on account of the incidence of an entire year's depreciation on the Alcatel, and Lightbridge assets acquired in the previous year. The depreciation provision for FY 2006-07 is expected to be higher on account of acquisition of Mantas, Inc., on 1st March, 2006.

7.19.2 The intangible assets i.e. IPRs and goodwill are being depreciated over 5 years in accordance with the company's assessment of useful life thereof. Accordingly, an amount of Rs. 64,198,915 (Previous year, Rs. 30,831,458) has been depreciated in the financial year under review.

7.20 PROVISION FOR TAX

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.

7.21 NET PROFIT

The net profit of the company amounted to Rs.391.50 million as against Rs.253.03 million during the previous year. The company earned a net profit margin of 22% to total income as against the same percentage in the previous year.

7.22 EARNINGS PER SHARE

Earnings per share computed on the basis of number of common stock outstanding, as on the balance sheet date was Rs. 18.23 as against Rs.13.89 per share for the previous year. The Earnings per share diluted, for the year was Rs.18.13 as against Rs.13.19 for the previous year. Shares available with Subex Foundation under ESOP 1999 have been fully considered in the calculation of basic EPS.

7.23 FOREIGN EXCHANGE DIFFERENCE

An amount of Rs. 0.85 million has been accounted for as loss during the current year compared to gain of Rs. 0.87 million 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.

7.24 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. 0.06 million. (Previous year, Rs. 0.10 million). Cost of software charged off to revenue during the year amounted to Rs.1.50 million (Previous year, Rs.1.05 million).

8. MATERIAL DEVELOPMENTS IN HUMAN RESOURCES / INDUSTRIAL RELATIONS FRONT, INCLUDING NUMBER OF PEOPLE EMPLOYED.

Subexians

As of 31st March, 2006, we had 325 Subexians on our rolls. These highly trained and motivated people are critical to the success of our business. We focus on attracting and retaining the best talent with us.

Our human resources department is centralized at the corporate headquarters in Bangalore and oversees HR functions across all the geographies where the company operates. We have implemented corporate-wide recruiting, training, performance evaluation and compensation programs that are tailored to address the needs of each of our business segments.

Recruiting

Subex Azure hires entry level graduates from the top engineering and management universities in India. The company also hires through Subexian referral programs, advertisements, placement consultants, our website postings and walk-ins. To facilitate the growth of Subexians within the company, all new openings are first offered to the current Subexians. The nature of work, skill sets requirements and experience level are highlighted to the prospective Subexians.

Training

Each of our new recruits must attend a compulsory induction program when they begin working with us. New or recent graduates must also attend additional training programs that are tailored to their area of technology. We also have a training program for all subexians to improve their technical as well as their soft skills. We supplement continuing education program by sponsoring special programs for Subexians at leading educational institutions, such as the Birla Institute of Technology & Science, Pilani etc., to provide them cutting-edge skill sets.

Performance Management System

Subex Azure has a competency based appraisal system. Key result areas of Subexians are assessed through a process of appraisals involving self, peers and managers. The scores obtained in this cycle will undergo a normalisation and a moderation process to bring it in line with the organisation-wide scores.

Compensation

Subex Azure continually provides Subexians with competitive and innovative compensation packages. The packages include a combination of salary, stock options, health and disability insurance. The company measures its compensation packages against industry standards and strives to match or exceed the same.

AUDITORS' REPORT TO THE MEMBERS OF SUBEX SYSTEMS LIMITED

1. We have audited the attached Balance Sheet of **Subex Systems Limited**, as at 31st March, 2006, the Profit and Loss Account and the Cash Flow Statement of the Company for the year ended on that dated 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.

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 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 presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Government of India, in terms of Section 227 (4A) of the Companies Act 1956, we give 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.

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

(a) 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.

(b) in our opinion, proper books of account as required by law have been kept by the Company, so far as it appears from our examination of the books and proper returns adequate for the purpose of our audit have been received from the Company's branch, in the United States of America (US Branch) not visited by us.

(c) 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.

(d) in our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in compliance with the Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956.

(e) 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.

(f) on the basis of written representations received from the directors of the Company, as at 31st March, 2006 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act 1956.

5. 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 thereon, 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 31st March, 2006; 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

V. Srikumar
Partner
Membership No. 84494

Place : Bangalore
Date : 25th April, 2006

ANNEXURE TO THE AUDITORS' REPORT (REFERRED TO IN OUR REPORT OF EVEN DATE TO THE MEMBERS OF SUBEX SYSTEMS LIMITED)

1. The provisions of clauses i(c), iii (d) to (g), (vi), (viii), (x), (xii), (xiii), (xiv), (xv), (xvi), (xviii), (xix), as contained in para 4 and 5 of the Companies (Auditors' Report) Order, 2003, are not applicable to the Company for the current year.

2. In respect of its fixed assets:

(a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

(b) The fixed assets were physically verified during the year by the management in accordance with a programme of verification, which in our opinion provides for physical verification of all the fixed assets at reasonable intervals. According to the information and explanations given to us no material discrepancies were noticed on such verification.

3. In respect of its inventories:

(a) As explained to us, inventories were physically verified during the year by the management at reasonable intervals.

(b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management were reasonable and adequate in relation to the size of the Company and the nature of its business.

(c) In our opinion and according to the information and explanations given to us, the Company has maintained proper records of its inventories and no material discrepancies were noticed on physical verification.

4. In respect of loans, secured or unsecured, granted or taken by the Company to or from companies, firms or other parties

covered in the register maintained under section 301 of the Companies Act, 1956, according to the information and explanations given to us:

(a) the Company has granted loans to one party. At the year end, the outstanding balances of such loans granted aggregated to Rs. 11,533,049 and the maximum amount involved during the year was Rs. 17,322,380.

(b) in our opinion, having regard to the explanation that the loan is granted to the subsidiary with an intention of providing financial support, the terms and conditions of the interest free loan are, prima facie, not prejudicial to the interest of the Company.

(c) no principal was due during the year ending 31st March, 2006.

5. 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 the purchase of inventory and fixed assets and for the sale of goods and services and we have not observed any continuing failure to correct major weaknesses in such internal controls.

6. In respect of contracts and arrangements entered in the register maintained in pursuance of section 301 of the Companies Act 1956, to the best of our knowledge and belief, and according to the information and explanations given to us:

(a) the particulars of contracts or arrangements referred to in Section 301 that needed to be entered into the register, maintained under the said section have been so entered.

(b) where each of such transactions (excluding loans reported under paragraph 4 above), made in pursuance of contracts or arrangements, is in excess of Rs. 5 lakhs in respect of any party, the transactions have been made at prices which are, prima facie, reasonable having regard to the prevailing market prices at the relevant time.

7. In our opinion, the internal audit functions carried out during the year by a firm of Chartered Accountants appointed by the management have been commensurate with the size of the Company and the nature of its business.

8. In respect of Statutory dues:

(a) according to the information and explanations given to us, the Company has been generally regular in depositing undisputed statutory dues including Provident Fund, Employees' State Insurance, Investor Education and Protection Fund, Income Tax, Wealth Tax, Service Tax, Excise Duty, Customs Duty, Sales Tax, cess and any other material statutory dues with the appropriate authorities during the year and there are no undisputed statutory dues as noted above that are outstanding for a period more than six months from the date they became payable.

(b) according to the information and explanations given to us, details of disputed sales tax, income tax, customs duty, wealth tax, service tax, excise duty and cess which have not been deposited as on 31st March, 2006, on account of any dispute are given below:

Name of statute	Nature of the dues	Amount (Rs.)	Period to which the amount relates	Forum where dispute is pending
Income Tax Act, 1961	Income tax	9,352,609	2002-03	We are informed that the Assessment order was received on 31st March, 2006 and that the company is in the process of filing an appeal with the Appellate authorities against the order.

9. In our opinion and according to the information and explanations given to us, the Company has not defaulted in the (re)payment of dues to financial institutions and banks.

10. According to the information and explanations given to us and the records examined by us, the Company has not raised funds on short term basis.

11. During the period covered by our audit report, the Company has not raised any money by public issue.

12. To the best of our knowledge and belief and according to the information and explanations given to us, no fraud on or by the Company was noticed or reported during the year.

for Deloitte Haskins & Sells
Chartered Accountants

V. Srikumar
Partner
M. No. 84494

Place : Bangalore
Date : 25th April, 2006

Financial Review

Subex Azure Limited (Standalone)

BALANCE SHEET AS AT

Amount in Rs.

	Schedule	31st March, 2006		31st March, 2005	
SOURCES OF FUNDS					
Shareholders' funds					
Share capital	A	217,575,680		100,672,230	
Share application money		878,089		318,640	
Reserve and surplus	B	1,597,751,141	1,816,204,910	1,132,054,073	1,233,044,943
Loan Funds					
Secured loans	C	11,119,920		73,282,446	
Unsecured loans	D	-		212,987,750	
Deferred payment consideration towards acquisition					
- Alcatel, FMS Division		-	11,119,920	22,754,000	309,024,196
Total			**1,827,324,830**		**1,542,069,139**
APPLICATION OF FUNDS					
Fixed assets	E				
Gross block		653,064,906		555,422,291	
Less : Depreciation		265,950,677		188,059,593	
Net block		387,114,229		367,362,698	
Capital work in progress		4,495,298	391,609,527	465,431	367,828,129
Investments	F		318,017,947		308,518,947
Deferred tax asset (Net)			7,912,000		3,975,809
CURRENT ASSETS, LOANS & ADVANCES					
Inventories	G	-		62,589	
Sundry debtors	H	960,193,124		730,950,484	
Cash & bank balances	I	405,677,943		277,911,743	
Loans & advances	J	76,355,395		55,871,375	
		1,442,226,462		1,064,796,191	
Less: Current liabilities & provisions	K	332,441,106		203,049,937	
Net current assets			1,109,785,356		861,746,254
Total			**1,827,324,830**		**1,542,069,139**
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

V. Srikumar
Partner
Membership No. 84494

Subash Menon
Chairman & Managing Director

Rajkumar C
Company Secretary & Legal Counsel

Sudeesh Yezhuvath
Wholetime Director

V. R. Suresh Rao
General Manager - Accounts & Finance

V. Balaji Bhat
Director

Bangalore
25th April, 2006

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED

Amount in Rs.

	Schedule	31st March, 2006		31st March, 2005	
Income					
Sales & Services			1,812,162,302		1,165,502,087
Other Income	L		29,027,758		6,847,334
Total			**1,841,190,060**		**1,172,349,421**
EXPENDITURE :					
Direct Cost	M		132,850,266		32,210,959
Personnel Costs	N		946,131,783		675,730,785
Other Operating, Selling and Administrative Expenses	O		222,772,709		107,668,070
Financial Costs	P		26,419,291		24,216,276
Miscellaneous Expenses amortised			-		256,942
Depreciation	Q		90,789,585		71,168,952
Total			**1,418,963,634**		**911,251,984**
Profit Before Taxation			**422,226,426**		**261,097,437**
Provision for taxation					
- Current		32,775,000		13,614,828	
- Fringe Benefit Tax		1,891,637		-	
- Deferred		(3,936,191)	30,730,446	(5,545,809)	8,069,019
Profit After Taxation			391,495,980		253,028,418
Add: Balance brought forward from Previous year			448,497,788		259,548,226
Profit Available for Appropriation			**839,993,768**		**512,576,644**
APPROPRIATION :					
Transfer to General Reserve			39,500,000		25,500,000
Dividend					
- Equity Shares - Interim Dividend 2005-06 (FY)		16,283,564		9,274,917	
- Equity Shares - Final Dividend 2004-05 (FY)		547,764		20,134,446	
- Equity Shares - proposed - Dividend 2005-06 (FY)		21,757,568		-	
- Dividend on Preference Shares		-	38,588,896	4,651,061	34,060,424
Tax on distributed profits			5,604,376		4,518,432
Surplus carried to Balance Sheet			756,300,496		448,497,788
			839,993,768		**512,576,644**
Earnings Per Share (Face value of Rs.10 each)					
- Basic			18.23		13.89
- Diluted			18.13		13.19
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

Sudeesh Yezhuvath
Wholetime Director

V. Balaji Bhat
Director

V. Srikumar
Partner
Membership No. 84494

Rajkumar C
Company Secretary & Legal Counsel

V. R. Suresh Rao
General Manager - Accounts & Finance

Bangalore
25th April, 2006

CASH FLOW STATEMENT FOR THE YEAR ENDED

Amount in Rs.

		31st March, 2006	31st March, 2005
Cash flow from operating activities			
Net profit before tax and before extraordinary items		422,226,426	261,097,437
Adjustments for			
a) Depreciation and amortization		90,789,585	71,425,894
b) Interest / dividend Income		(17,485,876)	(1,681,501)
c) Interest on borrowings		26,419,291	24,216,276
d) Assets written off / loss on sale		1,922,880	829,470
e) Profit on sale of assets		(11,976,780)	(114,895)
f) Employee compensation expenses		4,115,709	1,008,361
g) Provision for doubtful debts		35,583,448	4,295,276
h) Unrealised exchange fluctuations		3,632,964	7,954,119
i) Direct taxes paid		(21,068,323)	(7,554,024)
Operating profit before working capital changes		**534,159,324**	**361,476,413**
Adjustments for			
a) Sundry debtors		(292,387,910)	(147,001,976)
b) Loans and advances		(11,546,176)	(17,588,983)
c) Inventories		62,589	75,436
d) Trade and other payables		93,266,223	81,122,502
Cash generated from operations	A	**323,554,050**	**278,083,392**
Cash flow from investing activities			
a) Purchase of fixed assets		(110,095,990)	(350,824,055)
b) Sale / disposal of fixed assets		21,058,612	768,732
c) Sale / purchase of investments		(9,499,000)	(499,940)
d) Deferred payment consideration towards acquisition		-	3,870,381
e) Reversal of investment carrying value		-	18,883,619
f) Interest received		16,352,692	1,681,501
Net cash from investing activities	B	**(82,183,686)**	**(326,119,762)**
Cash flow from financing activities			
a) Proceeds from issue of share capital/options		18,753,800	217,939,080
b) Proceeds from/(repayment) of short term borrowings - Net		(59,387,250)	(61,389,471)
c) Proceeds from long term borrowings		3,318,000	469,263,000
d) Repayment of long term borrowings		(6,093,275)	(270,554,902)
e) Dividends & dividend tax paid		(43,776,147)	(43,304,005)
f) Interest paid on borrowings		(26,419,292)	(19,612,907)
Net cash from financing activities	C	**(113,604,164)**	**292,340,795**
Net increase in cash or cash equivalents [A + B + C]		127,766,200	244,304,425
Cash or cash equivalents at the start of the year		277,911,743	33,607,318
Cash or cash equivalents at the close of the year		**405,677,943**	**277,911,743**

Note : Cash & cash equivalents include balance with scheduled banks on dividend account and GIC deposit account of Rs. 963,793 (previous year Rs. 895,009) 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
Membership No. 84494

Bangalore
25th April, 2006

Subash Menon
Chairman & Managing Director

Rajkumar C
Company Secretary & Legal Counsel

Sudeesh Yezhuvath
Wholetime Director

V. R. Suresh Rao
General Manager - Accounts & Finance

V. Balaji Bhat
Director

SCHEDULES TO THE BALANCE SHEET AS AT

Amount in Rs.

		31st March, 2006		31st March, 2005
Schedule - A				
Share capital				
Authorised				
30,140,000 (Previous year, 12,500,000) equity shares of Rs. 10 each		301,400,000		125,000,000
200,000 (Previous year, 2,000,000) Redeemable Optionally Convertible Cumulative Preference Shares (ROCCPS) of Rs.98 each		19,600,000		196,000,000
Total		**321,000,000**		**321,000,000**
Issued, subscribed and paid up				
A) Equity				
21,757,568 (Previous year, 10,067,223) equity shares of Rs. 10 each		217,575,680		100,672,230
Of the above				
a) 115,000 shares of Rs.10 each were allotted for consideration other 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				
d) 10,878,784 (previous year: Nil) shares of Rs.10 each are allotted as bonus shares by capitalisation of securities premium;				
Total		**217,575,680**		**100,672,230**
Schedule - B				
Reserves and surplus				
Capital reserve		13,006,920		13,006,920
General reserve - opening balance	123,802,608		98,302,608	
Add : Additions during the year	39,500,000	163,302,608	25,500,000	123,802,608
Securities premium account - opening balance	541,983,360		166,327,505	
Add : Additions during the year	223,066,491		375,655,855	
Less: Utilised towards issue of bonus shares	(108,787,840)	656,262,011	-	541,983,360
Employees stock options outstanding	22,738,130		10,428,860	
Less: Deferred employees compensation expenses	13,859,024	8,879,106	5,665,463	4,763,397
Profit & loss account		756,300,496		448,497,788
Total		**1,597,751,141**		**1,132,054,073**
Schedule - C				
Secured Loans				
State Bank of India - FCNR (B) Loan		-		59,387,250
[Amount repayable within one year: Rs. Nil)				
(Previous Year, Rs. 59,387,250)				
(Secured by 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)				
Hire Purchase		11,119,920		13,895,196
(Secured by hypothecation of motor cars)				
[Amount repayable within one year: Rs. 3,761,855)				
(Previous Year, Rs. 4,568,531)				
Total		**11,119,920**		**73,282,446**
Scheduled - D				
Unsecured loans				
Foreign Currency Convertible Bonds		-		212,987,750
		-		**212,987,750**

Schedule - E

Fixed assets

Amount in Rs.

		Gross block				Depreciation				Net block	
Sl. No.	Particulars	As at 1st April, 2005	Additions during the year	Deletions during year	As at 31st March, 2006	Upto 1st April, 2005	For the year	On deletions	Upto 31st March, 2006	As at 31st March, 2006	As at 31st March, 2005
1	Freehold land	5,819,103	-	5,819,103	-	-	-	-	-	-	5,819,103
2	Plant & machinery	1,607,209	45,977	837,708	815,478	1,474,808	28,405	777,350	725,863	89,615	132,401
3	Furniture & fixtures	14,673,263	646,080	4,751,332	10,568,011	11,107,283	751,162	4,396,863	7,461,582	3,106,429	3,565,980
4	Computers	185,143,121	11,686,094	1,030,014	195,799,201	128,253,526	19,799,315	592,402	147,460,439	48,338,762	56,889,595
5	Office equipments	9,174,389	787,262	1,715,915	8,245,736	5,136,736	1,084,221	1,486,662	4,734,295	3,511,441	4,037,653
6	Electrical installations	1,790,615	-	1,790,615	-	1,676,301	-	1,676,301	-	-	114,315
7	Motor car	28,024,589	4,028,759	7,857,762	24,195,586	9,552,508	4,855,197	3,869,580	10,538,125	13,657,461	18,472,081
8	Other fixed assets	28,393	-	28,393	-	26,973	-	26,973	-	-	1,420
9	Intellectual property rights	304,150,022	95,523,954	-	399,673,976	30,331,673	62,733,576	-	93,065,249	306,608,727	273,818,349
10	Goodwill	5,011,586	8,755,332	-	13,766,918	499,785	1,465,339	-	1,965,124	11,801,794	4,511,801
	Total	**555,422,290**	**121,473,458**	**23,830,842**	**653,064,906**	**188,059,593**	**90,717,215**	**12,826,131**	**265,950,677**	**387,114,229**	**367,362,698**
	PREVIOUS YEAR	**209,167,886**	**350,358,624**	**4,104,219**	**555,422,291**	**119,948,661**	**71,168,952**	**3,058,020**	**188,059,593**	**367,362,698**	**89,219,225**

(Note : Depreciation as per Profit & Loss account for the current year is higher to the extent of Rs. 72,369 due to allocable expense from Subex Technologies Ltd, Refer Note 11.12.B of Schedule R)

SCHEDULES TO THE BALANCE SHEET AS AT

Amount in Rs.

	31st March, 2006		31st March, 2005	
Schedule - F				
Investments				
(Unquoted at cost)				
Long term - Non trade				
In Government securities - I.V.P		-		1,000
Long term - trade				
Subex Technologies, Inc (Wholly owned subsidiary, incorporated in U.S.A, common stock 3,000 shares, fully paid up, of no par value)		308,018,007		308,018,007
Long term - trade				
Subex Technologies, Ltd (Wholly owned subsidiary, incorporated in India, common stock 999,994 (previous year: 49,994) shares, fully paid up, at par value of Rs.10 each)		9,999,940		499,940
Total		**318,017,947**		**308,518,947**
Schedule - G				
Inventories				
Traded goods		-		62,589
Total		**-**		**62,589**
Schedule - H				
Sundry debtors				
(Unsecured)				
Outstanding for more than six months				
- Considered good	254,146,370		206,737,371	
- Considered doubtful	58,786,098		23,938,870	
	312,932,468		230,676,241	
Less: Provision for doubtful debts	58,786,098	254,146,370	23,938,870	206,737,371
Others		706,046,754		524,213,113
Total (considered good)		**960,193,124**		**730,950,484**
Schedule - I				
Cash & bank balances				
Cash on hand		342,020		425,892
Balance with scheduled banks				
- in Current account in Indian Rupees		9,776,111		10,350,189
- in Deposit account in Indian Rupees		333,665,660		219,021,499
- in EEFC account in foreign currency		43,245,394		2,438,103
Balance with non-scheduled banks				
- Deposit with Royal Bank of Canada		963,793		895,009
- in current account with Royal Bank of Canada, Canada (Maximum outstanding during the year Rs. 2,205,145)		503,094		576,781
- in checking account with First Union Bank, New Jersey (Maximum outstanding during the year Rs.48,103,089)		11,793,295		18,108,364
- Deposit with money market account with First Union Bank, New Jersey (Maximum outstanding during the year Rs. 47,686,579)		-		23,423,122
- in Hellinic Bank - CYP Account, Cyprus (Maximum outstanding during the year Rs. 1,502)		1,395		1,548
- in Hellinic Bank - USD Account - Cyprus (Maximum outstanding during the year Rs. 8,077)		1,663		7,593
- in Bank of China - RMB account - China (Maximum outstanding during the year Rs.1,789,772)		22,595		495,853
- in Bank of China - USD Account - China (Maximum outstanding during the year Rs. 1,541,775)		892,680		766,318
- in First National Bank of Colardo - USD Account - CO (Maximum outstanding during the year Rs. 11,017,675)		1,773,861		1,398,966
- in HSBC Bank - GBP Account - Slough, London (Maximum outstanding during the year Rs. 12,132,108)		2,696,382		2,506
Total		**405,677,943**		**277,911,743**

SCHEDULES TO THE BALANCE SHEET AS AT

Amount in Rs.

	31st March, 2006		31st March, 2005	
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		21,342,369		25,088,751
Due from Subex Technologies Ltd. (Net) (Wholly owned subsidiary)		10,042,277		283,079
Advance Income Tax including TDS		17,718,857		9,841,828
Other Deposits		27,251,892		20,657,717
Total		**76,355,395**		**55,871,375**
Schedule - K :				
Current liabilities & provisions :				
Sundry creditors :				
Sundry creditors	124,128,357		46,408,428	
(other than Small Scale Industrial Undertaking)				
Advance received from customers	64,884,807		68,936,388	
Duties & taxes	13,211,952		9,655,614	
Subex Technologies, Inc. (Net) (Wholly owned subsidiary)	64,277,408		36,686,755	
Unclaimed dividends (Refer Note II.18.3)	300,627	266,803,151	301,227	161,988,412
Provisions				
Taxation	37,359,715		15,884,372	
Dividends	22,069,429		22,071,631	
Tax on proposed dividends	3,051,499		2,631,572	
Warranty	3,157,312	65,637,955	473,950	41,061,525
Total		**332,441,106**		**203,049,937**
Schedule - L :				
Other Income :				
Interest Received (Gross - TDS Rs. 3,794,118, Previous Year Rs. 194,853)		17,485,876		1,681,501
Other income received		1,487,982		3,550,504
Profit on sale of fixed assets (Net)		10,053,900		-
Creditors no longer payable written back		-		128,861
Exchange Fluctuation Account (Net)		-		869,400
Rent received		-		617,068
Total		**29,027,758**		**6,847,334**

SCHEDULES TO THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED

Amount in Rs.

		31st March, 2006		31st March, 2005
Schedule - M				
Direct cost				
a. Purchased systems & solutions		76,932,834		31,751,699
(Increase)/ decrease in finished goods				
Opening stock - finished goods	62,589		138,025	
Closing stock - finished goods	-	62,589	62,589	75,436
b. Commission on sales		55,854,843		383,824
Total		**132,850,266**		**32,210,959**
Schedule - N				
Personnel costs				
Salaries, wages & allowances		321,347,918		166,374,038
Contribution to provident fund and other funds		8,163,941		4,737,399
Other staff related costs		20,027,863		16,765,149
Sub contract charges		596,592,061		487,854,199
Total		**946,131,783**		**675,730,785**
Schedule - O				
Other operating, selling and administrative expenses				
Software purchases		1,496,013		1,047,017
Rent		30,415,017		11,882,243
Power, fuel and water charges		6,207,953		3,418,257
Repairs & maintenance others		4,213,304		3,310,730
Insurance		2,099,094		1,459,299
Communication costs		20,332,862		10,347,307
Printing & stationery		1,376,270		1,075,134
Travelling & conveyance		70,443,729		40,360,808
Directors sitting fees		27,500		32,500
Rates & taxes including filing fees		962,070		3,787,731
Advertisement & business promotion		16,120,996		15,407,617
Consultancy charges		20,909,065		5,073,993
Bad Debts written off		135,104		448,425
Warranty expenses		2,683,362		-
Provision for doubtful debts		35,583,448		4,295,276
Loss on sale of assets & assets written off (Net)		-		277,467
Exchange Fluctuation Account (Net)		853,205		-
Miscellaneous expenses		8,913,717		5,444,266
Total		**222,772,709**		**107,668,070**
Schedule - P				
Financial costs				
Interest on fixed loans		-		1,126,721
Other interest & bank charges		26,419,291		23,089,555
Total		**26,419,291**		**24,216,276**

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 are as under

Particulars	Depreciation Rates
Plant & machinery	20.00 %
Computers	25.00 %
Vehicles	20.00 %
Furniture & fixtures	20.00 %
Intangible assets	20.00 %
Goodwill	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 Plans

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 options under Employees Stock Option Plan - II (ESOP - 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.

Company has floated ESOP III in the current financial year which is on the same lines as ESOP II.

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 asset purchased for research and development 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 restated at the exchange rate prevailing on the date of the Balance Sheet. Exchange differences on settlement/restatement of foreign currency transactions relating to fixed assets are adjusted to the cost of the respective assets. Exchange differences relating to other transactions are charged to the profit and loss account. Premium or discount on forward contracts is amortised over the life of such contract and is recognized as income or expense, except in respect of the liabilities for the acquisition of fixed assets, where such amortization is adjusted in the carrying cost of the fixed assets. Any profit or loss arising on cancellation or renewal or retirement of forward contract is recognized in profit and loss account / other accounts as appropriate.

Assets (other than fixed assets) and liabilities of the foreign branches are translated into Indian rupees at the rate of exchange prevailing as at the Balance Sheet date. Fixed assets of foreign branches are restated at the exchange rate prevailing on the date of the transaction. 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 and carried forward to the extent that there is a reasonable/virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized.

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 statement 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. Securities issue expenses

Expenses incurred during the Initial Public Offer, follow on offer and issue of bonus shares are amortised over 5 years. Other issue expenses are charged to the securities premium account.

I.15. Provisions

A provision is recognized when an enterprise has a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

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.

Movement in deferred tax asset (Liability)

	2005-06	2004-05
Net deferred tax asset/ (liability) at beginning of the year	3,975,809	(1,570,000)
Add: Tax benefits/ (charge) for current year	3,936,191	5,545,809
Net deferred tax asset/ (liability) at end of the year	**7,912,000**	**3,975,809**

b) The net deferred tax asset as at 31st March, 2006 comprises the tax impact arising from the timing differences on account of:

	As at 31st March, 2006	As at 31st March, 2005
- Depreciation	7,912,000	3,975,809

II.2. Contingent liabilities

Debts factored – Rs. 389,264,166 (Previous year, Rs. 218,862,500)

Claims against the company not acknowledged as debt – Rs. 9,352,609 (Previous year: NIL)

(This relates to Income Tax matter relating to FY 2002-03. The demand is being disputed by the company.)

II.3. Investment in Subex Technologies, Inc.USA.

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

II.4. Acquisition of Tangible and Intangible Assets – Lightbridge Inc and Alcatel, UK

During 2004-05, the company acquired Intellectual Property Rights comprising of technology, know how, source code and software connected with the Fraud Management software businesses from Alcatel, UK and Lightbridge, USA for an amount of Rs. 172,812,313 and Rs. 141,685,665 respectively, including expenses incurred in connection with the said acquisitions. During the year an amount of US$ 25,307 (Rs.1,102,753) has been paid to Lightbridge as additional consideration and is capitalized as Goodwill.

The intangible assets based on the valuation report by independent valuers, are being amortised over 5 years in accordance with the company's assessment of useful life thereof. Accordingly, an amount of Rs. 62,502,860 has been amortised in the financial year under review.

Out of the amount of Rs. 172,812,313 accounted for the Alcatel acquisition, a portion of the consideration amounting to Rs. 22,754,000 (Euros 400,000) was to be discharged by way of discounts allowable to Alcatel on sales of software licenses prospected by them over a period of 18 months commencing from 1st October, 2004, as a part of their obligations under the reseller agreement entered into with the company. This liability, reflected as deferred payment liability in the previous year's Balance sheet, has been fully discharged by the company during the year.

II.5 Foreign Currency Convertible Bonds (FCCB)

During the year 2004-05, the company issued Foreign Currency Convertible Bonds (FCCBs) aggregating to US$ 10 million to Institutional Investors to finance the above acquisition.

The Bonds carried interest of 200 basis points above 6-month LIBOR and were redeemable by December 2009, if not converted in to equity as per terms of issue

In the previous year FCCB's amounting to US$ 5,150,000 were converted at a price of Rs.300 per share. The balance amount of FCCBs amounting to US$ 485,000 have been converted during the year at the same price.

II.6 Subex Technologies Ltd (STL) has been incorporated on 28th March, 2005 with the objective of pursuing software service business. The subscribed Share Capital of the company is Rs.100 lacs. This is a wholly owned domestic subsidiary of Subex Systems Limited.

II.7 Acquisition of Tangible and Intangible Assets –Mantas Inc

The company acquired business contracts, hardware, intellectual property rights (comprising of trademarks, patents, copyrights and software) connected with the fraud management software businesses from Mantas, Inc. USA in an all cash deal of US$ 2.l0 million, on 1st March, 2006. The same has been capitalized along with the expenses incurred in connection with the said acquisition.

The intangible assets accounted for based on the valuation report by independent valuers, are being depreciated over 5 years in accordance with the company's assessment of useful life thereof. Accordingly, an amount of Rs.1,696,053 has been amortised in the financial year under review.

II.8 On 9th April, 2006, the company has issued Global Depository Receipts (GDRs) priced at Rs. 400 per GDR and representing one share each, amounting to US$ 10 million, which has been listed in the Luxembourg Stock Exchange. Consequent to the issue, subscribed equity share capital has gone up by 1,109,878 shares and this issue has resulted in accretion to the securities premium account by Rs. 432,852,420 post the balance sheet date.

II.9 Bonus issue

During the year, the company has declared bonus shares in the ratio of 1:1. The bonus shares (10,878,784) have been issued by capitalizing an amount of Rs.108,787,840 from the Securities premium account.

II.10 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, cancelable at its option and other long term leases. Rental expenses for operating leases included in the Income statement for the year is Rs. 30,415,017 (Previous year, Rs. 11,882,243).

As of 31st March, 2006 future minimum lease payments for non-cancellable operating leases for the next five fiscal years are:

Amount in Rs.

For the year ending	31st March, 2006	31st March, 2005
Within one year from	18,281,307	8,107,127
Due in a period between one year and five years from	44,188,721	15,980,935
Due after five years from	—	—

II.11. Employees Stock Option Plan (ESOP)

ESOP – I

The Company had issued 120,000 Equity Shares at Rs.10 each to Subex Foundation, an employee welfare Trust, constituted to operate an Employees Stock Option Plan. Consequent to the issue of Bonus Shares in earlier years, the total shares available with the trust had increased to 240,000. 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 31st March, 2006,174,440 shares (which includes 87,220 bonus shares allotted on 6th January, 2006) are available with the trust. Since the scheme was formulated prior to the promulgation of SEBI guidelines on ESOP dated 19th June, 1999, the company has discontinued the scheme.

ESOP – II

During 1999-2000, the Company established a Stock Option Scheme under which 500,000 options have been allocated for grant to the employees. Each option comprises of one underlying equity share of Rs.10 each and carries an entitlement of bonus shares if and when declared. 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 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 Stock Exchange where the highest volume of shares are traded for 15 days prior to the date of grant. The shares granted vest over a period of 1 to 4 years and can be exercised over a maximum period of 3 years from the date of vesting.

Under this scheme 476,902 option have been granted to 310 employees as at 31st March, 2006. Out of the above options 70,323 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 period ended resulted in a debit of Rs. 4,910,159 (previous year: debit of Rs. 1,744,455) to the Profit & Loss account for the year.

ESOP – III

During 2005-2006, the company established a new stock option scheme under which 500,000 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 19th June, 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 stock exchange where the traded volume is the highest for the 15 days prior to the date of grant. The shares granted vest over a period of 1 to 4 years can be exercised over a maximum period of 3 years from the date of vesting.

As on 31st March, 2006, 70,380 options have been granted to 156 employees under this scheme. 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 period ended resulted in a debit of Rs. 497,664 (previous year: Nil) to the Profit & Loss account for the year.

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

ESOP – I : Nil

ESOP – II :

	As at 31st March, 2006	As at 31st March 2005
Options outstanding at the beginning of the year	336,385	301,440
Granted	144,000	101,800
Forfeited/ cancelled	50,950	32,749
Exercised	65,408	34,106
Balance at end of the year	**364,027**	**336,385**

ESOP – III

Options granted during the year and outstanding at the end of the year - 70,380

Method used for accounting for share based payment plan:

The company has used intrinsic value method to account for the compensation cost of stock option to employees of the company. Intrinsic value is the amount by which the quoted market price of the underlying share exceeds the exercise price of the option

Fair Value Methodology

The fair value of options used to compute pro forma net income and earnings per equity share have been estimated on the date of grant using Black-Scholes model.

The key assumptions used in Black-Scholes model for calculating fair value are: risk-free interest rate of 6.43%, expected life : 3 years, expected volatility of shares : 55.80% and expected dividend yield: 0.42%. The variables detailed herein represent the average of the assumptions during the pendency of the grant dates.

The impact on the EPS of the company if fair value method is adopted is given below.

Particulars	31st March,2006 Rs.
Net Profit (as reported)	391,495,980
Add: Stock-based employee compensation relating to grants after 1st April, 2005	3,516,774
Less: Stock based compensation expenses determined under fair value based method for the above grants	(11,181,604)
Net Profit (proforma)	383,831,150
Basic earning per share (as reported)	18.23
Basic earning per share (proforma)	17.87
Diluted earning per share (as reported)	18.13
Diluted earning per share (proforma)	17.78

II.12. Related party information

A) Related parties

Wholly Owned Subsidiaries controlled by the Company:

Subex Technologies Inc., USA
Subex Technologies Ltd, India

Particulars	Options (Nos)	Weighted average exercise price per stock options (Rs.)
Options outstanding at the beginning of the year	336,385	168.52
Granted during the year		
ESOP - II	144,000	442.80
ESOP - III	70,380	342.55
Exercised during the year	65,408	
Cancelled & Lapsed during the year	50,950	
Options outstanding at the end of the year		
ESOP – II	364,027	284.25
ESOP - III	70,380	342.55
Options exercisable at the end of the year	70,323	

The Company issued 10,878,784 bonus shares with a record date of 6th January, 2006.

The options under ESOP III totaling to 70,380 options were granted on 13th March, 2006, (post issue of Bonus shares referred above).

Companies under same management

Cellcomm Solutions Ltd (formerly known as Subex Cellcomm Ltd)
Subex Holdings Private Limited (SHPL)

Key Management Personnel

Subash Menon, Chairman & Managing Director
Sudeesh Yezhuvath, Wholetime 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:

Nature of Transaction	Subsidiary		Companies under same management		Key Management Personnel	
	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05
a) Purchase of services:						
i) STI*	596,592,061	487,854,199	-	-	-	-
ii) STL**	9,967,322	-	-	-	-	-
b) Inter Corporate Deposits received(SHPL)	-	-	-	325,000	-	-
c) Interest paid on Inter Corporate Deposit(SHPL)	-	-	-	187,702	-	-
d) Repayment of Inter Corporate Deposit /Loan (SHPL)	-	-	-	2,073,508	-	-
e) Salary, perquisites & commission	-	-	-	-	23,409,166	15,670,746
f) Amount due as at year end from						
i) STI*	104,173,846	85,017,124	-	-	-	-
ii) STL**	11,533,049	283,079	-	-	-	-
g) Amount due as at year end to	-	-	-	-	10,000,000	4,975,500
i) STI*	168,451,255	121,703,879				
ii) STL**	1,490,772	-	-	-	-	-
h) Sharing of expenses related to services business (STL) see Note – 1	4,225,051	-	-	-	-	-
i) Commission paid on Service Business	1,164,280	-	-	-	-	-

* STI = Subex Technologies, Inc.

** STL = Subex Technologies Ltd

Note –1 - Sharing of expenses is in relation to expenses borne by Subex Technologies Ltd towards software services business of Subex Systems Ltd as agreed between both companies. These have been accounted under depreciation, personnel cost and various heads included under Schedule -O

II.13. Earnings per share:

a) Basic		2005-06	2004-05
Profits after tax	A	391,495,980	253,028,418
Less: Dividend on preference shares & distribution tax		-	(5,288,001)
Net profit available to equity shareholders – basic	B	391,495,980	247,740,417
b) Diluted			
Profits after tax	C	391,495,980	253,028,418
Add: Interest on FCCB		-	5,380,279
Net profit available to equity shareholders – diluted	D	391,495,980	258,408,697
Weighted average number of shares – basic	E	21,480,220	17,833,474
Weighted average number of shares – diluted	F	21,590,084	19,584,306
Earnings per share – basic	**B / E**	**18.23**	**13.89**
Earnings per share – diluted	**D / F**	**18.13**	**13.19**

Earning per share has been recomputed for the previous year taking into account bonus issue during the current year.

II.14. a. Managerial Remuneration to Managing Director and Whole-time Directors:

Amount in Rs.

	Year ended March 31, 2006	Year ended March 31, 2005
Salary	11,694,610	7,035,509
Contribution to Provident Fund	1,402,896	638,571
Perquisites	311,660	496,666
Commission (as computed below)	10,000,000	7,500,000
Total	23,409,166	15,670,746

b. Computation of Net Profit in accordance with Section 349 of the Companies Act, 1956

	2005-06		2004-05	
Profit before tax as per the Profit & Loss Account		422,226,426		261,097,437
Add: Directors' Sitting Fees	27,500		32,500	
Remuneration to Directors (including Commission)	24,609,166	24,636,666	16,470,746	16,503,246
Less: Surplus on sale of Fixed Assets (Net)		10,053,901		(114,895)
Profits for Computation of Directors' Commission		436,809,191		277,485,788
Maximum Remuneration of Whole-time Directors under provisions of the Companies Act, 1956 @ 10%		43,680,920		27,748,579
Remuneration including commission, paid		23,409,166		15,670,746
Maximum Commission to Non- Wholetime Directors under provision of the Companies Act, 1956 @ 1%		4,368,090		2,774,858
Commission paid		1,200,000		800,000

II.15. Auditors remuneration

Miscellaneous expenditure includes remuneration to auditors:

	Year ended 31st March, 2006	Year ended 31st March 2005
Audit fees (inclusive of service tax)	1,346,880	994,400
For tax matters	55,600	55,100
Other Services	-	800,000
Reimbursement of expenses	3,097	10,929
Total	1,405,577	1,860,429

II.16. Details of Warranty

Year	Opening balance	Additions During the year	Utilisation / reversal during the year	Closing balance
2005-06	473,950	3,157,312	(473,950)	3,157,312
2004-05	2,212,498	473,950	(2,212,498)	473,950

Probable period of outflow in case of warranty is 6-12 months.

II.17. 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.18. Others

1. The Company is availing non-fund based limits and overdrafts against lien on the fixed deposits. However, there are no loans outstanding as on 31st March, 2006.

2. Estimated amount of contracts, remaining to be executed on capital account and not provided for (net of advances paid) Rs.Nil (Previous year Rs. Nil).

3. Amount of Rs.300,627 represents the unclaimed dividend for the period from 1999-2006. 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. Personnel Cost for the year includes expenditure on research and development of Rs. 6,549,332 (Previous Year, Rs. 6,000,318). This is as certified by the management and relied on by the auditors.

5. Company has disposed of its land located at Yeshwantpur Industrial Area during the year for a sum of Rs.17,667,000 and has paid long term capital gains of Rs.2,003,792 on the profits arising from this transaction.

6. The company has entered into the following derivative instruments for the purposes of hedging the risks associated with foreign exchange exposures as at 31st March, 2006 :

(a) Forward Exchange Contracts:

Particulars	US$	Buy/Sell	Amount (INR)
Option contracts (to the extent there is an unhedged foreign currency exposure)	2,650,000	Buy	118,605,250

The year end foreign currency exposures that have not been hedged by a derivative instrument or otherwise are given below:

Amounts receivable in foreign currency on account of:

Export of goods	Rs.	Foreign currency
	8,966,994	GBP 115,980
	60,605,178	Euro 1,125,183
	847,508,032	US$ 19,069,765

Amounts payable in foreign currency on account of:

	Rs.	Foreign currency
Import of goods and services	75,58,595	US$ 168,794
	39,776,660	US$ 888,268
	10,619,700	Euro 195,000
	64,277,408	US$ 1,417,738
Capital Imports [including Intangibles]	696,329	US$ 15,550

b. Derivative Instruments

	F C (US$)	Buy / Sell	Rate	Amount (INR)
	300,000	Buy	44.12	13,236,000
	100,000	Buy	44.26	4,426,000
	100,000	Buy	44.30	4,430,000
Total	500,000			22,092,000
	600,000	Sell	44.12	26,472,000
	200,000	Sell	44.26	8,852,000
	200,000	Sell	44.30	8,860,000
Total	1,000,000			44,184,000

The above disclosures have been made consequent to an announcement by the Institute of Chartered Accountants of India in December, 2005, which is applicable to the financial periods ending on or after 31st March, 2006. Therefore, figures for the previous year have not been disclosed.

7. Previous year's figures have been regrouped to conform to the classifications for the current year.

II.19. Other Information pursuant to Schedule VI of the Companies Act, 1956.

Amount in Rs.

		Year ended 31st March, 2006	Year ended 31st March, 2005
CIF value of imports :			
Import of systems and solutions		24,951,522	800,616
Capital goods		7,468,007	13,000,271
Expenditure in foreign currency			
Traveling expenses		16,187,638	8,508,837
Interest expense		5,110,082	5,331,718
Consideration for acquired assets		108,692,786	-
Product marketing expense and other expenditure incurred overseas for software development		838,504,812	604,766,727
Earnings in foreign exchange			
Income from software development services and products on receipt basis		1,378,695,807	1,042,081,071
Remittance in Foreign Currency on account of dividend			
Amount remitted during the year in foreign currency on account of dividends for the year	2005-06	808,628	-
	2004-05	1,085,890	547,645
	2003-04	-	463,780
No. of Non-resident shareholders for the year	2005-06	2	-
	2004-05	3	3
	2003-04	-	4
Shares held by non-resident shareholders on which dividend was due for the year	2005-06	539,085	-
	2004-05	542,945	547,645
	2003-04	-	231,890

Signature to the Schedules A – R

Subash Menon
Chairman & Managing Director

Sudeesh Yezhuvath
Wholetime Director

V. Balaji Bhat
Director

Place : Bangalore
Date : 25th April, 2006

Rajkumar C
Company Secretary & Legal Counsel

V. R. Suresh Rao
General Manager - Accounts & Finance

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

COMPANY: SUBEX AZURE LIMITED | **YEAR : 2005-2006**

I. Registration details

Registration No.	16663	State code	08
Balance sheet date	31-03-2006		

II. Capital raised during the year (Rupees in thousands)

Public issue	-	Rights issues	-
Bonus issue	108787.84	Private placements - Equity	
		- Preference	
Preferential offer of shares under Employee Stock Option Plan* - Equity			654

III. Position of the mobilisation and development of funds (Rupees in thousands)

Total liabilities	1827324	Total assets	1827324

Source of funds

Paid up capital	217576	Share application money	878
Secured loans	11119	Reserves & surplus	1597751
		Unsecured loans	-
		Deferred tax liability	-

Application of funds

Net fixed assets	391609	Investments	318018
Net current assets	1109785	Deferred tax assets	7912
Miscellaneous expenditure	-	Accumulated lossess	-

IV. Performance of company (Rupees in thousands)

Turnover	1841190	Total expenditure	1418964
Profit before tax	422226	Profit after tax	391496
Earnings per share from ordinary activities (basic) (Rs.)	18.23	Earnings per share from ordinary activities (diluted) (Rs.)	18.13
Interim dividend rate %	15		
Final dividend rate %	10		

V. Generic name of three principal products/ services of the company (As per monetary terms)

Item code no. (ITC code no.)	85/24	Product Description	COMPUTER SOFTWARE

*Issue of shares arising of the exercise of option granted to employees under the company's ESOP II (2000)

Subash Menon
Chairman & Managing Director

Sudeesh Yezhuvath
Wholetime Director

V. Balaji Bhat
Director

Place : Bangalore
Date : 25th April, 2006

Rajkumar C
Company Secretary & Legal Counsel

V. R. Suresh Rao
General Manager - Accounts & Finance

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	:	31st March, 2006
3. Holding company's interest	:	100% in common stock
4. Shares held by the holding company in the subsidiary	:	3,000 numbers 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 acounts 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	:	Rs. 2,539,218
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 Rs. 2,539,218

Place : Bangalore
Date : 15th May, 2006

Subash Menon
Director

Sudeesh Yezhuvath
Director

DIRECTORS' REPORT

Your directors have the pleasure in presenting the results of operations for the financial year 2006

Financial Results:

Amount in Rs.

	2006	2005
Total revenue	596,592,061	487,854,199
Gross margin	38,292,189	37,509,244
Income before taxes	4,667,920	5,201,790
Net income	2,539,218	4,179,838

During the financial year 2005-06 your company's revenue has gone up from US$ 10,842,595 to US$ 13,403,054, a growth of 23.61%

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

for Subex Technologies, Inc.,

Place : Bangalore
Date : 15th May, 2006

Subash Menon
Director

Sudeesh Yezhuvath
Director

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

Subex Technologies, Inc. Piscataway, New Jersey

We have audited the accompanying balance sheets of Subex Technologies, Inc. as of 31st March, 2006 and 2005, and the related statements of income, retained earnings 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 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material mis-statement. 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 31st March, 2006 and 2005, 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.

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

Place : Ridgewood, New Jersey
Date : 24th April, 2006

BALANCE SHEET FOR THE YEAR ENDED

Amount in US$.

	31st March, 2006	31st March, 2005
ASSETS		
CURRENT ASSETS		
Cash		
Accounts receivable	3,761,752	2,804,701
Employee advances	15,700	17,195
Other current assets	57,451	16,882
TOTAL CURRENT ASSETS	3,834,903	2,838,778
EQUIPMENT		
Equipment	150,753	138,483
Furniture and fixtures	2,554	2,554
Accumulated depreciation	(132,145)	(113,063)
TOTAL EQUIPMENT	21,162	27,974
OTHER ASSETS		
Goodwill	5,129,176	5,129,176
Security deposit	1,238	3,038
TOTAL OTHER ASSETS	5,130,414	5,132,214
TOTAL ASSETS	**8,986,479**	**7,998,966**
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	632,656	315,107
Accrued expenses and payroll	679,330	459,978
Corporate income tax payable	18,506	6,800
Due to related entity	2,344,015	1,950,606
TOTAL CURRENT LIABILITIES	3,674,507	2,732,491
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	5,211,829	5,211,829
Retained earnings	98,143	52,646
TOTAL SHAREHOLDER'S EQUITY	5,311,972	5,266,475
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**8,986,479**	**7,998,966**

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

STATEMENT OF INCOME AND RETAINED EARNINGS FOR THE YEAR ENDED

Amount in US$.

	31st March, 2006	31st March, 2005
REVENUES		
Consulting fees	13,403,054	10,842,595
EXPENSES		
Reimbursement of expenses	4,725	15,226
Salaries and wages	10,261,695	7,887,325
Subcontracting expense	1,232,298	1,399,287
Payroll expense	54,065	42,273
Payroll tax expense	975,318	669,893
Bank service charges	6,133	3,525
Depreciation expense	19,082	11,185
Bad debt expense	33,347	-
Insurance expense	249,229	274,908
Miscellaneous expense	9,115	32,187
Office supplies and expense	24,885	17,585
Postage and delivery	9,154	6,861
Professional fees	176,253	135,751
Rent	43,221	45,368
Provision for taxes	47,857	26,482
Telephone expense	22,099	14,720
Travel and entertainment	163,128	167,814
Recruiting and relocation expenses	25,953	11,335
TOTAL EXPENSES	13,357,557	10,761,725
NET INCOME	45,497	80,870
RETAINED EARNINGS (ACCUMULATED DEFICIT) – beginning	52,646	(28,224)
RETAINED EARNINGS – ending	98,143	52,646

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

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED

Amount in US$.

	31st March, 2006	31st March, 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	45,497	78,870
Non cash expenses included in net income:		
Depreciation	19,082	11,185
Change in operating assets and liabilities:		
Accounts receivable	(957,051)	171,844
Other assets	(37,274)	56,948
Accounts payable	317,549	(287,901)
Accrued expenses	219,352	46,708
Other current liabilities	11,706	4,800
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(381,139)	82,454
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(12,270)	(10,463)
CASH FLOWS FROM FINANCING ACTIVITIES		
Paid in capital	-	(402,175)
Advances from related entity	393,409	330,184
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	393,409	(71,991)
NET DECREASE IN CASH	-	-
CASH – beginning of year	-	-
CASH – end of year	-	-
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for:		
Interest	1,082	-
Income taxes	20,295	17,204

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

NOTES TO FINANCIAL STATEMENTS

31st March, 2006 and 2005

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 to substantially 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 expense for the years ended 31st March, 2006 and 2005 was $0 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 31st March, 2006 and 2005 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 any deficiency in the amount of estimated undiscounted future cash flows of the acquired business 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 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 (benefit) provision for income taxes for the years ended 31st March, 2006 and 2005 consists of current tax expense.

	2006	2005
Federal	$32,018	$ 9,778
State	15,839	12,961
	$47,857	$22,739

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 for the years ended 31st March, 2006 and 2005 were $31,463 and $33,616, 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 31st March, 2006 and 2005 was $0 and $0, respectively.

5. RELATED PARTY

The Company bills the parent company on a cost plus basis for manpower requirements. Revenue from parent company for the years ended 31st March, 2006 and 2005 was $13,403,054 and $10,842,595, respectively.

The Company has advanced and received funds from SSL for working capital purposes. At 31st March, 2006 and 2005 the Company owed SSL (a branch of the parent) $2,344,015 and $1,950,606, respectively.

Accounts receivable at 31st March, 2006 and 2005 include $3,761,752 and $2,771,351 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 31st December, 2006. Rent expense for the years ended 31st March, 2006 and 2005 was $43,221 and $45,367, respectively.

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

2007	$29,435

AUDITOR'S REPORT

To

The Board of Directors of Subex Technologies, Inc., Bangalore

We have audited the attached balance sheet of SUBEX TECHNOLOGIES, INC (the 'Company') as at 31st March, 2006 and the related profit and loss accounts for the period ended on that date annexed thereto. These financial statements are prepared in United States of America and translated into Indian Rupees for the purpose of incorporation thereof in the consolidated financial statements of the ultimate holding company, Subex Systems Limited. 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.

1. We conducted our audit in accordance with the auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material mis-statement. 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.

2. We report that :

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.

In our opinion, proper books of accounts as required by law, have been kept by the Company so far as appears from our examination of those books.

The balance sheet and profit and loss account dealt with by this report are in agreement with the books of account.

In our opinion the balance sheet and profit and loss account dealt with by this report have been prepared in compliance with the applicable accounting standards referred to in section 211(3C) of the Companies Act,1956.

3. In our opinion and to the best of our information and according to the explanations to us, the said accounts read with the notes thereon give in the prescribed manner, the information required by the Act and 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 31st March, 2006

b. In the case of the profit and loss account, of the loss for the period 31st March, 2006

Place: Bangalore
Date: 15th May, 2006

For M/s. P. Chandrasekar & Co.,
Chartered Accountants

P. Chandrasekaran
Partner
Membership No. 26037

BALANCE SHEET AS AT

Amount in Rs.

	31st March, 2006		31st March, 2005	
SOURCES OF FUNDS :				
SHAREHOLDERS' FUNDS :				
Share Capital	87,070		87,070	
Reserve and Surplus	318,339,908	318,426,978	315,874,202	315,961,272
LOAN FUNDS :				
Secured Loans	-			
Unsecured Loans	-			
TOTAL		**318,426,978**		**315,961,272**
APPLICATION OF FUNDS :				
FIXED ASSETS :				
Gross Block	316,034,432		315,564,961	
Less : Depreciation	6,060,463		5,283,115	
Net Block	309,973,969		310,281,844	
Capital work in progress	-	309,973,969	-	310,281,844
DEFERRED TAX ASSET (Net):				
CURRENT ASSETS, LOANS & ADVANCES :				
Inventories	-		-	
Sundry Debtors	168,451,255		123,157,395	
Cash & Bank balances	-		-	
Loans & Advances	3,306,017		1,617,614	
	171,757,272		124,775,009	
Less: Current liabilities & Provisions	163,304,263		119,095,581	
Net Current Assets		8,453,009		5,679,428
TOTAL		**318,426,978**		**315,961,272**

NOTES ON ACCOUNTS

The Schedules referred to above form an integral part of the balance sheet

In terms of our report of even date

For M/s.P. Chandrasekar & Co.,
Chartered Accountants

Subash Menon
Director

Sudeesh Yezhuvath
Director

P. Chandrasekaran
Partner
Membership No. 26037

Place : Bangalore
Date : 15th May, 2006

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED

Amount in Rs.

		31st March, 2006		31st March, 2005
INCOME :				
Consulting Fees		596,592,061		487,854,199
Total		**596,592,061**		**487,854,199**
EXPENDITURE :				
Personnel Costs		558,299,872		450,344,955
Other Operating, Selling and Administrative Expenses		32,496,482		31,632,964
Financial Costs		272,605		158,423
Depreciation		855,182		516,067
Total		**591,924,141**		**482,652,409**
Profit Before Taxation		4,667,920		5,201,790
Provision for taxation				
- Current	2,128,702		1,021,952	
- Deferred	-	2,128,702	-	1,021,952
Profit After Taxation		2,539,218		4,179,838
Add: Balance brought forward from Previous year		16,921,667		12,741,829
Profit Available for Appropriation		**19,460,885**		**16,921,667**
Surplus carried to Balance Sheet		19,460,885		16,921,667
		19,460,885		**16,921,667**

NOTES ON ACCOUNTS

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

In terms of our report of even date

For M/s.P. Chandrasekar & Co.,
Chartered Accountants

Subash Menon
Director

Sudeesh Yezhuvath
Director

P. Chandrasekaran
Partner
Membership No. 26037

Place : Bangalore
Date : 15th May, 2006

SCHEDULES

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 recognized 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 assumptions 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

For Contracts where the only deliverable is services, revenue is recognized based on effort certified by customers and on fulfillment of contractual obligations with customers.

For other contracts which are milestone based, revenue is recognized based on proportionate contract completion method as prescribed by Institute of Chartered Accountants of India.

I.4. Fixed Assets

Fixed assets are capitalized at acquisition cost including directly attributable costs such as freight, insurance and specific installation charges for bringing the assets to its working condition for use. 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 W D V Method over the estimated useful lives of the asset.

	Method	Useful Life
Equipment	WDV	5 years
Furniture	WDV	5 -7 Years

I.6. 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 employee's contributions up to 6% of Compensation.

I.7. 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.

I.8. 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 basis. 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.9. Provisions

A provision is recognized when an enterprise has a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

II. NOTES TO ACCOUNTS

II.1. Deferred Income taxes

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. As at 31st March 2006 and 2005 there were no material temporary differences giving rise to deferred tax assets and liabilities.

II.2. Related Party Information

A) Related Parties

Companies under same management

Subex Systems Ltd

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

(Amounts in Rs.)

Nature of Transaction	Holding Company		Companies under same management		Key Management Personnel		Total	
	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended
	2005-06	**2004-05**	**2005-06**	**2004-05**	**2005-06**	**2004-05**	**2005-06**	**2004-05**
a) Sale of Services	596,592,061	487,854,199	Nil	Nil	Nil	Nil	596,592,061	487,854,199
b) Amount due to as at March 31,2006	104,173,877	85,003,135	Nil	Nil	Nil	Nil	104,173,877	85,003,135
b) Amount due from as at March, 31,2006	168,451,255	123,157,395	Nil	Nil	Nil	Nil	168,451,255	123,157,395

1. Estimated amount of contracts, remaining to be executed on capital account and not provided for (net of advances paid) Rs.Nil (Previous year Rs. Nil).

Signature to the Schedules A - J

For M/s.P. Chandrasekar & Co.,
Chartered Accountants

Subash Menon
Director

Sudeesh Yezhuvath
Director

P. Chandrasekaran
Partner
Membership No. 26037

Place : Bangalore
Date : 15th May, 2006

Financial Review

Subex Technologies Limited

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956, RELATING TO SUBSIDIARY COMPANY

1	Name of the subsidiary	:	Subex Technologies Limited
2	Financial year ended	:	31st March, 2006
3	Holding company's interest	:	100% in equity shares
4	Shares held by the holding company in the subsidiary	:	1,000,000 equity shares of Rs. 10 each fully paid
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 acounts 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	:	(Rs. 15,260,591)
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	:	(Rs. 15,260,591)

Place : Bangalore
Date : 24th April, 2006

Subash Menon
Director

Sudeesh Yezhuvath
Director

DIRECTORS' REPORT

To the members,

Your directors have pleasure in presenting the financial results of the company for the period ended 31st March, 2006.

FINANCIAL RESULTS

(Rs. in million)

	For the period ended 31st March, 2006
Total Revenue	12.26
Loss before Interest, Depreciation & Amortization	(14.07)
Interest, Depreciation & Amortization	0.77
Loss before tax	(14.84)
Provision for taxes	0.42
Loss after tax	(15.26)
APPROPRIATIONS	
Interim Dividend	Nil
Preference Dividend	Nil
Dividend proposed	
a) on equity shares	Nil
b) on preference shares	Nil
Provision for tax on Dividends	Nil
Transfer to General Reserve	Nil
Surplus carried to Balance Sheet	Nil

RESULTS OF OPERATIONS

Your company was incorporated on 28th March, 2005. During the period under review, your company has clocked a turnover of Rs. 12.26 million and a net loss of Rs. 15.26 million. Your Directors expect growth in the business of the company during the FY 2006-07.

EMPLOYEE STOCK OPTIONS SCHEME

Your company has introduced a Stock Option plan for its employees on 1st December, 2005.

Under this scheme a corpus of 1,00,000 options was created for grant to the eligible employees. Each option is convertible into one fully paid-up equity share of Rs.10.

As per the scheme the Compensation Committee grants options to the eligible employees. The options granted will be vested over a period of 1 to 4 years and can be exercised over a period of 3 years from the date of vesting.

AUDITORS

M/s. P. Chandrasekar & Co, the auditors retire at the ensuing Annual General Meeting and have confirmed their eligibility as per Sec 224 of the Companies Act, 1956 and their willingness to accept office, if re appointed.

AUDITORS' REPORT

There were no qualifications observed in the auditors' report for the Financial Year 2005-06.

DIVIDEND

In view of the losses, no dividend has been declared during the period under review.

DIRECTORS

Mr. Subash Menon, Mr. Sudeesh Yezhuvath and Mr. V. Balaji Bhat are the directors of the company. As per Regulation 89 of the Articles of Association of the company, Mr. Sudeesh Yezhuvath and Mr. V. Balaji Bhat, Directors, retire by rotation and being eligible, offer themselves for re-appointment.

SHARE CAPITAL

During the year the paid up share capital of the company has increased to Rs. 10 million from Rs.0.05 million. The additional shares were issued to Subex Azure Limited, the holding company.

SECRETARIAL COMPLIANCE CERTIFICATE

As required under section 383A of the Companies Act 1956, Secretarial Compliance Certificate issued by Ms. K. Padmavathi, Practicing Company Secretary is annexed to this report.

Name	Designation	Qualification	Age	Experience (No.of yrs)	Dt of commencement Of Employment	Remuneration received	Previous Employment
S.Ramakrishnan	CEO	B.E.	35	14	4th April, 2005	3,927,693.00	Tata Elxsi Ltd

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 as given herewith.

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

A CONSERVATION ENERGY

The operations of your company are not energy-intensive. However, significant measures are taken to reduce energy consumption by using energy-efficient computers and by the purchase of energy-efficient equipment. Your company constantly evaluates new technologies and invests to make its infrastructure more energy-efficient.

B TECHNOLOGY ABSORPTION, ADOPTION AND INNOVATION.

Your 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.

C FOREIGN EXCHANGE EARNINGS AND OUTGO

Your company is focussed on servicing overseas clients in the software services sector. During the year 2005-06 total foreign exchange inflow and outflow is as follows:

i) Foreign Exchange earnings Rs. 8.87 millions

ii) Foreign Exchange outgo Rs. 2.97 millions

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, 2006, 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 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 31st March, 2006 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 accounts for the period ended 31st March, 2006 has been prepared on a going concern basis.

APPRECIATIONS / ACKNOWLEDGEMENTS.

Your directors acknowledge and thank the co-operation and assistance received from the Central and State Government authorities & Banks for their consistent support to the company and look forward to their continued support in the future.

Your directors also wish to place on record their deep appreciation to the employees at all levels for their hard work, solidarity, co-operation and support as they are instrumental in your company scaling new heights, year after year.

Your involvement as shareholders is greatly valued. Your directors look forward to your continued support.

for and On Behalf of the Board

Place : Bangalore	Subash Menon	Sudeesh Yezhuvath
Date : 24th April, 2006	*Director*	*Director*

ANNEXURE TO THE DIRECTORS' REPORT

COMPLIANCE CERTIFICATE

CIN – U74140KA2005PLC035905

To,
The Members
M/S. SUBEX TECHNOLOGIES LIMITED

I have examined the registers, records, books and papers of M/S. SUBEX TECHNOLOGIES LIMITED (the Company) as required to be maintained under the Companies Act, 1956, (the Act) and the Rules made there-under and also the provisions contained in the Memorandum and Articles of Association of the Company for the financial year ended 31st March, 2006. In my opinion and to the best of my information and according to the examinations carried out by me and explanations furnished to me by the Company, the officers and agents, I certify that in respect of the aforesaid financial year:

1. The Company has kept and maintained all registers as stated in Annexure 'A' to this Certificate as per the provisions of the Act and the Rules made there-under and recorded all necessary entries therein.

2. The Company has filed the forms and returns as stated in Annexure 'B' to this Certificate with the Registrar of Companies as required under the Act and the Rules made there-under. However, the Company has not filed any forms and returns with the Regional Director, Central Government, Company Law Board or other authorities since there was no requirement for the same as evidenced by the transactions executed by the Company during the year and as informed by the Company Management to me.

3. The Company being an Un-listed Public Limited Company, has the minimum prescribed Paid-up Share Capital and its maximum number of Members during the said financial year were Seven (7).

4. The Board of Directors duly met Seven (7) times on 30th March, 2005; 28th April, 2005; 9th June, 2005; 24th June, 2005; 28th July, 2005; 28th October, 2005 and 27th January, 2006 in respect of which Meetings, proper notices were given and the proceedings were properly recorded and signed in the Minutes Book maintained for the purpose. Further, during the year under certification, the Company has passed Circular Resolution and has confirmed the same at the Board Meetings held subsequent to the date of such passing and has been properly recorded and signed in the Minutes Book maintained for the purpose.

5. Being the first financial year, there was no occasion for the Company to close its Register of Members and hence violation of the provisions of Section 154 of the Act does not arise.

6. Current year being the very first financial year (date of Incorporation being 28th March, 2005), the Company did not hold any Annual General Meeting during the current year ended 31st March, 2006 and hence recording the Resolutions passed thereat in the Minutes Book maintained for the purpose does not arise.

7. The Company has held Two (2) Extraordinary General Meetings during the current financial year on 28th July, 2005 and 27th March, 2006 respectively, after giving due notice to the Members of the Company and the Resolutions passed thereat were duly recorded in the Minutes Book maintained for the purpose.

8. The Company has not advanced loans to its directors and/or persons, firms or companies referred to in Section 295 of the Act and hence, the provisions of Section 295 of the Act do not apply to the Company.

9. The Company has complied with the provisions of Section 297 of the Act in respect of contracts specified in that Section.

10. The Company has made necessary entries in the Register maintained under Section 301 of the Act to the extent applicable.

11. It has been observed that the Company had no occasion to obtain approvals for complying with the provisions of Section 314 of the Act during the year ended 31st March, 2006.

12. The Company did not issue any duplicate share certificates during the year under review.

13. The Company has:

i. allotted fresh shares during the current year and has recorded transfer of shares in both cases, the Company has generally complied with the provisions of the Act. However, the Company has not received any Share Certificates for recording transmission and hence, delivering share certificates after transmission or any other purpose in accordance with the provisions of the Act do not arise;

ii. The year of certification being the very first year of Company's existence, the issue of declaration of final dividend does not arise. Further, the Company has not declared any interim dividend during the financial year 2005-06 and hence, depositing the amount of interim dividend in a separate Bank Account within statutory period prescribed therefor does not arise;

iii. For the above-stated reason, payment/posting of dividend warrants or interim dividend warrants within a period of thirty days from the date of declaration, transfer of all unclaimed/unpaid dividend to unpaid dividend or interim dividend account of the Company in a separate Bank Account and other statutory obligations in connection therewith does not arise;

iv. no amounts in unpaid dividend account, application money due for refund, matured deposits, matured debentures and interest accrued thereon which have remained unclaimed or unpaid for a period of seven years, and hence, transfer of such moneys to Investor Education and Protection Fund does not arise;

v. as the current year being the first year of operation, compliance with the requirements of Section 217 of the Act during the year of certification did not arise.

14. The Board of Directors of the Company is duly constituted, and the year of certification being the very first year of Company's existence, the provisions of Sections 255, 256 and 257 read with Article 88 of the Articles of Association of the Company in respect of retirement of Directors by rotation and filling of vacancy thereof do not apply. However, during the year under certification, fresh appointment of Directors, Additional Directors, Alternate Directors and Directors to fill casual vacancies have not been made.

15. The Company has not appointed and/or paid remuneration to Managing Director/Whole-time Director/Manager and hence, the provisions of Section 269 read with Schedule XIII of the Act with regard to appointment of Managing Director/Whole-time Director/ Manager and seeking approval of Central Government in respect of appointments not being in terms of Schedule XIII of the Act are not applicable to the Company.

16. The Company has informed that it did not appoint any sole-selling agents during the year under report.

17. From the transactions carried out by the Company during the year under certification, there was no occasion for the Company to obtain approvals of the Central Government, Company Law Board, Regional Director, Registrar of Companies or such other authorities as may be prescribed under various provisions of the Act.

18. The Directors have disclosed their interest in other firms/ companies to the Board of Directors pursuant to the provisions of the Act and the Rules made there-under.

19. The Company has issued Equity Shares during the financial year and has generally complied with the provisions of the Act. However, the Company has not issued Preference Shares, Debentures or any other form of Securities during the financial year and hence, complying with the provisions of the Act and the rules framed there under in relation thereto do not arise.

20. The Company has not bought back any shares during the financial year ending 31st March, 2006.

21. The Company has not issued any debentures and hence, redemption thereof during the year does not arise.

22. The Company has received a transfer request during the year under certification. However, as the Company has not declared any dividend, rights shares and bonus shares, keeping in abeyance rights thereto pending registration of transfer of shares does not arise.

23. The Company has accepted deposits which are exempt categories as per Section 58A of the Act read with the Companies (Acceptance of Deposit) Rules, 1975 during the year ending 31st March, 2006. Hence, compliance of the provisions of Sections 58A and 58AA read with the said Rules/applicable directions issued by the Reserve Bank of India/ any other authority in respect of deposits and filing copy of Advertisement/ Statement in lieu of Advertisement/ Return of Deposit/ necessary particulars as required with the Registrar of Companies/ Reserve Bank of India/ any other authority does not arise.

24. The Company has obtained necessary approvals of the shareholders to borrow loans beyond the aggregate of paid up share capital and Free Reserves of the Company pursuant to the provisions of Section 293(1)(d) of the Act, at the Extraordinary General Meeting held on 27th March, 2006 and have generally complied with the provisions of the Act.

25. The Company has neither made investments in other Companies nor has made loans or given guarantees or provided securities to other bodies corporate during the year under report and hence, the provisions of Section 372A of the Act do not apply.

26. The Company has not altered the provisions of Memorandum with respect to situation of the Company's Registered Office from one State to another during the year under scrutiny.

27. The Company has not altered the provisions of Memorandum with respect to Objects of the Company during the year under scrutiny.

28. The Company has not altered the provisions of Memorandum

with respect to Name of the Company during the year under scrutiny.

29. The Company has not altered the provisions of Memorandum with respect to Share Capital of the Company during the year under scrutiny.

30. The Company has not altered its Articles of Association during the year under scrutiny.

31. From the books, records, registers, papers, files etc., produced before me for the purposes of this certification, it may be stated that the Company has not received any show cause notices and also fines and penalties (except fixed rates of additional fees u/S 611(2) of the Companies Act, 1956, levied in respect of delayed submission of document/s as mentioned in Annexure 'B' to this Certificate) or any other punishment for alleged offences under the Companies Act, 1956 and no prosecution has been initiated against the Company under any of the provisions of the said Act.

32. From the records, it has been observed that the Company has not received any moneys as security from its employees during the year under certification and hence, depositing the same as per the provisions of Section 417(1) of the Act does not arise.

33. As per circular No. F. No. 8/58 (418)/ 63-PR issued by the Department of Company Affairs, where the provisions of the Employees Provident Fund Act, 1952 are applicable to the Provident Fund constituted by a Company, the provisions of Section 418 of the Act need not be complied with. Since the Company has registered itself under the Employees Provident Fund Act, 1952, the provisions of Section 418 of the Act are per se not applicable to the Company. However, based on the records, challans etc, produced before me, I state that the Company has been depositing employees' and employer's contribution to Provident Fund from the date of its applicability, with prescribed authorities.

Place : Bangalore
Date : 20th April, 2006

(K. Padmavathi)
Practicing Company Secretary
C.P.No : 3963

ANNEXURE 'A'

No.	Name of the Register	Relevant sections
1	Register of Members	150
2	Register of Directors, Managers & Secretary	303
3	Register of Directors' Shareholdings	307
4	Register of Companies and Firms in which Directors, etc., are interested	301(3)
5	Register of Contract	297,299 & 301
6	Board Meeting Minutes Book	193
7	General Meeting Minutes Book	193

Optional Registers & Books Maintained by the Company

1	Share Applications and Allotment Register	75(1) & (2)
2	Register of Share Transfer	
3	Register of Documents Sealed	
4	Directors' Attendance Book	

ANNEXURE 'B'

Forms and Returns filed by the Company during the financial year ending on 31st March, 2006

A. With Registrar of Companies (in addition to Incorporation documents):

No.	Name of the documents with relevent section numbers	Date of document	Whether filed within the specified period	Whether filed after the expiry of specified period with additional fees	Date of filing
1	Form III u/S 187-C in respect of Beneficial Interest	28th March, 2005	NO	YES	1st June, 2005
2	Statement in Lieu of Prospectus in Schedule-III u/S 70	25th April, 2005	YES	N.A.	6th May, 2005
3	Form No. 20 u/S 149(2)(c) in respect of Declaration of Compliance	25th April, 2005	YES	N.A.	6th May, 2005
4	Form No. 22 u/S 165 in respect of Statutory Report	27th June, 2005	NO	YES	4th July, 2005
5	Form No. 2 u/S 75(1) in respect of Allotment of Equity Shares	28th October, 2005	YES	N.A.	24th November, 2005
6	Form III u/S 187-C in respect of Beneficial Interest	15th November, 2005	YES	N.A.	28th November, 2005

B. With Regional Director, Central Government, Company Law Board or Other Authorities: NONE
C. Documents Pertaining to Previous Year, filed during the Current Year: NONE
D. Documents filed with other Authorities, as referred to in the Certificate: NONE

Place : Bangalore
Date : 20th April, 2006

(K. Padmavathi)
Practicing Company Secretary
C.P.No : 3963

AUDITOR'S REPORT

To

The Shareholders, Subex Technologies Limited, Bangalore

We have audited the attached Balance Sheet of SUBEX TECHNOLOGIES LIMITED as at 31st March, 2006 and also the Profit and Loss Account for the year ended on that date annexed thereto. 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 India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An Audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by the companies (Auditors Report) order, 2003, issued by the Company Law Board in terms of Section 227(4A) of the Companies Act, 1956, we give in the Annexure, a statement on the matters specified in paragraph 4 & 5 of the said Order, to the extent applicable to the Company.

Further to our comments in the annexure attached hereto, we report that:

1. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit

2. In our opinion proper books of accounts as required by law have been kept by the Company, so far as appears from our examination of those books

3. The balance sheet and profit and loss account dealt with by this report are in agreement with the books of account

4. In our opinion the balance sheet and profit and loss account comply with the accounting standards referred to in subsection (3C) of Section 211 of the Companies Act,1956

5. In our opinion and to the best of our information and according to the explanations given to us, none of the Directors of the Company are disqualified from being appointed as Directors under clause (g) of sub section (1) of Section 274 of the Companies Act, 1956.

6. 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 thereon, and other notes, give the information required by the Companies Act, 1956 in the manner so required, and 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 31st March, 2006

b. In the case of the Profit and Loss Account, of the Loss of the Company for the period ended on that date.

Place : Bangalore
Date : 24th April, 2006

for M/s.P. Chandrasekar
Chartered Accountants

Lakshmy Chandrasekaran
Partner
Membership No. 28508

ANNEXURE TO AUDIT REPORT

(i) (a) The company is maitaining proper records showing full particilars, including quantitativ details and situation of fixed assets.

(b) These fixed assets have been physically verified by the management at reasonable intervals and no material discrepancies were noticed on such verification.

(c) No substantial part of fixed assets have been disposed off during the year, to effect the going concern.

(ii) (a) The Company has not granted, secured or unsecured loans to companies, firms or other parties covered in the register maintained under section 301 of the Act.

(b) The Company has taken interest free unsecured loans from one companies, firms or other parties covered in the register maintained under section 301 of the Act from one part amounting to Rs. 115.33 Lakhs and the term and conditions of loan taken by the company, unsecured, are prima facie not prejudicial to the interest of the company. There ia no amount overdue for more than Rupees One Lakh.

(iii) In our opinion and according to 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, for the purchase of inventory and fixed assets and for the sale of goods and there os no continuing failure to correct major weaknesses in internal control.

(iv) (a) All transactions that need to be entered into a register in pursuance of section 301 of the Act have been so entered. However we were informed by the management, the above provisions are not applicable to the company.

(b) In our opinion and according to the information and explanation given to us, there are not transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and exceeding the value of Rs. 5.00 Lakhs, in respect of any party during the year have been made at prices which are reasonable having regard to the prevailing market price at the relevant time;

(v) The company has not accepted deposites from the public, under the directives issued by the Reserve Bank if India and the provisions of sections 58 A and 58 AA of the Act and the ruled framed there under.

(vi) The company has no Internal Audit System, which in our opinion commensurate with its nature of business and size of the company.

(vii) The maintenance of cost records has not been prescribed by the Central Government under clause (d) of sub-section (1) of section 209 of the Act.

(viii) The company has no accumulated losses at the beginning of the year and has sustained cash losses during the current financial year covered under our audit.

(ix) The company has not defaulted in repayment of dues to the financial institutions and banks

(x) The company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

(xi) The provisions of any special statue applicable to chit fund/ nidhi/ mutual benefit fund/ societies are not applicable to the Company and therefore the provisions of clause 4

(xii) of the companies (Auditor's Report) Order, 2003 are not applicable to the company.

(xiii) As the company is not dealing or trading in shares, securities, debentures and other investments, the maintenance of proper records of the transactions and contracts and making timely entries of the shares, securities, debentures, and other securities held by the company, are not applicable.

(xiv) The company has not given guarntee for loand taken by others from bank or financial institutions, the terms and conditions whereof are prejudicial to the interest of the company.

(xv) According ti information and explanations given to us, and an overall examination of the Balnace Sheet and fund flow statement of the Company; we report that the funds raised on short-term basis have not been used long-term investment and vice versa.

(xvi) The company has not made any preferencial allotment of shares to parties and conpanies covered in the Register maintained under section 301 of the Act.

(xvii) According to information and explanations given to us, the company has not issued any debentures during the year and no securities were created by the company.

(xviii) The company has not raised money on public issue.

(xix) On the basis of our examination of the books of accounts and other relevant record and information made available to us, prima-facie have not noticed and fraud on or by the Company, during the year. Further, the management has represented to us that no fraud on or by the Company has bee reported during the year. However, we are unable to determine/ verify as to whetjer such reporting has been made, during the year.

(xx) All other provisions of the said order are not applicable to the above Company

Place : Bangalore
Date : 24th April, 2006

for M/s.P. Chandrasekar
Chartered Accountants

Lakshmy Chandrasekaran
Partner
Membership No. 28508

BALANCE SHEET AS AT

Amount in Rs.

	Schedule	31st March, 2006		31st March, 2005	
Sources of funds					
Shareholders' Funds:					
Share Capital	A	10,000,000		500,000	
Reserves & Surplus		-		-	
			10,000,000	500,000	
Loan Funds	B				
Secured Loans			2,575,629		
Unsecured Loans			11,533,049		283,079
Deferred tax liabilities (net)			184,486		
Total			**24,293,164**		**783,079**
APPLICATION OF FUNDS					
Fixed Assets:-	C				
Gross Block		5,546,681		-	
Less: Depreciation		714,202		-	
Net block		4,832,479		-	
Capital Work-in-progress		-	4,832,479	-	-
Current Assets, Loans and Advances	D				
Sundry Debtors		2,933,916		-	
Cash and Bank Balances		336,811		500,000	
Loans & advances		4,010,664		-	
		7,281,391		500000	
Less: Current Liabilities & Provisions	E	3,307,760		-	
Net current assets			3,973,631		500,000
Miscellaneous expenditure					
Preliminary Expenses		226,463		283,079	
(To the extent not written off or adjusted)					
Profit and Loss account		15,260,591	15,487,054	-	283,079
Total			**24,293,164**		**783,079**
Notes on Accounts	J				

The Schedules referred to above form an integral part of the balance sheet

In terms of our report of even date

In terms of our report of even date

For M/s.P. Chandrasekar & Co.,
Chartered Accountants

Subash Menon
Director

Sudeesh Yezhuvath
Director

Lakshmy Chandrasekaran
Partner
Membership No. 28508

Place : Bangalore
Date : 24th April, 2006

PROFIT & LOSS ACCOUNTS FOR THE YEAR ENDED

Amount in Rs.

	Schedule	31st March, 2006	31st March, 2005
INCOME			
Service Income		12,147,258	-
Other income	F	108,933	-
Total		**12,256,191**	**-**
EXPENDITURE			
Personnel costs	G	15,992,917	-
Other operating, selling and administrative expenses	H	10,336,605	-
Financial costs	I	113,809	
Depreciation	C	656,394	-
Total		**27,099,725**	**-**
Profit before taxation		(14,843,534)	-
Provision for taxation			
- Current tax		-	-
- Fringe benefit tax		232,571	-
- Deferred tax (asset)/liability		184,486	-
Profit afer tax		(15,260,591)	-
Loss carried to balance sheet		(15,260,591)	-
Earnings per share - Basic		(15.26)	
Earnings per share - Diluted		(15.26)	
Notes on Accounts	J		

The Schedules referred to above form an integral part of the profit & loss account

In terms of our report of even date

In terms of our report of even date

For M/s.P. Chandrasekar & Co.,
Chartered Accountants

Subash Menon
Director

Sudeesh Yezhuvath
Director

Lakshmy Chandrasekaran
Partner
Membership No. 28508

Place : Bangalore
Date : 24th April, 2006

SCHEDULES FORMING PART OF THE ACCOUNTS

Amount in Rs.

		31st March, 2006		31st March, 2005
Schedule - A				
Share capital				
1. Authorised 30,00,000 (Previous year 30,00,000) Equity shares of Rs.10/- each		30,000,000		30,000,000
2. Issued, subscribed and Paid up: 1,000,000 (Previous year 50,000) Equity shares of Rs.10/- each fully paid		10,000,000		500,000
Total		**10,000,000**		**500,000**
Schedule - B				
LOAN FUNDS				
Secured Loans				
Hire purchase	2,575,629		-	
(Secured by Hypothecation of Motor cars) (Amount repayable within one year: Rs.576,956) (Previous Year: Rs.Nil)				
Unsecured Loans				
Unsecured Loan from Subex Systems Ltd (Holding Company)	11,533,049	14,108,678	283,079	283,079
Total		**14,108,678**		**283,079**

Schedule - C
FIXED ASSETS

Amount in Rs.

		GROSS BLOCK AT COST				DEPRECIATION/AMORTISATION				NET BLOCK	
Sl. No.	Particulars	As at 1st.April, 2005	Additions/ adjustments during the the year	Deductions during the year	As at 31st March, 2006	As at 1st.April, 2005	Provided for the year	Accumulated Depreciation on deletion	As at 31st March, 2006	As at 31st March, 2006	As at 31st March, 2006
1.	Furniture and fixtures	-	28,125	-	28,125		4,592	-	4,592	23,533	-
2.	Computers	-	1,892,359	133,531	1,758,828	-	285,837	14,560	271,277	1,487,551	-
3.	Office Equipments	-	121,207	-	121,207	-	13,786	-	13,786	107,421	-
4.	Motor Car	-	3,638,521	-	3,638,521	-	424,547	-	424,547	3,213,974	-
	Total	-	5,680,212	133,531	5,546,681	-	728,762	14,560	714,202	4,832,479	-
	Previous Year	-	-	-	-	-	-	-	-		

Gross block as at 31st March, 2006 includes motor cars costing Rs.2,929,000 in respect which hire purchase contracts are in force as at year end (Previous year, Nil)
Depreciation is allocated to Holding company as a share of expenses, hence depreciation shown in profit and loss account is less by 72,368

SCHEDULES FORMING PART OF THE ACCOUNTS

Amount in Rs.

	31st March, 2006		31st March, 2005	
Schedule - D				
CURRENT ASSETS, LOANS AND ADVANCES				
Current Assets, Loans & Advances				
(a) Current Assets:				
Sundry Debtors:				
Unsecured:				
Outstanding for more than six months				
Considered good				
Due from Holding Company			-	
Due from others	-	-	-	-
Considered doubtful			-	
Less: Provision for doubtful debts	-	-	-	-
Others				
Considered good				
Due from Holding Company	1,567,487		-	
Due from others	1,366,429	2,933,916	-	-
Cash and Bank Balances:				
Cash on hand	-		-	
Balances with Scheduled Banks on Current Account				
- in Current Account in Indian Rupees	242,654		500,000	
- in EEFC Account in foreign Currency	94,157	336,811	-	500,000
(b) Loans and Advances:				
(Unsecured, considered good, subject to confirmation)				
Loans and advances recoverable in cash or in kind or for value to be received	21,812		-	
Advance Income Tax including TDS	473,852		-	
Other Deposits	3,515,000	4,010,664	-	
Total		**7,281,391**		**500,000**
Schedule - E				
CURRENT LIABILITIES AND PROVISIONS				
Liabilities:				
Sundry Creditors	2,718,404		-	
(other than Small Scale Industrial Undertaking)				
Duties & Taxes	589,356	3,307,760	-	-
Total		**3,307,760**		-

SCHEDULES FORMING PART OF THE ACCOUNTS

Amount in Rs.

	31st March, 2006	31st March, 2005
Schedule - F		
OTHER INCOME		
Exchange fluctuation	108,933	-
Total	**108,933**	**-**
Schedule - G		
PERSONNEL COSTS		
Salaries wages and allowances	14,543,650	-
Contribution to provident and other funds	662,514	-
Other staff related cost	786,753	-
Total	**15,992,917**	**-**
Schedule - H		
Other operation, selling and administrative expenses		
Software purchases	341,891	-
Rent	3,498,253	-
Power, fuel and water charges	464,726	-
Repairs & maintenance others	602,401	-
Insurance	4,819	-
Communication costs	510,857	-
Printing and stationery	103,980	-
Travelling and conveyance	2,379,959	-
Rates and taxes including filing fees	52,657	-
Placement consultancy Fee	1,506,087	-
Miscellaneous expenses	870,975	-
Total	**10,336,605**	**-**
Schedule - I		
FINANCE CHARGES		
Interest on car loan	105,283	-
Bank charges	8,526	-
Total	**113,809**	**-**

SCHEDULE – J

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 recognized 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 assumptions 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

For contracts where the only deliverable is services, revenue is recognized based on effort certified by customers and on fulfillment of contractual obligations with customers.

For other contracts which are milestone based, revenue is recognized based on proportionate contract completion method as prescribed by Institute of Chartered Accountants of India.

I.4. Fixed Assets

Fixed assets are capitalized at acquisition cost including directly attributable costs such as freight, insurance and specific installation charges for bringing the assets to its working condition for use. 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 are as under;

Particulars	Depreciation Rates
Plant & machinery	20.00 %
Computers	25.00 %
Vehicles	20.00 %
Furniture & fixtures	20.00 %
Intangible assets	20.00 %

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

I.6. Retirement benefits to employees

The company's liability towards retirement benefits in the form of provident fund is fully provided and charged to expenditure. Gratuity benefit is accounted for as an estimated liability as at the date of the balance sheet.

I.7. 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.

I.8. 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 basis. 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.9. Cash Flow Statement

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

I.10. Provisions

A provision is recognized when an enterprise has a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

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.

Movement in deferred tax liability *Amount in Rs.*

	2005-06	2004-05
Net deferred tax asset/ (liability) at 1st April , 2005	Nil	Nil
Add: Tax benefits/ (charge) for current year	(184,486)	Nil
Net deferred tax asset/ (liability) at 31st March, 2006	(184,486)	Nil

b) The net deferred tax asset as at 31st March, 2005 comprises the tax impact arising from the timing differences on account of:

Amount in Rs.

	As at 31st March, 2006	As at 31st March, 2005
Depreciation	(705,880)	Nil
Gratuity	157,792	Nil
Net deferred asset/(liability) relating to above	(184,486)	Nil

II.2. Operating leases

The Company has various operating leases for office facilities which include leases that are renewable on a yearly basis, cancelable at its option and other long term leases. Rental expenses for operating leases included in the Income statement for the year is Rs. 3,135,600

As of March 31, 2006 future minimum lease payments for non-cancelable operating leases for the next five fiscal years are:

Amount in Rs.

For the year ending	31st March, 2006	31st March, 2005
Within one year from the date of the Balance Sheet	4,180,800	Nil
Due in a period between one year and five years	9,978,176	Nil
Due after five years	—	Nil

II.3. Related Party Information

A) Related Parties

Companies under same management

Subex Systems Ltd

Key Management Personnel

S. Ramakrishnan, CEO

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

(Amounts in Rs.)

Nature of Transaction	Holding Company		Companies under same management		Key Management Personnel		Total	
	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05
a) Sale of Services	9,967,322	Nil	Nil	Nil	Nil	Nil	9,967,322	Nil
b) Amount due to as at 31st March, 2006	533,049	283,079	Nil	Nil	Nil	Nil	11,533,049	283,079
c) Amount due from as at 31st March, 2006	1,567,487	Nil	Nil	Nil	Nil	Nil	1,567,487	Nil
d) Sharing of expenses-Note -1	5,389,331	Nil	Nil	Nil	Nil	Nil	5,389,331	Nil

Note-1 Sharing of expenses in relation to expenses borne by Subex Technologies Ltd towards software services business of Subex Systems Ltd, as agreed between both companies.

II.4. Earnings per Share:

		2005-06	2004-05
a) Basic:			
Profits after Tax	A	(15,260,591)	Nil
Less: Dividend on Preference Shares & distribution tax		Nil	Nil
Net Profit Available to Equity Shareholders –	B	(15,260,591)	Nil
b) Diluted:			
Profits after Tax	A	(15,260,591)	Nil
Add: Interest on FCCB		Nil	Nil
Net Profit Available to Equity Shareholders – Diluted	B	(15,260,591)	Nil
Weighted Average Number of Shares - Basic	C	1,000,000	Nil
Weighted Average Number of Shares – Diluted	D	1,000,000	Nil
Earnings per Share – Basic	**B / C**	**(15.26)**	**Nil**
Earnings per Share - Diluted	**A / D**	**(15.26)**	

II.5. Auditors' remuneration

Miscellaneous expenditure includes remuneration to auditors':

	Year ended 31st March, 2006	Year ended 31st March, 2005
Audit fees (inclusive of service tax)	28,060	Nil
For tax matters	16,836	Nil
Other Consultancy	Nil	Nil
Reimbursement of expenses	Nil	Nil
	44,896	Nil

II.6. Employee Stock Option Plans (ESOP)

The Company established a stock option scheme during the current year, under which 22,900 options have been granted to the employees and all the options granted are outstanding as on 31st March, 2006.

II.7. Segment Report

Currently Company is operating only one single business segment. Hence the requirement under AS-17 is not applicable

II.8. Others

1. Estimated amount of contracts, remaining to be executed on capital account and not provided for (net of advances paid) Rs.Nil (Previous year, Rs. Nil).

2. Preliminary expenses are amortized equally over 5 years

II.9. Other Information pursuant to Schedule VI of the Companies Act, 1956.

Amount in Rs.

	Year ended 31st March, 2006	Year ended 31st March, 2005
CIF value of imports	1,664,587	Nil
Expenditure in foreign currency		
Traveling expenses	1,091,518	Nil
Other expenses	211,489	Nil
Earnings in foreign exchange		
Income from software development services on receipt basis	8,868,626	Nil

Signature to the Schedules A – J

For M/s.P. Chandrasekar & Co.,
Chartered Accountants

Subash Menon
Director

Sudeesh Yezhuvath
Director

Lakshmy Chandrasekaran
Partner
Membership No. 28508

Place : Bangalore
Date : 24th April, 2006

Financial Review

Subex Azure Limited (Consolidated)

AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF SUBEX SYSTEMS LIMITED

1. We have audited the attached Consolidated Balance Sheet of Subex Systems Limited ("the Company") and it's subsidiaries (the Company and its subsidiaries constitute "the group") as at 31st March, 2006, the Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement for the year then ended, both annexed thereto. These financial statements are the responsibility of the Company's management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. 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 about whether the financial statements 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 presentation. We believe that our audit provides a reasonable basis for our opinion.

3. We did not audit the financial statements of the subsidiaries, Subex Technologies Inc and Subex Technologies Limited, whose financial statements reflect gross total assets of Rs. 184,857,132 as at 31st March, 2006, total revenues of Rs. 608,739,319 and cash flows of (Rs. 163,189) for the year then ended and the financial statements of the Company's branch, in the United States of America (US branch). These financial statements and other financial information have been audited by other auditors, whose report/returns have been furnished to us, and our opinion, insofar as it relates to the amounts included in respect of the subsidiaries and the US branch, 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 subsidiaries 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 and on the other financial information of the components of Subex Systems Limited and its subsidiaries, we are of the opinion that the attached consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

a) in the case of the Consolidated Balance Sheet, of the consolidated state of affairs of Subex Systems Limited and its subsidiaries as at 31st March, 2006; and

b) in the case of the Consolidated Profit and Loss Account, of the consolidated results of operations of Subex Systems Limited and its subsidiaries for the year then ended.

c) in the case of the consolidated Cash Flow Statement of the consolidated cash flows of Subex Systems Limited and its subsidiaries for the year then ended.

for Deloitte Haskins & Sells
Chartered Accountants

V. Srikumar
Partner
Membership No. 84494

Place : Bangalore
Date : 15th May, 2006

CONSOLIDATED BALANCE SHEET AS AT

Amount in Rs.

	Schedule	31st March, 2006		31st March, 2005	
SOURCES OF FUNDS					
Shareholders' funds					
Share capital	A	217,575,680		100,672,230	
Share application money		878,089		318,640	
Reserve and surplus	B	1,592,684,945	1,811,138,714	1,139,997,336	1,240,988,206
Loan funds					
Secured loans	C	13,695,549		73,282,446	
Unsecured loans	D	-		212,987,750	
Deferred payment consideration towards acquisition					
- Alcatel, FMS Division		-	13,695,549	22,754,000	309,024,196
Total			**1,824,834,263**		**1,550,012,402**
APPLICATION OF FUNDS					
Fixed assets	E				
Gross block		665,735,874		561,999,271	
Less : Depreciation		272,803,176		193,342,709	
Net block		392,932,698		368,656,562	
Capital work in progress		4,495,298	397,427,996	465,431	369,121,993
GOODWILL			308,987,980		308,987,980
Investments	F		-		1,000
Deferred tax asset (net)			7,727,514		3,975,809
Current assets, loans & advances					
Inventories	G	-		62,589	
Sundry debtors	H	961,559,552		732,404,000	
Cash & bank balances	I	406,014,754		278,411,743	
Loans & advances	J	73,718,402		57,205,909	
		1,441,292,708		1,068,084,241	
Less: Current liabilities & provisions	K	330,601,935		200,441,700	
Net current assets			1,110,690,773		867,642,541
Miscellaneous expenditure					
(To the extent not written off or adjusted)	L		-		283,079
Total			**1,824,834,263**		**1,550,012,402**
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

Sudeesh Yezhuvath
Wholetime Director

V. Balaji Bhat
Director

V. Srikumar
Partner
Membership No. 84494

Rajkumar C
Company Secretary & Legal Counsel

V. R. Suresh Rao
General Manager - Accounts & Finance

Bangalore
15th May, 2006

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED

Amount in Rs.

	Schedule	31st March, 2006		31st March, 2005	
INCOME					
Sales & services			1,814,342,238		1,165,502,087
Other income	M		28,908,788		6,847,334
Total			**1,843,251,026**		**1,172,349,421**
EXPENDITURE					
Direct cost	N		132,850,266		32,210,959
Personnel costs	O		915,371,277		638,221,540
Other operating, selling and administrative expenses	P		263,876,813		139,301,033
Financial costs	Q		26,805,705		24,374,699
Miscellaneous expenses amortised			283,079		256,942
Depreciation	E		92,301,159		71,685,019
Total			**1,431,488,299**		**906,050,192**
Profit before taxation			**411,762,727**		**266,299,229**
Provision for taxation					
- Current		34,903,702		14,636,780	
- Fringe benefit tax		2,124,208		-	
- Deferred		(3,751,705)	33,276,205	(5,545,809)	9,090,971
Profit after taxation			378,486,522		257,208,258
Add: Balance brought forward from previous year			446,344,814		253,215,412
Profit available for appropriation			**824,831,336**		**510,423,670**
APPROPRIATION					
Transfer to general reserve			39,500,000		25,500,000
Dividend					
- Equity shares - interim dividend 2005-06 (FY)		16,283,564		9,274,917	
- Equity shares - final dividend 2004-05 (FY)		547,764		20,134,446	
- Equity shares - proposed dividend 2005-06 (FY)		21,757,568		-	
- Dividend on preference shares		-	38,588,896	4,651,061	34,060,424
Tax on distributed profits			5,604,377		4,518,432
Surplus carried to balance sheet			741,138,063		446,344,814
			824,831,336		**510,423,670**
Earnings Per Share (Face value of Rs.10 each)					
- Basic			17.62		14.13
- Diluted			17.53		13.41
Notes on accounts	R				

The schedules referred to above form an integral part of the Profit and Loss account

In terms of our report of even date

for Deloitte Haskins & Sells
Chartered Accountants

V. Srikumar
Partner
Membership No. 84494

Subash Menon
Chairman & Managing Director

Rajkumar C
Company Secretary & Legal Counsel

Sudeesh Yezhuvath
Wholetime Director

V. Balaji Bhat
Director

V. R. Suresh Rao
General Manager - Accounts & Finance

Bangalore
15th May, 2006

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED

Amount in Rs.

		31st March, 2006	31st March, 2005
Cash flow from operating activities			
Net profit before Tax		411,762,727	266,299,229
Adjustments for :			
a) Depreciation and amortization		92,584,238	71,941,961
b) Interest income		(17,485,876)	(1,681,501)
c) Interest and other charges		26,805,705	24,374,699
d) Assets written off / loss on sale		2,041,851	829,470
e) Profit on sale of assets		(11,976,780)	(114,895)
f) Employee compensation expenses		4,115,709	1,008,361
g) Provision for doubtful debts		35,583,448	4,295,276
h) Unrealised exchange fluctuations		3,632,964	
i) Direct taxes paid		(23,451,823)	(8,279,599)
Operating profit before working capital changes		**523,612,163**	**358,673,001**
Adjustments for :			
a) Sundry debtors		(292,300,823)	(121,530,664)
b) Loans and advances		(6,939,824)	(14,885,633)
c) Inventories		62,589	75,436
d) Trade and other payables		93,495,061	74,979,824
Cash generated from operations	A	**317,929,166**	**297,311,964**
Cash flow from Investing activities			
a) Purchase of fixed assets		(116,323,509)	(351,296,338)
b) Preliminary expense		-	(283,079)
c) Sale / disposal of fixed assets		21,058,613	768,732
d) Sale / (purchase) of investments		1,000	-
e) Deferred payment consideration towards acquisition		-	3,870,381
f) Interest received		16,352,692	1,681,501
Net cash from investing activities	B	**(78,911,204)**	**(345,258,803)**
Cash flow from financing activities			
a) Proceeds from issue of share capital		18,753,800	430,926,830
b) Proceeds from/(repayment) of short term borrowings		(59,387,250)	(61,389,471)
c) Proceeds from long term borrowings		6,247,000	256,275,250
d) Repayment of long term borrowings		(6,446,647)	(270,554,902)
e) Dividends and dividend tax paid		(43,776,148)	(43,304,005)
f) Interest and other charges paid		(26,805,705)	(19,771,331)
Net Cash from financing activities	C	**(111,414,950)**	**292,182,371**
Exchange fluctuation reserve on account of consolidation		-	568,892
Net increase in cash or cash equivalents [A + B + C]		127,603,012	244,235,532
Cash or cash equivalents at the start of the year		278,411,742	33,607,318
Cash or cash equivalents at the close of the year		**406,014,754**	**278,411,742**

In terms of our report of even date

for Deloitte Haskins & Sells
Chartered Accountants

V. Srikumar
Partner
Membership No. 84494

Bangalore
15th May, 2006

Subash Menon
Chairman & Managing Director

Rajkumar C
Company Secretary & Legal Counsel

Sudeesh Yezhuvath
Wholetime Director

V. R. Suresh Rao
General Manager - Accounts & Finance

V. Balaji Bhat
Director

SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AS AT

Amount in Rs.

		31st March, 2006		31st March, 2005
Schedule - A				
Share capital :				
Authorised :				
30,140,000 (Previous year, 12,500,000) Equity Shares of Rs. 10 each		301,400,000		125,000,000
200,000 (Previous year, 2,000,000) Redeemable Optionally Convertible Cumulative Preference Shares (ROCCPS) of Rs.98 each		19,600,000		196,000,000
Total		**321,000,000**		**321,000,000**
Issued, subscribed and paid up:				
A) Equity :				
21,757,568 (Previous year, 10,067,223) equity shares of Rs. 10 each		217,575,680		100,672,230
of the above:				
a) 115,000 shares of Rs.10 each were allotted for consideration other 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				
d) 10,878,784 (Previous year, Nil) shares of Rs.10 each are allotted as bonus shares by capitalisation of securities premium;				
Total		**217,575,680**		**100,672,230**
Schedule - B				
Reserves and surplus :				
Capital reserve		13,006,920		13,006,920
General reserve - opening balance	123,802,608		98,302,608	
Add: Additions during the year	39,500,000	163,302,608	25,500,000	123,802,608
Securities premium account - opening balance	541,983,360		166,327,505	
Add: Additions during the year	223,066,491		375,655,855	
Less: Utilised towards issue of bonus shares	(108,787,840)	656,262,011	-	541,983,360
Employees stock options outstanding	22,738,130		10,428,860	
Less: Deferred employees compensation expenses	13,859,024	8,879,106	5,665,463	4,763,397
Exchange reserve on consolidation		10,096,237		10,096,237
Profit & loss account		741,138,063		446,344,814
Total		**1,592,684,945**		**1,139,997,336**
Schedule - C				
Secured Loans :				
State Bank of India - FCNR (B) Loan		-		59,387,250
(Amount repayable within one year: Rs. nil)				
(Previous Year, Rs. 59,387,250)				
(Secured by 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)				
Hire purchase		13,695,549		13,895,196
(secured by hypothecation of motor cars)				
(Amount repayable within one year: Rs. 5,190,507)				
(Previous Year, Rs. 4,568,531)				
Total		**13,695,549**		**73,282,446**
Schedule - D				
Unsecured loans :				
Foreign currency convertible bonds		-		212,987,750
Total		**-**		**212,987,750**

Schedule - E

Fixed assets

Amount in Rs.

Sl. No.	Particulars	Gross block				Depreciation				Net block	
		As at 1st April, 2005	Additions during the year	Deletions during the year	As at 31st March, 2006	Upto 1st April, 2005	For the year	On deletions	Upto 31st March, 2006	As at 31st March, 2006	As at 31st March, 2005
1	Freehold land	5,819,103	-	5,819,103	-	-	-	-	-	-	5,819,103
2	Plant & machinery	1,607,209	45,977	837,708	815,478	1,474,808	28,405	777,350	725,863	89,615	132,401
3	Furniture & fixtures	14,792,433	674,205	4,751,332	10,715,306	11,226,453	755,754	4,396,863	7,585,344	3,129,962	3,565,980
4	Computers	191,600,931	14,125,760	1,163,545	204,563,146	133,417,471	20,940,334	606,962	153,750,843	50,812,303	58,183,460
5	Office equipments	9,174,389	908,469	1,715,915	8,366,943	5,136,736	1,098,007	1,486,662	4,748,081	3,618,862	4,037,653
6	Electrical installations	1,790,616	-	1,790,616	-	1,676,301	-	1,676,301	-	-	114,315
7	Motor car	28,024,589	7,667,280	7,857,762	27,834,107	9,552,508	5,279,744	3,869,580	10,962,672	16,871,435	18,472,081
8	Other fixed assets	28,393	-	28,393	-	26,974	-	26,974	-	-	1,419
9	Intellectual property rights	304,150,022	95,523,954	-	399,673,976	30,331,673	62,733,576	-	93,065,249	306,608,727	273,818,349
10	Goodwill	5,011,586	8,755,332	-	13,766,918	499,785	1,465,339	-	1,965,124	11,801,794	4,511,801
		561,999,271	**127,700,977**	**23,964,374**	**665,735,874**	**193,342,709**	**92,301,159**	**12,840,692**	**272,803,176**	**392,932,698**	**368,656,562**
	PREVIOUS YEAR	**215,272,583**	**350,830,907**	**4,104,219**	**561,999,271**	**124,715,710**	**71,685,019**	**3,058,020**	**193,342,709**	**368,656,562**	**90,556,873**

SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AS AT

Amount in Rs.

	31st March, 2006		31st March, 2005	
Schedule - F				
Investments				
(Unquoted at cost)				
Long term - non trade				
In Government securities - I.V.P		-		1,000
Total		-		1,000
Schedule - G				
Inventories : (at cost)				
Traded goods		-		62,589
Total		-		62,589
Schedule - H				
Sundry debtors				
(Unsecured)				
Outstanding for more than six months				
- considered good	254,146,370		206,737,371	
- considered doubtful	58,786,098		23,938,870	
	312,932,468		230,676,241	
Less: Provision for doubtful debts	58,786,098	254,146,370	23,938,870	206,737,371
Others		707,413,182		525,666,629
Total (considered good)		**961,559,552**		**732,404,000**
Schedule - I :				
Cash & Bank Balances :				
Cash on hand		342,020		425,892
Balance with Scheduled Banks				
- in current account in indian rupees		10,018,765		10,850,189
- in deposit account in indian rupees		333,665,660		219,021,499
- in EEFC account in foreign currency		43,339,550		2,438,103
Balance with Non Scheduled Banks				
- Deposit with Royal Bank of Canada		963,793		895,009
- in Current account with Royal Bank of Canada, Canada (Maximum outstanding during the year Rs. 2,205,145)		503,094		576,781
- in checking account with first Union Bank, New Jersey (Maximum outstanding during the year Rs.48,103,089)		11,793,296		18,108,364
- Deposit with money market account with First Union Bank, New Jersey (Maximum outstanding during the year Rs. 47,686,579)		-		23,423,122
- in Hellinic Bank - CYP Account, Cyprus (Maximum outstanding during the year Rs. 1,502)		1,395		1,548
- in Hellinic Bank - USD Account - Cyprus (Maximum outstanding during the year Rs. 8,077)		1,663		7,593
- in Bank of China - RMB account - China (Maximum outstanding during the year Rs.1,789,772)		22,595		495,853
- in Bank of China - USD Account - China (Maximum outstanding during the year Rs.1,541,775)		892,680		766,318
- in First National Bank of Colardo - USD Account - CO (Maximum outstanding during the year Rs.11,017,675)		1,773,861		1,398,966
- in HSBC Bank - GBP Account - Slough, London (Maximum outstanding during the year Rs.12,132,108)		2,696,382		2,506
Total		**406,014,754**		**278,411,743**

SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AS AT

Amount in Rs.

	31st March, 2006		31st March, 2005	
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		24,615,200		26,573,953
Advance income tax including TDS		18,281,313		9,841,828
Other deposits		30,821,889		20,790,128
Total		**73,718,402**		**57,205,909**
Schedule - K				
Current liabilities & provisions				
Sundry creditors				
Sundry creditors	183,730,622		80,190,568	
(other than Small Scale Industrial undertaking)				
Advance received from customers	64,884,807		68,936,388	
Duties & taxes	13,801,308		9,655,614	
Unclaimed dividends (Refer Note II.15.3 of Schedule R)	300,627	262,717,364	301,227	159,083,797
Provisions				
Taxation	38,196,322		16,180,750	
Dividends	22,069,429		22,071,631	
Tax on proposed dividends	3,051,499		2,631,572	
Warranty	3,157,312		473,950	
Employee benfits	1,410,009	67,884,571	-	41,357,903
Total		**330,601,935**		**200,441,700**
Schedule - L				
Miscellaneous expenditure				
(To the extent not written off or adjusted)				
Preliminary expenses		-		283,079
Total		**-**		**283,079**

SCHEDULES TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED

Amount in Rs.

	31st March, 2006		31st March, 2005	
Schedule - M				
Other income				
Interest received (Gross TDS Rs. 3,794,118, Previous year, Rs. 194,853)		17,485,876		1,681,501
Other income received		1,487,982		3,550,504
Profit on sale of fixed assets (Net)		9,934,930		-
Creditors no longer payable written back		-		128,861
Exchange fluctuation account (Net)		-		869,400
Rent received		-		617,068
Total		**28,908,788**		**6,847,334**
Schedule - N				
Direct cost				
a. Purchase of systems & solutions		76,932,834		31,751,699
(Increase)/ decrease in finished goods				
Opening stock - finished goods	62,589		138,025	
Closing stock - finished goods	-	62,589	62,589	75,436
b. Commission on Sales		55,854,843		383,824
Total		**132,850,266**		**32,210,959**
Schedule - O				
Personnel costs				
Salaries, wages & allowances		828,320,502		553,321,831
Contribution to provident fund and other funds		8,826,455		4,737,399
Other staff related costs		23,471,249		17,274,574
Sub contract charges		54,753,071		62,887,736
Total		**915,371,277**		**638,221,540**

SCHEDULES TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED

Amount in Rs.

	31st March, 2006	31st March, 2005
Schedule - P		
Other operating, selling and Administrative expenses		
Software purchases	1,837,904	1,047,017
Rent	35,834,182	13,921,158
Power, fuel and water charges	6,672,679	3,418,257
Repairs & maintenance others	4,815,705	3,310,730
Insurance	13,174,483	13,814,407
Communication costs	22,233,837	11,317,215
Printing & stationery	1,480,250	1,075,134
Travelling & conveyance	80,086,232	47,843,722
Directors sitting fees	27,500	32,500
Rates & taxes including filing fees	1,014,727	3,787,731
Advertisement & Business Promotion	16,356,876	15,407,617
Consultancy charges	28,787,589	11,146,246
Bad debts written off	1,637,075	448,425
Warranty expenses	2,683,362	-
Provision for doubtful debts	35,583,448	4,295,276
Loss on sale of asset & assets written off	-	277,467
Exchange fluctuation account (Net)	794,643	
Miscellaneous expenses	10,856,321	8,158,131
Total	**263,876,813**	**139,301,033**
Schedule - Q		
Financial costs :		
Interest on fixed loans	-	1,126,721
Other interest & bank charges	26,805,705	23,247,978
Total	**26,805,705**	**24,374,699**

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 subsidiaries.

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 Indian GAAP requires that management makes estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities as at the date of the financial statements and the reported amounts 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 subsidiaries 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 it's 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 following entities are considered in the consolidated financial statements.

Sl No	Name of Entity	Country of Incorporation	% of ownership held at 31st March, 2006	% of ownership held at 31st March, 2005
1	Subex Technologies, Inc	USA	100	100
2	Subex Technologies Ltd	India	100	100

The financial statements of the company and its subsidiaries are prepared under 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.

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.

For contracts where the only deliverable is services, revenue is recognized based on effort certified by customers and on fulfillment of contractual obligations with customers.

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 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.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	Rate of depreciation
Plant & machinery	20.00 %
Computers	25.00 %
Vehicles	20.00 %
Furniture & fixtures	20.00 %
Intangible assets	20.00 %
Goodwill	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. 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 options under Employee Stock Option Plan - II (ESOP - 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.

The company has floated ESOP - III in the current financial year, which is on the same lines has ESOP - II.

Subex Technologies Limited has established a new stock option scheme during the year which is on the same lines as of the Subex Azure scheme.

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 on accrual basis. Leave encashment benefits is accounted for an estimated liability as at the date of the balance sheet.

In respect of Subex Technologies, Inc., the entity maintains a contribution scheme for qualified employees. Contribution payable under the scheme is charged to the profit & loss a/c on accrual basis.

I.10. Research and development

Expenses incurred on research and development are charged to revenue in the same year. Fixed asset purchased for research and development 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. Premium or discount on forward contracts is amortized over the life of such contract and is recognized as income or expense, except in respect of the liabilities for the acquisition of fixed assets, where such amortization is adjusted in the carrying cost of the fixed assets. Any profit or loss arising on cancellation or renewal or retirement of forward contract is recognized in profit and loss account.

Assets (other than fixed assets) and liabilities of the foreign branches are translated into Indian rupees at the rate of exchange prevailing as at the balance sheet date. Fixed assets of foreign branches are restated at the exchange rate prevailing on the date of transaction. 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/ subsidiary have been recognised as exchange gain (loss) in the profit & loss A/c.

On consolidation, assets and liabilities (other than non-monetary items) are translated at the exchange rate prevailing on the balance sheet date. Non-monetary items are carried at historical cost. Revenue and expenses are translated at yearly average exchange rates prevailing during the year. Exchange differences arising out of these transactions are:

- included under 'Exchange reserve on consolidation' under Reserves and Surplus in the case of Non-integral operations.

- charged to the Profit and Loss account in the case of Integral operations.

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 and carried forward to the extent that there is a reasonable/ virtual certainity that sufficient future taxable income will be available against which such deferred tax assets can be realized.

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 statement 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 issue expenses are charged to the securities premium account.

I.16. Provisions

A provision is recognized when an enterprise has a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the currecurrent best estimates.

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.

Movement in deferred tax asset (Liability)

	2005-06	2004-05
Net deferred tax asset/ (Liability) at the beginning of the year	3,975,809	(1,570,000)
Add: Tax benefits/(charge) for current year	3,751,705	5,545,809
Net deferred tax asset/ (Liability) at the end of the year	7,727,514	3,975,809

b) The net deferred tax asset as at 31st March, 2006 comprises the tax impact arising from the timing differences on account of:

	As at 31st March, 2006	As at 31st March, 2005
- Depreciation	7,674,401	3,975,809
- Gratuity	53,113	-
Net deferred asset / (liability) relating to above	7,727,514	3,975,809

II.2. Contingent liabilities

Debts factored - Rs. 389,264,166 (Previous Year, Rs. 218,862,500)
Debts not acknowledged by company - Rs. 9,352,609 (Previous Year, NIL)

(This relates to Income Tax matter relating to FY 2002-03. The demand is being disputed by the company)

II.3 Acquisition of Tangible and Intangible Assets – Lightbridge Inc and Alcatel, UK.

During 2004-05, the company had acquired Intellectual Property Rights comprising of technology, know how, source code and software connected with the fraud management software businesses from Alcatel, UK and Lightbridge, USA for an amount of Rs. 172,812,313 and Rs. 141,685,665 respectively, including expenses incurred in connection with the said acquisitions. During the year an amount of US$ 25,307 (Rs.1,102,753) has been paid to Lightbridge as additional consideration and is capitalized as Goodwill.

The intangible assets based on the valuation report by independent valuers, are being amortised over 5 years in accordance with the company's assessment of useful life thereof. Accordingly, an amount of Rs. 62,502,860 has been amortised in the financial year under review.

Out of the amount of Rs. 172,812,313 accounted for the Alcatel acquisition, a portion of the consideration amounting to Rs. 22,754,000 (Euros 400,000) was to be discharged by way of discounts allowable to Alcatel on sales of software licenses prospected by them over a period of 18 months commencing from 1st October, 2004, as a part of their obligations under the reseller agreement entered into with the company. This liability was reflected as deferred payment liability in the previous year's Balance sheet and has been fully discharged by the company during the year.

II.4. Foreign Currency Convertible Bonds (FCCB)

During the year 2004-05**,** the company issued Foreign Currency Convertible Bonds (FCCBs) aggregating to US$ 10 million to Institutional Investors to finance the above acquisition.

The Bonds carried interest of 200 basis points above 6-month LIBOR and were redeemable by December 2009, if not converted in to equity as per terms of issue.

In the previous year FCCB's amounting to US$ 5,150,000 were converted at a price of Rs. 300 per share. The balance amount of FCCBs amounting to US$ 485,000 have been converted during the year at the same price.

II.5. Fixed assets in the books of Subex Technologies, Inc., have been depreciated on written down value basis. Gross block of such assets at 31st March, 2006 amount to Rs. 7,124,287 (1.07% of total gross block) and net block amounts to Rs. 985,989 (0.25% of total net block).

II.6. Acquisition of Tangible and Intangible Assets –Mantas, Inc

The company acquired business contracts, hardware, intellectual property rights (comprising of trademarks, patents, copyrights and software) connected with the fraud management software businesses from Mantas, Inc. USA in an all cash deal of US$ 2.10 million, on 1st March, 2006. The same has been capitalized along with the expenses incurred in connection with the said acquisition.

The intangible assets accounted for based on the valuation report by independent valuers, are being depreciated over 5 years in accordance with the company's assessment of useful life thereof. Accordingly, an amount of Rs.1,696,053 has been depreciated in the financial year under review.

II.7. On 9th April, 2006, the company has issued Global Depository Receipts (GDRs) priced at Rs. 400 per GDR and representing one share each, amounting to US$ 10 million, which has been listed in the Luxembourg Stock Exchange. Consequent to the issue, subscribed equity share capital has gone up by 1,109,878 shares and this issue has resulted in accretion to the securities premium account by Rs. 432,852,420 post the balance sheet date.

II.8. Bonus issue

During the year, the company has declared bonus shares in the ratio of 1:1. The bonus shares (10,878,784) have been issued by capitalizing an amount of Rs. 108,787,840 from the Securities premium account.

II.9. 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, cancelable at its option and other long term leases. Rental expenses for operating leases included in the Income statement for the year is Rs. 35,834,182.(Previous Year Rs. 13,921,158)

As of 31st March, 2006 future minimum lease payments for non-cancellable operating leases for the next five fiscal years are:

Amount In Rs.

For the year ending	31st March, 2006	31st March, 2005
Within one year from	23,770,250	9,817,664
Due in a period between one year and five years from	54,166,897	17,263,838
Due after five years from	-	-

II.10. Employees Stock Option Plan (ESOP)

ESOP – I

The company had issued 120,000 Equity Shares at Rs.10 each to Subex Foundation, an employee welfare trust, constituted to operate an Employees Stock Option Plan. Consequent to the issue of Bonus Shares, the total shares available with the trust had increased to

240,000. 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 31st March, 2006, 174,440 shares (which includes 87,220 bonus shares allotted on 6th January, 2006) are available with the trust. Since the scheme was formulated prior to the promulgation of SEBI guidelines on ESOP dated 19th June, 1999, the company has discontinued the scheme.

ESOP – II

During 1999-2000, the company established a stock option scheme under which 500,000 options have been allocated for grant to the employees. Each option comprises of one underlying equity share of Rs. 10 each and carries an entitlement of bonus shares if and when declared. 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 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 stock exchange where the highest volume of shares are traded for 15 days prior to the date of grant. The shares granted vest over a period of 1 to 4 years can be exercised over a maximum period of 3 years from the date of vesting.

Under this scheme 477,259 options have been granted to 310 employees as at 31st March, 2006. Out of the above options 70,323 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 period ended resulted in a debit of Rs. 4,910,159 (previous year: debit of Rs. 1,744,455) to the Profit & Loss account for the year.

ESOP – III

During 2005-2006, the company established a new Stock Option Scheme under which 500,000 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 19th June, 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 stock exchange where the traded volume is the highest for the 15 days prior to the date of grant. The shares granted vest over a period of 1 to 4 years can be exercised over a maximum period of 3 years from the date of vesting.

As on 31st March, 2006, 70,380 options have been granted to 156 employees under this scheme. 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 period ended resulted in a debit of Rs. 497,664 (Previous year, Nil) to the Profit & Loss account for the year.

Subex Technologies Ltd. has established a new stock option scheme during the year under which 22,900 options have been allocated for grant to the employees. The shares are allocated at a price, which is at par.

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

ESOP – I : Nil

ESOP – II :

	As at 31st March, 2006	As at 31st March, 2005
Options outstanding at the beginning of the year	336,385	301,440
Granted	144,000	101,800
Forfeited/ cancelled	50,950	32,749
Exercised	65,408	34,106
Balance at end of the year	**364,027**	**336,385**

ESOP – III

Options granted during the year and outstanding at the end of the year - 70,380

Method used for accounting for share based payment plan:

The company has used intrinsic value method to account for the compensation cost of stock option to employees of the company. Intrinsic value is the amount by which the quoted market price of the underlying share exceeds the exercise price of the option.

Particulars	Options (Nos)	Weighted average exercise price per stock options (Rs.)
Options outstanding at the beginning of the year	336,385	168.52
Granted during the year		
ESOP - II	144,000	442.80
ESOP - III	70,380	342.55
Exercised during the year	65,408	
Cancelled & Lapsed during the year	50,950	
Options outstanding at the end of the year		
ESOP – II	364,027	284.25
ESOP - III	70,380	342.55
Options exercisable at the end of the year	70,323	

The Company issued 10,878,784 bonus shares with a record date of 6th January, 2006.

The options under ESOP III totaling to 70,380 options were granted on 13th March, 2006, (post issue of Bonus shares referred above).

Fair Value Methodology

The fair value of options used to compute pro forma net income and earnings per equity share have been estimated on the date of grant using Black-Scholes model.

The key assumptions used in Black-Scholes model for calculating fair value are: risk-free interest rate ranging between 6.43%, expected life : 3 years, expected volatility of shares : 55.80% and expected dividend yield: 0.42%. The variables detailed herein represent the average of the assumptions during the pendency of the grant dates.

The impact on the EPS of the company if fair value method is adopted is given below.

Particulars	31st March, 2006 Rs.
Net Profit (as reported)	378,486,522
Add: Stock-based employee compensation relating to grants after 1.4.2005	3,516,774
Less: Stock based compensation expenses determined under fair value based method for the above grants	(11,181,604)
Net Profit (proforma)	370,821,692
Basic earning per share (as reported)	17.62
Basic earning per share (proforma)	17.26
Diluted earning per share (as reported)	17.53
Diluted earning per share (proforma)	17.18

II.11. Related Party Information

A) Related parties

Companies under same management

Cellcomm Solutions Ltd (formerly known as Subex Cellcomm Ltd)
Subex Holdings Private Limited (SHPL)

Key Management Personnel

Subash Menon, Chairman & Managing 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	Companies under same management		Key management personnel	
	2005-06	2004-05	2005-06	2004-05
a) Inter corporate deposits received (SHPL)	-	325,000	-	-
b) Interest paid on inter corporate deposit (SHPL)	-	187,702	-	-
c) Repayment of Inter corporate deposit/ loan(SHPL)	-	2,073,508	-	-
d) Salary, perquisites and commission	-	-	23,409,166	15,670,746
e) Amount due to	-	-	10,000,000	4,975,500

II.12. Earnings per share

Amount in Rs.

		2005-06	2004-05
a) Basic:			
Profits after tax	A	378,486,522	257,208,258
Less: Dividend on preference shares & distribution tax		-	(5,288,001)
Net profit available to equity shareholders - basic	B	378,486,522	251,920,257
b) Diluted:			
Profits after tax	C	378,486,522	257,208,258
Add: Interest on FCCB		-	5,380,279
Net profit available to equity shareholders – diluted	D	378,486,522	262,588,537
Weighted average number of shares - basic	E	21,480,220	17,833,474
Weighted average number of shares – diluted	F	21,590,084	19,584,306
Earnings per share – basic	**B / E**	**17.62**	**14.13**
Earnings per share - diluted	**D / F**	**17.53**	**13.41**

Earnings per share has been recomputed for the previous year taking into account bonus shares issued in the current year.

II.13 Segmental Reporting

The group's operations 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:

Amounts in Rs.

Particulars	Products		Services		Consolidated	
	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05
Revenues	1,166,818,957	627,968,982	647,523,281	537,533,105	1,814,342,238	1,165,502,087
Segment results before interest, depreciation & taxes	497,732,918	324,669,761	21,571,856	37,946,128	519,304,774	362,615,889
Add: Unallocable Income, net of unallocable expense					11,847,897	-
Interest expense					26,805,705	24,374,699
Depreciation and Amortization					92,584,239	71,941,961
Profit before tax					411,762,727	266,299,229
Provision for taxation:						
Current					34,903,702	14,636,780
Fringe benefit tax					2,124,208	-
Deferred					(3,751,705)	(5,545,809)
Profit after tax					378,486,522	257,208,258

Particulars of Segment Assets & Liabilities

	Products		Services		Unallocable		Consolidated	
	2005-06	**2004-05**	**2005-06**	**2004-05**	**2005-06**	**2004-05**	**2005-06**	**2004-05**
Segment Assets	656,180,448	474,397,763	305,379,105	258,068,826	858,879,837	694,897,817	1,820,439,390	1,427,364,406
Segment Liabilities					292,405,609	159,557,687	292,405,609	159,557,687
Unallocable assets exclude								
Goodwill							308,987,980	308,987,980
Investments							-	1,000
Advance income taxes							18,281,313	9,841,828
Miscellaneous expenditure							226,463	283,079
Deferred tax asset							7,727,514	3,975,809
							335,223,270	323,089,696
Unallocable liabilities exclude								
Loans - secured							13,695,549	73,282,446
Loans – unsecured							-	212,987,750
Deferred consideration							-	22,754,000
Provisions							38,196,323	40,883,953
							51,891,872	349,908,149

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:

Revenue	APAC	AMERICAS	EMEA
	2005-06	2005-06	2005-06
Software Products	110,335,323	415,693,577	640,790,057
Software Services	-	647,523,281	-
Total	110,335,323	1,063,216,858	640,790,057

Revenue	APAC	AMERICAS	EMEA
	2004-05	2004-05	2004-05
Software Products	94,747,131	155,135,728	378,086,174
Software Services	-	537,533,054	-
Total	94,747,131	692,668,782	378,086,174

Segment assets based on their location

Amount in Rs.

	2005-06	2004-05
APAC	98,925,812	198,835,910
EMEA	456,487,450	243,572,258
AMERICAS	406,146,290	290,058,421
Total	961,559,552	732,466,589

II.14. 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.15. Others

1. The company is availing non-fund based limits and overdrafts against lien on the fixed deposits. However, there are no loans outstanding as on 31st March, 2006.

2. Estimated amount of contracts, remaining to be executed on capital account and not provided for (net of advances paid) Rs.Nil (Previous year, Rs. Nil).

3. Amount of Rs. 300,627 represents the unclaimed dividend for the period from 1999-2006. 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. Personnel cost for the year include expenditure on research and development of Rs. 6,549,332 (Previous year, Rs. 6,000,318).

5. The company has disposed of its land located at Yeshwantpur Industrial Area during the year for a sum of Rs. 17,667,000 and has paid the relevant long term capital gains (Rs. 2,003,792) on the profits arising on this transaction.

6. The Previous year's figures have been regrouped to conform to the classifications for the year.

Signature to the Schedules A – R

	Subash Menon *Chairman & Managing Director*	Sudeesh Yezhuvath *Wholetime Director*	V. Balaji Bhat *Director*
Place : Bangalore Date : 15th May, 2006	Rajkumar C *Company Secretary & Legal Counsel*	V. R. Suresh Rao *General Manager - Accounts & Finance*	

SHAREHOLDERS' INFORMATION

1. Date and venue of the Annual General Meeting (AGM) : 28th August, 2006 at Le Meridien, 28, Sankey Road Bangalore - 560 052.
2. Dates of book closure : 22nd August, 2006 - 28th August, 2006 (both days inclusive)
3. Dividend payment : 25% (15% interim and 10% final dividend subject to the approval of the members for Equity shareholdersfor equity shareholders). On or after 28th August, 2006, but within the statutory time limit of 30 days, subject to shareholders' approval
4. Financial year : 1st April to 31st March

BOARD MEETINGS & FINANCIAL CALENDAR

Calendar of Board Meetings to adopt the accounts (tentative and subject to change):

For quarter ending 30th June, 2006 – on 27th July, 2006

For quarter ending 30th September, 2006 – on 27th October, 2006

For quarter ending 31st December, 2006 – on 29th January, 2007

For the year ending 31st March, 2007 – on 27th April, 2007

LISTING OF SHARES

Shares of the Company have been quoting on National Stock Exchange of India Limited (NSE) from 5th September, 2003, on Bombay Stock Exchange Limited (BSE) from 31st July, 2000 and on The Bangalore Stock Exchange Limited (BgSE) from 3rd September 1999. Global Depository Receipts (GDRs) of the company are listed at The Luxembourg Stock Exchange. The company's GDRs have been quoting on the Luxembourg Stock Exchange since 7th April, 2006.

The Company's equity shares were delisted from Hyderabad Stock Exchange (HSE) with effect from 19th January, 2005.

Listing Fees have been paid to all the above Stock Exchanges for 2006-07.

The stock codes of the company at the Stock Exchanges are as follows:

Name and address of the stock exchange	Stock code
National Stock Exchange of India Limited, Exchange Plaza, 5th Floor, Bandra Kurla Complex, Mumbai- 400051	SUBEX
Bombay Stock Exchange Limited, Phiroze Jeejeebhoy Towers Dalal Street, Fort, Mumbai 400023	SUBEX
The Bangalore Stock Exchange Limited P. B. No. 27024, No. 51, Stock Exchange Towers, 1st Cross, J. C. Road BANGALORE	SUBEXSYS

The International Securities Identification Number (ISIN) for the Company's Shares in dematerialized form is INE754A01014.

CUSTODIAL FEE

Pursuant to the Securities and Exchange Board of India (SEBI) Circular No. MRD/DoP/Stock Exchange/DEP/CIR-4/2005 dated 28th January, 2005, issuer companies are required to pay custodial fees to the depositories with effect from 1st April, 2005. Accordingly, the company has paid custodial fees for the year 2006-07 to NSDL and CDSL on the basis of the number of beneficial accounts maintained by them as on 31st March, 2006.

REGISTERED OFFICE

The Registered office of the company is at #721, 7th Main, Mahalaxmi Layout, Bangalore – 560 086

CORPORATE OFFICE

The Corporate office of the company is at #372, Koramangala III Block, Sarjapur Road, Bangalore- 560 034.

SHARE TRANSFER

Process for the Transfer of Shares:

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 company holds Share Transfer Committee Meetings one/ two / three times a month, as may be required, for approving the transfers/transmissions of equity shares.

Share transfers and other communication regarding Share certificates and change of address, etc., may be addressed to:

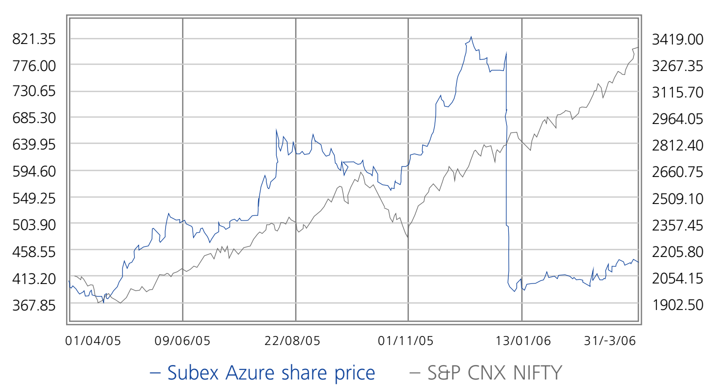
M/s Canbank Computer Services Ltd.,
R & T Centre
Naveen Complex, 4th Floor,
#14, M.G. Road,
Bangalore -560 001
Phone : 91-80-25320541 / 542 / 543
Fax : 91-80-25320544
Email : ccslrnt@vsnl.com
Website: www.canbankrta.com

Stock market data relating to shares listed in India

Monthly high and low quotations as well as the volume of shares traded at National Stock Exchange of India Limited, The Bombay Stock Exchange Limited and The Bangalore Stock Exchange Limited for 2005-2006 are:

	NSE			BSE			BgSE		
Month	High Rs.	Low Rs.	Volume Nos.	High Rs.	Low Rs.	Volume Nos.	High Rs.	Low Rs.	Volume Rs.
Apr '05	413.00	366.00	393,421	415.80	343.50	231,724			
May '05	525.00	380.20	1,375,784	504.00	378.00	932,506			
Jun '05	526.90	464.00	679,759	526.00	465.00	244,392			
Jul '05	554.95	480.15	234,190	559.00	471.00	370,789			
Aug '05	674.50	514.00	777,306	694.00	535.20	538,839			
Sep' 05	669.90	563.00	569,723	680.00	561.60	418,400		Not traded	
Oct '05	618.90	545.75	303,179	623.70	550.00	299,993			
Nov '05	758.90	586.25	209,756	739.00	582.00	94,059			
Dec '05	838.00	697.25	725,613	887.00	694.05	659,060			
Jan '06	794.40	380.00	625,595	793.00	380.00	722,521			
Feb '06	428.00	391.15	668,638	424.00	393.00	376,178			
Mar '06	447.90	386.00	768,748	456.00	386.00	608,658			
	TOTAL		7,331,712	TOTAL		5,497,119			

SUBEX AZURE SHARE PRICE VERSUS NSE S&P CNX NIFTY



Note: On 6th January, 2006 the company has declared a bonus in the ratio of one bonus equity share for every share held.

INVESTOR GRIEVANCES

Investor grievances received from 1st April, 2005 to 31st March, 2006:

Nature of complaints	Received	Cleared
Non-receipt of share certificates/refund orders/call money notice/allotment advice/dividend warrant	16	16
Letters from NSDL, Banks etc.	-	-
Correction/change of bank mandate of refund order, Change of address	-	-
Postal returns of cancelled stock invests / refund orders/ share certificates / dividend warrants	-	-
Other general query -	-	
Total	16	16

During the year ended 31st March, 2006, the company has attended to all the investors' grievances / correspondence within a period of 10 days from the date of receipt of the same.

LEGAL PROCEEDINGS

There is one pending case relating to dispute over title to shares, in which we had been made a party. However, this case is not material in nature.

SHAREHOLDING PATTERN

Distribution of shareholding:

No. of Equity shares held	As on 31st March, 2006		As on 31st March, 2005	
	No. of shareholders	% of shareholders	No. of shareholders	% of shareholders
1 – 500	7177	83.51	4,205	87.57
501 – 1000	659	7.67	260	5.41
1001 – 5000	541	6.30	230	4.79
5001 – 10000	91	1.06	28	0.58
10001 and above	126	1.46	79	1.65
	8594	**100.00**	**4,802**	**100.00**

Categories of Shareholders

	As on 31st March, 2006			As on 31st March, 2005		
Cartegory	No. of share holders	Voting strength %	No. of shares held	No. of share holders	Voting strength	No. of shares shares held
Public & Others	**7903**	**22.639**	**4925727**	4,300	25.90	2,607,391
Companies	**565**	**14.623**	**3181581**	417	20.34	2,047,556
Core Promoters	**2**	**18.572**	**4040960**	3	27.02	2,720,480
Mutual Funds	**35**	**24.433**	**5315913**	18	11.32	1,139,268
ESOP	**65**	**0.576**	**125278**	50	0.34	34,701
FII	**24**	**19.157**	**4168109**	14	15.08	1,517,827
	8594	**100.00**	**2,17,57,568**	4,802	100.00	10,067,223

DIVIDEND

Procedure for claiming unpaid dividend.

In terms of Section 205A (5) of the Companies Act, 1956, monies transferred to the Unpaid Dividend Account of the company, which remain unpaid or unclaimed for a period of seven years from the date of such transfer, shall be transferred by the company to the Investor Education and Protection Fund established by the Central Government.

Brief particulars of dividend declared on the equity share capital, are given below:

Which year the dividend pertains to	Declared at the AGM / Board meeting held on	Nature of dividend	% of dividend	Due date for transfer to the fund
1998-99	24th April, 1999	Final		See note below*
1999-00	17th March, 2000	Interim	35	Before 16th April, 2007
	19th June, 2000	Final	5	Before 18th July, 2007
2000-01	13th July, 2001	Final	20	Before 12th August, 2008
2001-02	15th November, 2002	Final	10	Before 14th December, 2009
2002-03	9th September, 2003	Final	10	Before 8th October, 2010
2003-04	24th August, 2004	Final	20	Before 23rd September, 2011
2004-05	27th January, 2005	Interim	10	Before 26th February, 2012
	28th July, 2005	Final	20	Before 27th August, 2012
2005-06	28th October, 2005	Interim	15	Before 27th November, 2012

The company declared bonus at 1:1 in the years 2000-01 and 2005-06.

* As the entire dividend declared in FY 1998-99 was claimed by the respective shareholders no amount was required to be transferred to the Investors Education and Protection Fund in respect of the said dividend.

Members can claim the unpaid dividend from the company before transfer to the Investors Education and Protection Fund. It may be noted that after the unpaid dividend is transferred to the said Fund, the same cannot be claimed.

Bank particulars for dividend warrants

With a view to preventing fraudulent encashment of dividend warrants, members holding shares in physical form are advised to furnish to the company particulars of their bank account with a request to incorporate the same in the dividend warrant.

Payment of dividend

Dividend warrants are posted to members at their registered address within the statutory time limit.

Dividend warrants in respect of shares held in electronic/ dematerialized form are posted to the beneficial owners to their addresses as per the information furnished by NSDL and CDSL as on the record date. Warrants for high value amounts are sent through registered post.

ELECTRONIC CLEARING SERVICE

The company makes payment of dividend through Electronic Clearing Service (ECS) to its members. Under this system of payment of dividend, the shareholders get the credit of dividend directly in their designated bank account. This ensures direct and immediate credit with no chance of loss of warrant in transit or its fraudulent encashment. However, the company may pay the dividend by issue of warrants. Members holding shares in physical form who wish to avail of the ECS facility, are requested to give the ECS mandate in the prescribed form. The form can be obtained from the R & T agents at the address mentioned above.

SHARES HELD IN PHYSICAL FORM

By a tripartite agreement dated 5th December, 2001 in respect of shares held with NSDL and by a tripartite agreement dated 27th November 2001 in respect of shares held with CDSL, Canbank Computers Services Limited, R & T Centre, Naveen Complex, 4th Floor, 14 M G Road, Bangalore–560 001, were appointed as 'Registrar and Transfer Agent' both in respect of shares held in physical form and dematerialized form.

OUTSTANDING GDRs AND THEIR IMPACT

As of 31st March, 2006 no GDRs were outstanding. The company has issued 1,109,878 GDRs on 7th April, 2006 and 11,728,728 GDRs on 21st June, 2006. The GDRs to equity share ratio is 1:1.

NOMINATION

Pursuant to the provisions of Section 109A of the Companies Act, 1956, members may file nomination in respect of their shareholdings. Any member willing to avail this facility may submit to the company the prescribed Form 2B (in duplicate), if not already filed. Form 2B can be obtained with the help of our R & T Agents. Members holding shares in electronic form are requested to give the nomination request to their respective Depository Participants directly.

WEBSITE

Company's website www.subexazure.com contains comprehensive information about the company, products, press release and investor relations. It serves to inform the shareholders by providing key information like Board of Directors and the committees of the Board, financial results, shareholding pattern, distribution of shareholding, dividend etc.

INVESTORS' CORRESPONDENCE

For any queries, please write to:

Rajkumar. C
Head - Legal and Company Secretary
Subex Azure Limited,
No. 372, Koramangala, 3rd Block, Sarjapur Road,
Bangalore – 560 034, India,
Telephone: 91 80 6659 8700
Email:rajkumar.c@subexazure.com
investorrelations@subexazure.com

SUBEX AZURE
...Powering the ROC

Subex Azure Limited

372, Koramangala III Block, Sarjapur Road, Bangalore - 560 034, India
www.subexazure.com

2Q Reproductions